The Influences of Risk Management Committee and Audit Committee towards Voluntary Risk Management Disclosure

(Pengaruh Jawatankuasa Pengurusan Risiko dan Jawatankuasa Audit terhadap Pendedahan Maklumat Sukarela Pengurusan Risiko)

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ABSTRACT

The main objective of this study is to examine the influences of committees that are being appointed to manage risk towards voluntary risk management disclosure (VRMD) among non-financial companies in Malaysia. Non-financial companies will usually appoint either Risk Management Committee (RMC) or Audit Committee (AC) to manage their risks. Based on resource dependence theory, this study contends that the committees provide risk management resources particularly in terms of risk management information that could influence the VRMD. All data of VRMD, RMC and AC were collected from companies’ annual reports by using content analysis method. The sample in this study consisted of 395 non-financial companies which were listed on Bursa Malaysia in 2011. Our multiple regression results show that RMC presence and AC activeness increase VRMD. Our findings provide evidence that the establishment of RMC could increase the risk management disclosure among companies in Malaysia.

Keywords: Risk management committee; voluntary disclosure; audit committee; risk management disclosure

INTRODUCTION

Risk management is crucial for future survival of businesses. An ineffective risk management may affect the sustainability of the business and eventually may jeopardize investors’ wealth (Ernst & Young 2011, 2013). Thus, investors are becoming more concerned about the accountability of companies regarding their risk management practices and would demand companies to disclose their risk management information (Institute of Chartered Accountants in England and Wales–ICAEW 2011; Financial Reporting Council–FRC 2011). Investors assert that risk management information helps them to be aware of the main risks faced by the companies and assists them to understand the companies’ actions in mitigating the risks (FRC 2011). Investors are also able to evaluate the companies’ risks more accurately (Beretta & Bozzolan 2004; Linsley & Shrives 2006); and better predict the companies’ market values (Helliar & Dunne 2004). These help the investors to choose the best investment portfolio which provides the highest return to them (Solomon et al. 2000). Empirical studies also found that the disclosure of risk management information is important in reducing asymmetric information (Mihikinen 2013) and to increase firm value (Abdullah et al. 2015). Nonetheless, past research found that the disclosure of risk management information is still low, especially in disclosing information related to non-financial risk management; which is a voluntary disclosure (Abraham & Shrives 2014; Amran et al. 2009; Ismail & Abdul Rahman 2011; Linsley & Shrives 2006).

Resource dependence theory suggests that the quality of a board can influence the board’s ability to provide critical resources to the company, including the furnishing
of information (Hillman & Dalziel 2003; Hillman 2009). Prior studies used this theory to examine the influence of board independence and expertise towards risk management disclosure (e.g. Abrahm & Shringes 2007; Barakat & Hussainey 2013; Ismail & Abdul Rahman 2011). The findings show mixed results and motivate other studies to examine the influence of sub-committees that assist the board to manage risk. The sub-committees are expected to contribute in the process of risk management reporting since they play roles in channelling risk management information and provide risk management resources to a company (FRC 2011; Brown et al. 2009).

Zhang et al. (2013) and Buckby et al. (2015) examined the influence of Audit Committee (AC) independence and expertise towards risk management disclosure in Australia. However, they found mixed results. Apart from the AC qualities, Buckby et al. (2015) also examined the influence of Risk Management Committee (RMC) towards risk management disclosure and found that RMC do play a role in improving the disclosure.

Our study extends prior studies in two main aspects. First, this is the first study that investigates the effect of AC quality as suggested by the Code on Corporate Governance on risk management disclosure, which includes AC size and AC activeness (measured through AC’s meeting frequency). These two variables have not been examined by any prior studies and are expected to influence risk management disclosure. Our justification is that, more AC members may provide more risk management resources; hence, improving the disclosure (Dionne & Triki 2005; Li & Pike 2012). Frequent AC meeting may help in streamlining the communication of risk management issues (Tao & Hutchinson 2013) that may also improve the disclosure. Second, this study provides empirical evidence in different institutional setting to examine the influence of RMC and AC towards risk management disclosure. Zhang et al. (2013) and Buckby et al. (2015) examined this issue in the context of Australia whereby the non-financial risk management information had been emphasized and companies were required to follow the Australian Securities Exchange (ASX) Risk Management Disclosure Framework (Buckby et al. 2015). Reporting environment in Malaysia however is different because of the high voluntary practice on the non-financial risk management disclosure (Abdullah et al. 2015).

The findings of this study are expected to contribute to theory and practice in several ways. The results are expected to increase the understanding of resource dependence theory in the context of RMC and AC in providing risk management resources to companies. Specifically, our empirical evidence found that the establishment of RMC substantially increases VRMD among Malaysian listed companies. The study also provides evidence that in the absence of RMC, an active AC contributes to the improvement of VRMD in Malaysia. The other recommended characteristics of AC effectiveness, which include AC size, AC independence and financially literate AC members, do not influence the VRMD. However, further analysis (after eliminating the effects of RMC presence by focusing on the companies that only have AC) found that AC independence is negatively associated with VRMD. The finding support Brown et al.’s (2009) theoretical assertion that a director who is not directly involved in risk management activities has limited sources of information about the risk management of a company. These findings also provide understanding to the regulators and policy makers such as the Securities Commission, Minority Shareholder Watchdog Group-MSWG and Bursa Malaysia in their undertaking towards better authorities and regulations in Malaysia’s risk governance.

This paper proceeds with section two that will discuss the literature review and hypotheses development. Section three will discuss our research methodology. Section four will present our findings; and finally section five will summarise this paper.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

DEFINITION OF RISK

In the context of business, risk is portrayed by Cabedo and Tirado (2004) as the possible loss of company’s wealth due to the interaction between challenges and threats that occur in business environment. The term ‘possible-loss’ previously used to define risk shows that risk is a negative event. According to Linsley and Shringes (2006), this definition is based on pre-modern era ideas. Risk is only associated with negative occurrence because of changes in business environment, despite the fact that each change will either negatively or positively affect a company’s wealth (Lajil & Zeghal 2005; Linsley & Shringes 2006). In this study, risk is defined as any ‘harm and threat’ or ‘opportunity and prospect’ that occurs as the result of changes in business environment, which might already occurred or might have an impact on the company. In this study, risk management disclosure refers to two (2) elements. The first element refers to any disclosure related to risk faced by a company, i.e. any ‘opportunity and prospect’ or ‘harm and threat’ that may have occurred or will affect the company. The second element refers to information of how each opportunity, prospect, harm and threat is managed by a company (FRC 2011).

VOLUNTARY RISK MANAGEMENT DISCLOSURE (VRMD)

VRMD refers to all risk management information that is explicitly revealed outside the financial statement, and is not required by any guideline or law (FASB 2001). Past studies found that the VRMD among companies in the UK was still unsatisfactory. Linsley and Shringes (2006) conducted a content analysis on annual reports of non-financial companies listed on the FT-SE 100 index in year 2000. The study found on average, the companies reported 57 risk-related sentences in their annual reports. Linsley and Lawrence (2007) examined the annual reports of non-
financial companies in the UK for year 2001; and found that the risk information reported by companies was hard to comprehend and vague. In a different study, Abraham and Cox (2007) found that only 40% of 100 companies listed on the FTSE 100 index disclosed their business risk information in their annual reports. More recently, Abraham and Shrive (2014) examined the practice of VRMD in annual reports of UK companies throughout 2002-2007 and found that the companies voluntarily reported information of positive and negative risks in their annual reports. Abraham and Shrive (2014) also found that the VRMD reported throughout 2002-2007 did not experience any significant change.

Lajili and Zeghal (2005) examined the VRMD among 300 companies listed on the Toronto Stock Exchange (TSE) 300 index in 1999 and found on average, the companies reported 10 risk-related sentences in the Management Discussion and Analysis (MDA). Meanwhile, the study of Linsley and Shrive (2006) considered many narrative sections in the annual reports, including Operations Review and Chairman Statement, and found companies in the UK had 57 risk-related sentences. However, Lajili and Zeghal (2005) examined only the VRMD in the MDA section of Canadian companies. Beretta and Bozzolan (2004) examined the VRMD for 85 companies listed on the Italian Stock Exchange in 2001 and found on average, 75 items of risk-related information were reported in the MDA section. Mohobbot (2005) investigated the VRMD for 90 companies listed on the Tokyo Stock Exchange in 2003 and found that Japanese companies, on average, had 44 risk-related sentences in three sections of their annual reports: i.e. MDA, Chairman Statement, and Operations Review. It was also discovered that Japanese companies tend to disclose more positive risks compared to negative risks information.

Miikkinen (2013) examined the disclosure practice of risk management in Finland for companies listed on the OMX Helsinki between 2006 and 2009. He found that the level of risk disclosure through those years was insignificant, and the finding is consistent with Abraham and Shrive (2014). Amran et al. (2009) conducted a study on risk management disclosure practices among 100 companies listed on Bursa Malaysia for year 2005. It was found that, on average, Malaysian companies disclosed 20 risk management-related sentences in their annual reports. The disclosure level in Malaysia was much lower than those of UK and Japan, [UK: 57 sentences (Linsley & Shrive 2006); Japan: 44 sentences (Mohobbot 2005)]. Ismail and Abdul Rahman (2011) studied risk management disclosure in Malaysia among 150 companies listed on Bursa Malaysia from 2006 to 2008. The study found that the level of disclosure, on average, was at 49.83% of the total items that were supposed to be revealed based on a disclosure index; however, detail of the index was not available. Nonetheless, the finding of Ismail and Abdul Rahman (2011) is consistent with the study by Amran et al. (2009) who found that the most disclosed risks were strategic and operational risks. The finding of Ismail and Abdul Rahman (2011) is also consistent with Miikkinen (2013) as well as Abraham and Shrive (2014) in terms of comparing the level of VRMD through time.

In conclusion, the VRMD in Malaysia and some other developed countries is still low (ICAEW 2011) even though companies have been requested to improve on the disclosure of this information to assist investors in making their investment decisions (FRC 2011). Further study needs to be conducted to examine factors that can increase the VRMD. It is expected that the Risk Management Committee (RMC) and Audit Committee (AC) could play a dominant role in improving VRMD as they are very active in risk management activities. However, these factors have not been extensively explored in prior research. Buckby et al. (2015) and Zhang et al. (2013) examined the influence of AC quality which was measured through AC independence and AC expertise on risk management disclosure for Australian companies. Based on the Malaysian Code on Corporate Governance (MCCG), AC size and meeting frequency might also determine the AC quality but have not been studied in previous research; thus, creating a research gap. At the same time, owing to differences in risks reporting environment, the findings from Buckby et al. (2015) and Zhang et al. (2013) are not suitable to be generalized in the context of Malaysia.

The next section discusses the role of RMC and AC in influencing VRMD as well as the hypotheses development based on theory and past empirical studies.

THE ROLE OF RMC IN INFLUENCING VRMD

Under the MCCG, one of the AC responsibilities is to assist the board in managing company’s risk with the view that risk management is an integral component of internal control (SCM 2007). Brown et al. (2009) argued that the job scope of AC in the context of internal control is actually extensive; encompasses among others, supervising company activities, monitoring internal control system as well as managing risks. Owing to the extensive job scope of AC, there are parties doubting the ability of this committee in executing its risk management duties. For example, considering that the current job scope of internal control has already burdened the committee, Zaman (2001) expressed his doubt at the effectiveness of AC in executing risk management duties. Fraser and Henry (2007), Brown et al. (2009) and Jiraporn et al. (2009) also questioned the ability of AC as the committee is seen not having the time to address risk properly. Bates and Leclerc (2009) also doubted the expertise of the AC to effectively manage company risks because they advocated that a company needs a committee with extensive skills in risk management so that the company’s risk management can be executed effectively.

As such, studies such as Brown et al. (2009) and Fraser and Henry (2007) proposed companies to establish RMC to manage their risks. Brown et al. (2009) explained that RMC’s task is to take an active role in communicating the information between the strategic division (the board) and operations division (heads of department). RMC needs
to communicate information related to policies, strategies and risk management procedures for execution at the operational level. From time to time, RMC also needs to procure risk management information from all heads of department for the committee to report to the board (Brown et al. 2009). Since RMC task is only to manage risk, this may promote a focused oversight on a company’s risk (Brown et al. 2009; Fraser & Henry 2007). RMC is expected to have the expertise and skills in risk management in view that the selection of RMC members is always based on their knowledge and skills in risk management (Bates & Leclerc 2009). The expertise and skills in risk management are also expected to be developed through the RMC’s experience of executing repeated routine risk management tasks.

It is anticipated that the expertise of RMC in risk management will assist the communication process of risk management information between operations and strategic divisions. For example, because it has mastered the company’s risk management, RMC may discover on what being the most important information that needs to be obtained from the operations division (FRC 2011). The expertise and skill in risk management also guide RMC in the selection of important information to be communicated to the board; and this is done so that the board can better understand the major risks faced by the company (Brown et al. 2009; FRC 2011). The expertise and skill in risk management would also assist RMC to gain more information from the operations division. The larger amount of information obtained by the RMC, the better would be the information communicated to the board, and eventually reported to the company’s stakeholders (Bursa Malaysia 2012; Ismail & Abdul Rahman 2011). Hence, based on the resource dependence theory, this study expects that the presence of RMC may provide critical risk management information to the company and will assist in the improvement of VRMD. Thus, our first hypothesis is proposed as follows:

**H₁** The presence of RMC is positively associated with VRMD

Even though issues relating to the ability of AC in risk management have been brought up by many quarters, not all authorities believe that it is necessary to establish RMC in non-financial companies (e.g.: FRC 2011). According to FRC (2012) and MCCG (SCM 2007), the function of AC in risk management can be strengthened if the AC possesses the qualities as stipulated in the Code on Corporate Governance. Therefore, apart from proposing the presence of RMC, this study also examines the influence of AC’s quality that can improve VRMD.

**ROLE OF AUDIT COMMITTEE (AC) EFFECTIVE CHARACTERISTICS IN INFLUENCING VRMD**

MCCG (SCM 2007) outlined the characteristics that can improve the quality of AC, encompassing the aspects of size, independence, education and frequency of AC meetings. Further discussion for each hypothesis relating to AC is as follows:

**Audit Committee Size** Prior studies argued that AC faces time constraint in its focus to manage risk as it is already being burdened by the heavy workload of managing internal control (Fraser & Henry 2007). MCCG (SCM 2007) stipulated that the minimum number of AC members is 3 individuals. This is to ensure that AC has sufficient members and not being burdened by all the assigned duties including risk management. Based on resource dependence theory, the presence of more AC members is expected to increase the AC’s expertise and resources, hence improving its efficiency while undertaking its risk management duties (Dionne & Triki 2005). Li and Pike (2012) also stated that the presence of more AC members assists AC in gauging the myriad of opinions and expertise; thus, ensuring effective job conduct, including the task of channelling risk management information. Thus, it is expected that the more members there are in AC, the better the risk management quality will be; eventually enhances the VRMD. Therefore, hypothesis 2a is stated as follows:

**H₂a** AC size is positively associated with VRMD

**Audit Committee Independence** MCCG (SCM 2007) outlined that the majority of AC members are to be of independent non-executive directors. Abraham and Cox (2007) found that independent non-executive directors improve the disclosure of risk management in the UK. This is consistent with the study of Peng (2004) that suggested “resource-rich” independent directors are likely to have a positive influence on company’s performance. Meanwhile, Ismail and Abdul Rahman (2011) found that independent non-executive directors do not improve VRMD in Malaysia. Ismail and Abdul Rahman (2011) explained that a director who is not involved in the company’s operations has limited sources of information relating to each department’s risk management activity. Ismail and Abdul Rahman (2011) also argued that independent non-executive directors are not actively involved in the channelling of risk management information between the strategic and operations divisions. Moreover, Abdullah (2004) argued that in the selection process of independent non-executive directors in Malaysia, the title or designation of the candidates are the primary consideration rather than the expertise. Therefore, the director might lack the risk management expertise and can be considered as a “resource-poor” provider (Peng 2004). Based upon the empirical evidence of prior studies and the resource dependence theory, this study assumes that the presence of uninvolved AC members in the company’s operations does not help the improvement of VRMD. Therefore, hypothesis 2b is proposed as follows:

**H₂b** AC independence has no association with VRMD

**Audit Committee Education** MCCG (SCM 2007) stipulated that all AC members need to possess the knowledge and skill in finance and at least a member of the AC is an expert in accounting. Fraser and Henry (2007) found that the knowledge in finance and accounting is insufficient for an AC member to handle an overall risk
well. In an interview, Fraser and Henry (2007) discovered, a company’s Finance Director stated that “...much of our risk is technical rather than financial.” This shows that risk management does not revolve around finance alone; in fact it involved many other aspects including technical issues, which is a non-financial element. Thus, Fraser and Henry (2007) supported the notion that the task of risk management be undertaken by those with various knowledge; and not restricted to finance and accounting only. In contrast, Dionne et al. (2015) argued that a company’s risk management must be handled by individuals with finance and accounting background. Dionne et al. (2015) stated that education in finance and accounting will increase the effectiveness of risk management. Krishnan (2005) also opined that education in finance and accounting will improve the quality of AC members in undertaking company’s internal control tasks. This opinion is consistent with best practices outlined by MCCG (SCM 2007). Thus, based on resource dependence theory, MCCG (SCM 2007) and prior studies, it is argued that a financially literate AC member is important in the process of corporate reporting including risk management reporting. Hence, hypothesis 2c is proposed as follows:

\[ H_{2c} \text{ AC education in accounting and finance is positively associated with VRMD} \]

Audit Committee Meeting Frequency FRC (2012) and MCCG (SCM 2007) stated that AC needs to conduct frequent meetings in order to discuss issues relating to internal control including the aspect of risk management. Tao and Hutchinson (2013) stated that frequent meetings improve the effectiveness of risk management communication. Meanwhile, Lipton and Lorsh (1992) stated that frequent AC meetings show that AC is active in monitoring the company’s internal control. Other studies also support the notion that frequent AC meetings results in better corporate governance (e.g.: Bryce et al. 2014; Vafeas 2005); and eventually increases corporate disclosure (Kent & Steward 2008). Therefore, this study assumes frequent AC meetings will ease the channelling of risk management information in a company and improve VRMD. Thus, hypothesis 2d of this study is stated as follows:

\[ H_{2d} \text{ AC meeting frequency is positively associated with VRMD} \]

### RESEARCH METHODOLOGY

#### SAMPLING

This study utilizes cross sectional method since majority of past studies found that over the years, VRMD did not change significantly (Abraham & Shrives 2014; Miikkinen 2013; Ismail & Abdul Rahman 2011). This study chose 2011 as the year of study due to 2010 being the year when RMC was made mandatory in Malaysia’s financial companies (Central Bank of Malaysia 2010). As such, it is expected that the establishment of RMC among non-financial companies after 2010 would increase, especially in companies that are highly aware about the importance of risk management (Yatim 2009). This study employs content analysis method to collect VRMD data. Data were collected from three sections of the narrative parts of the Annual Report, namely, Chairman’s Statement, Operations Review and Management Discussion and Analysis. Each sentence that contained risk management information was coded and given a one (1) mark. To increase objectivity in the content analysis process, two coders encoded the same annual report before the commencement of the content analysis. The inter-coder reliability and consistency for the coders was found to be \( \kappa = 0.762 \) (\( p < 0.001 \)). This value reflects a suitable agreement level among coders (Landis & Koch 1977). The method and procedure of VRMD data collection is similar to the study made by Abdullah et al. (2015).

Since the content analysis method is quite complicated and tedious, Li and Pike (2012) suggested that the appropriate sample size for a study that utilizes this method to be at 31% of the total population. The suggestion is almost similar to Krejcie and Morgan (1970) who also suggested that sample size to be at 32.5% of population. Consistent with prior studies, our study sample size of 395 companies represented about 50% of total population of companies in year 2011. For sample selection, this study utilizes the stratified random sampling method; i.e. population is divided into sector and a random sample from each sector is taken in a number proportional to the sector’s size when compared to the population. The number of sample is as depicted in Table 1; whereby weighted rate column shows each sector’s size and the sample column shows the number of sample for each sector.

### TABLE 1. Sample

<table>
<thead>
<tr>
<th>Sector Type</th>
<th>No. of Company</th>
<th>Weighted Rate (%)</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Construction</td>
<td>45</td>
<td>6</td>
<td>23</td>
</tr>
<tr>
<td>2. Consumer Products</td>
<td>132</td>
<td>17</td>
<td>67</td>
</tr>
<tr>
<td>3. Hotel</td>
<td>4</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>4. Industrial Products</td>
<td>246</td>
<td>32</td>
<td>126</td>
</tr>
<tr>
<td>5. IPC</td>
<td>7</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>6. Mining</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7. Plantation</td>
<td>42</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>8. Property</td>
<td>89</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>9. Technology</td>
<td>30</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>10. Trading/Services</td>
<td>183</td>
<td>23</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>779</strong></td>
<td><strong>100</strong></td>
<td><strong>395</strong></td>
</tr>
</tbody>
</table>
CONTROL VARIABLES

Control variables of this study include company size, leverage, growth, profit, board size, board independence, board meeting frequency and external auditor quality. This study controls company size because past studies (e.g.: Abraham & Cox 2007; Amran et al. 2009; Ntim et al. 2013) found that company size is positively associated with VRMD. Leverage is also controlled because past studies (e.g.: Bokpin 2013) found high leverage companies to have high financial risk; and this may reduce the companies’ incentives to report transparent information. Company profit is also included as a control variable in view that companies that generate high profit are inclined towards reporting more information; especially information that falls under the ‘good news’ category so that the news are publicly known (Bokpin 2013). Hassan (2009) stated that, high growth rate attained by a company signals the ability of the company to pay higher future dividend. Therefore, companies with high growth are more inclined toward reporting more information voluntarily.

This study includes board size as a control variable because past studies (e.g.: Said et al. 2014) found that the size of board of directors can improve the level of voluntary disclosure. Dalton et al. (1999) stated that the high number of directors can function as effective monitoring agent and reduce agency cost. The board independence also needs to be controlled as Abraham and Cox (2007) found that board independence improves VRMD in the UK. This study also controls board meeting frequency because past studies (e.g.: Hoque et al. 2013; Vafeas 1999) stated that board of directors with frequent meetings is more proactive in supervising the company’s management; and this is expected to reduce agency problem between company and investors (Conger et al. 1998). Furthermore, the quality of external auditor is also controlled. This is because past studies (e.g.: Michaely & Shaw 1995) found that quality external auditors are often more transparent in their audit of company’s financial statements in order to safeguard the audit firm’s reputation and image. Barako (2007) stated that big audit firms often have many clients and these audit firms are less tied to any specific client that can jeopardize the auditors’ independence. As such, we expect that the appointment of external auditors from Big-4 audit firms may influence the transparency of information being reported. The above discussion forms regression model to test the hypotheses as follows:

VRMDruitit = β0 + β1RMCruitit + β2ACSizefruitit + β3ACIndruitit + β4AuditQualruitit + β5BoardIndruitit + β6BoardMeetruitit + εruitit

Where, VRMD = Voluntary Risk Management Disclosure, RMC = “1” for the presence of a standalone RMC in a company, “0” if otherwise; ACSize = Number of AC members; ACInd = Number of independent AC members/ number of AC members; Acede = Number of AC members with education in accounting and/or finance/number of AC members; ACMeet = Number of meetings conducted by AC throughout accounting year; LnSize = Natural logarithm of total assets; Lev = Total liabilities/Total assets; Growth = Current year sales/Previous year sales; ROA = Profit after tax year 2011/total assets; AuditQual = “1” for Big-4 audit firm, “0” if otherwise; BoardSize = Number of board of directors; BoardInd = Number of independent non-executive directors/Number of BOD members; BoardMeet = Number of BOD meetings conducted throughout the accounting year.

FINDINGS

DESCRIPTIVE ANALYSIS

Table 2 shows that the average VRMD is at 28 sentences. In comparison to the risk management disclosure of developed countries, the VRMD in Malaysia is quite low. Linsley and Shrives (2006) found that the average VRMD in the UK in year 2000 was 57 sentences. Mohobbob (2005) found that the average VRMD in Japan in year 2003 was 44 sentences. If companies in the UK and Japan reported 57 and 44 sentences in years 2000 and 2003 respectively; then, it can be expected that the level of risk management disclosure for year 2011 would be higher. This assumption is based on the active efforts undertaken by the authorities in encouraging the reporting of this type of information in Japan and the UK. For example, in the UK, ICAEW and FRC have published several series of discussion papers to promote better risk management reporting among listed companies. Therefore, in contrast to developed countries, the average level of VRMD in Malaysia in 2011 can be considered as quite low. Table 2 also shows that companies are more inclined towards the reporting of positive VRMD rather than negative VRMD. This behaviour shows that managers have a tendency to utilize VRMD to influence investors as well as to safeguard their reputation (Abdullah et al. 2015).

Table 2 also depicts that, on average, 34.6% of 395 companies have established RMC; while the others maintain AC to handle their companies’ risks. For AC characteristics, it is found that the majority of Malaysian companies appoint at least 3 AC members; and this means that all companies adhere to the guidelines stipulated by MCCG (SCM 2007). Table 2 also shows that on average, 86.8% of AC members are those of independent non-executive directors, and 54.2% are those with accounting and/or finance background. In terms of AC meeting frequency, on average, AC conducted its meeting almost 5 times a year. The minimum is twice a year, and the maximum is 10 times a year. All companies seem to have fulfilled the guideline outlined by MCCG (SCM 2007). This requirement for minimum number of meeting frequency is to ensure that AC can effectively undertake its duties of monitoring internal control and risk management as well as ensuring the smoothness of information communication (SCM 2007).
For control variables, Table 2 shows that company size, on average, is at 19.78; and this is consistent with findings in Hassan et al. (2012) and Jaffar et al. (2007). Leverage level of Malaysian companies can be considered as quite high; i.e. at 40%. The average for ROA is at 4% and growth is at 1.146. The level of growth exceeds 1, indicating that on average, companies’ total sales for year 2011 were higher than that of 2010. For board characteristics, on average, Malaysian companies have 7 board members; 46% of the directors are of independent non-executive directors; and the meeting frequency is 5 times a year, parallel to the average meeting frequency of AC.

CORRELATION AND REGRESSION ANALYSIS

Table 3 shows the results of Pearson correlation test. Table 3 shows that RMC is positively correlated ($r = 0.363$) with VRMD at $p < 0.01$. The AC meeting frequency ($r = 0.150$) and ACSize ($r = 0.181$) also shows positive relationship with VRMD at $p < 0.05$. These findings indicate that RMC, AC meeting frequency and ACSize influence the VRMD towards the expected direction. Table 3 also depicts that control variables such as company size, external auditor quality, board size and board meeting frequency are positively correlated with VRMD. All independent variables correlate at a level less than 0.800 ($r < 0.800$); hence, indicating that there is no multicollinearity problem (Tabachnick & Fidell 2001). Further investigation through statistical test of Variance Inflation Factors (VIF) in the multiple regression analysis also found that these variables are free from multicollinearity problem.

Table 4 presents the results of multiple regressions to test the relationship between independent variables and VRMD. Table 4 shows that RMC is positively associated with VRMD at $p < 0.01$ ($\beta = 7.431, t = 3.794$). This finding supports Brown et al. (2009) which advocated that RMC is an effective risk governance mechanism. This finding is also consistent with FRC (2011), which stated that RMC may assist in improving a company’s channelling process of risk management information. The AC meeting frequency is also found to be positively associated with VRMD at $p < 0.05$ ($\beta = 2.104, t = 2.130$). This finding supports the results of Tao and Hutchinson (2013) and Bryce et al. (2014) that frequent AC meetings may enhance the effectiveness of information communication in a company. The more frequent the meetings, the more active the AC is in the process of risk management communication; and hence, more information can be conveyed to the board (Vafeas 1999). This will eventually contribute to the improvement of VRMD in company annual reports. However, Table 4 also illustrates that other AC characteristics do not influence the VRMD.

**ADDITIONAL ANALYSIS**

According to FRC (2012), a company that appoints AC to manage its risk needs to ensure that the AC possesses the qualities stipulated by the Code on Corporate Governance. To obtain a more robust result, this study conducted additional analysis, as shown in Table 5, included companies that only appoint AC to manage their risks, and excluded companies that establish RMC. Table 5 displays that the AC meeting frequency is positively associated with VRMD at $p < 0.01$ ($\beta = 3.932, t = 2.863$). This finding is consistent with the finding in Table 4; and supports the suggestion of FRC (2012) that frequent AC meeting facilitates the communication of risk management information between operations and strategic divisions. AC independence is found to be negatively associated with...
### TABLE 3. Pearson correlation test (N = 395)

<table>
<thead>
<tr>
<th></th>
<th>VRMD</th>
<th>RMC</th>
<th>ACInd</th>
<th>ACEdu</th>
<th>ACMet</th>
<th>ACSize</th>
<th>Lnsize</th>
<th>Lev</th>
<th>ROA</th>
<th>Growth</th>
<th>AuditQual</th>
<th>BoardInd</th>
<th>BoardSize</th>
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<td>RMC</td>
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<tr>
<td>ACInd</td>
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<tr>
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<td>0.050</td>
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<td>-0.143*</td>
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<tr>
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<td>0.315***</td>
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<td>0.134*</td>
<td>0.372***</td>
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<td>0.176**</td>
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<td>-0.008</td>
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<td>0.327***</td>
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<td>0.160**</td>
<td>-0.363***</td>
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<td>0.189*</td>
<td>-0.097</td>
<td>0.073</td>
<td>0.518***</td>
<td>0.130*</td>
<td>0.142*</td>
<td>0.225***</td>
<td>-0.103*</td>
<td>-0.018</td>
<td>0.037</td>
<td>0.157**</td>
<td>0.041</td>
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Notes: *** significant at 0.01   ** significant at 0.05   * significant at 0.1
# Variables are as defined on page 88
TABLE 4. Regression analysis (N = 395)

<table>
<thead>
<tr>
<th>VRMD</th>
<th>Coefficient</th>
<th>t-stat</th>
<th>VIF</th>
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<tbody>
<tr>
<td>c</td>
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<tr>
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<td>0.713</td>
<td>1.060</td>
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<td>1.591</td>
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<td>Lnsize</td>
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<td>1.243</td>
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<td>ROA</td>
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<td>Adjusted R²</td>
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<tr>
<td>F-Statistics</td>
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</tr>
</tbody>
</table>

Notes: ***significant at 0.01 **significant at 0.05 * significant at 0.1

Variables are as defined on page 88

VRMD at p < 0.05 (β = -17.011, t = -2.342). This finding is consistent with Buckby et al. (2015) who found that the AC independence is not effective to increase risk management disclosure in Australia. In Malaysia, Ismail and Abdul Rahman (2011) also found that the board independence has a negative relationship with VRMD. It was assumed that independent directors do not usually involve in company operations and as a result, they have limited information about the company’s risks (Peng 2004); and therefore contribute to the possibility of less disclosure in company’s annual report.

However, AC education is also found to not affecting the VRMD. This is, perhaps because the financially literate AC members are more inclined towards focusing more on financial report. This is because the information is more critical since it has been outlined in accounting standards. Moreover, information that relates to the element of non-financial information such as strategic and operational risks are given less emphasis; probably because it is hard to be quantitatively measured and reported (Cabedo & Tirado 2004). ACSize is also found not to be associated with VRMD. This is consistent with past studies which also found that ACSize does not affect the quality of internal control (Krishnan 2005) and the quality of accounting report (Mangen & Pike 2005). Mohd-Saleh et al. (2007) and Ferreira (2008) stated that the quality of corporate governance depends more on the quality of each individual AC members rather than the size of the AC. In contrast, board meeting is found to have a negative impact on VRMD when the AC is assigned to manage risk. This study argues that the ability of independent directors to influence executive directors during the board meeting could be limited due to a few reasons.

First, as shown in Table 2, the mean value of the board independence is less than 50%. The regression result also shows that the BoardInd is not significant. This evidence indicates that the independent directors are probably not powerful enough to influence and encourage the executive board members to disclose more corporate’s risk information. The lack of board independence will benefit the management and lead to a lower VRMD. In addition, without RMC, the poor involvement of AC members in operational and risk management activities will be taken advantage of by the executive board to hide the risk information, particularly the negative ones. The AC members may have poor or lack of knowledge and information about risk management activity because they are not extensively involve in the operational and monitoring of risk management activities. Furthermore, the outside directors have limited time (only meet four to five times a year), and crucially depending on the internal audit’s risk management report. The management can easily utilize the AC’s members’ poor of risk management knowledge to manipulate the VRMD, particularly the risk information that would affect firm negatively. It is not surprising that these above attributes (a lack of board independence and a power AC members’ knowledge about risk information activity) would result in more risk information issues; specifically, where the negative information can be hidden by the executive board. The executive board can claim that the decision of not disclosing the risk-management issues have been approved
by the board meeting committee, and it is not on individual basis. Thus, the more the number of board meetings held, the better the executive board’s opportunity to hide the risky information.

Since descriptive analysis shows that companies tend to disclose more positive risk management information rather than negative information, we run another additional analysis. As shown in Table 6, we examined the role of RMC and AC characteristics towards this reporting behaviour.

Table 6 shows that the presence of RMC increases negative VRMD. One of the possible explanations for this finding is that, the expertise and skill in risk management probably assist RMC to anticipate the adverse effects of not reporting the negative information to stakeholders. This is consistent with Coombs (2007) that stated companies are more likely to report negative information when the hiding of such information can cause greater negative effects, such as raise of speculations or negative assumptions by

<table>
<thead>
<tr>
<th>TABLE 6. Additional analysis: Separating positive and negative VRMD (N = 395)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VRMD Negative</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Coefficient</strong></td>
</tr>
<tr>
<td>c</td>
</tr>
<tr>
<td>RMC</td>
</tr>
<tr>
<td>ACSize</td>
</tr>
<tr>
<td>ACInd</td>
</tr>
<tr>
<td>ACEdu</td>
</tr>
<tr>
<td>ACMMeet</td>
</tr>
<tr>
<td>Lnsize</td>
</tr>
<tr>
<td>Lev</td>
</tr>
<tr>
<td>ROA</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>AuditQual</td>
</tr>
<tr>
<td>BoardInd</td>
</tr>
<tr>
<td>BoardSize</td>
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<tr>
<td>BoardMeet</td>
</tr>
<tr>
<td>Adjusted R²</td>
</tr>
<tr>
<td>F-Statistics</td>
</tr>
</tbody>
</table>

Notes: ***significant at 0.01  **significant at 0.05  * significant at 0.1  
Variables are as defined on page 88
stakeholders (Skinner 1994). Table 6 also shows that the presence of RMC reduces positive VRMD. Companies often utilize VRMD to influence their investors by reporting more positive risk management information compared to negative information (Abdullah et al. 2015; Linsley & Shrives 2006). Without guidelines, companies may also report untrue positive risk management information; such as reporting of risk management planning or action that is actually not being implemented by the company (Abraham & Shrives 2014; Hines & Peters 2015). However, it is difficult for managers to manipulate risk management information in the presence of RMC. This is because RMC has vast knowledge in risk management information as a result of their direct involvement in risk management activities. This suggests that the existence of RMC does not only provide risk management resources or information, but can also act as an effective monitoring function for risk governance.

CONCLUSION

This study investigates the influence of RMC and AC qualities toward VRMD in Malaysia. The main findings from this study provide evidence that the presence of RMC tends to enhance the VRMD. This result supports the resource dependence theory by providing empirical evidence that RMC can be the source of risk management expertise and risk management information. RMC also shows the potential that it can play an effective monitoring role because with the source of information possessed by RMC, a company will be more careful in its reporting of positive risk management information. Thus, we believe non-financial companies should establish a RMC because it can increase reporting transparency. Our finding is relevant to the authorities such as Securities Commission of Malaysia, MSWG and Bursa Malaysia in their undertaking of formulating laws related to risk governance. In the future, these regulatory bodies may consider encouraging companies to establish RMC as a step towards more effective risk governance as practiced by developed countries such as Australia. From the aspect of AC quality, this study found that AC independence and activeness influence the VRMD. Nevertheless, ACSize and education do not seem to influence VRMD. In summary, the results of this study are as follows:

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H_1$: The presence of RMC is positively associated with VRMD</td>
<td>Supported</td>
</tr>
<tr>
<td>$H_2$: AC size is positively associated with VRMD</td>
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</tr>
<tr>
<td>$H_3$: AC independence has no association with VRMD</td>
<td>Not Supported</td>
</tr>
<tr>
<td>$H_4$: AC education in accounting or/and finance positively associated with VRMD</td>
<td>Not Supported</td>
</tr>
<tr>
<td>$H_5$: AC meeting frequency positively associated with VRMD</td>
<td>Supported</td>
</tr>
</tbody>
</table>

We acknowledge a number of limitations in the study. First, this study only focuses on a one year data that might not easily be generalized to other time period. Second, this study measures AC education based on education in finance or accounting only. It is a limitation of this study as AC education and training in risk management are not accounted for. Future study needs to address this limitation in the view that Bursa Malaysia (2012) has encouraged AC members to have knowledge in risk management; even though this knowledge is not being emphasised by MCCG (2007).

REFERENCES


Miikkinen, A. 2013. The usefulness of firm risk disclosures under different firm riskiness, investor-interest, and market conditions: new evidence from Finland. Advances in Accounting 29(2): 312-331.


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The Influences of Risk Management Committee and Audit Committee towards Voluntary Risk Management Disclosure