Audit quality influencing factors: Comparative study between Islamic and Conventional banks in Malaysia

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Abstract

Corporate scandals and fraud have, without any doubt, a direct relation to the level of audit quality provided by the audit firm. Therefore, it is important that the highest possible level of audit quality is maintained, especially in banks as they are fundamental to the strength and stability of a country's economy. Although audit quality in banks is crucial, accounting research tends to focus on disclosure practices or performance measures of these banks. Thus research on audit quality of banks is lacking, particularly in relation to Islamic banks. Research on audit quality may be restricted by the fact that it is difficult to measure, especially for the stakeholders of these banks as they are not part of the audit firm. Nevertheless, there are indicators of audit quality, which are termed as Audit Quality Influencing Factors (AQIF) in this study, and used to obtain an indication of audit quality in Malaysian banks. Also, since Islamic institutions accord all their activities to the principle of Islamic accountability, and have to be accountable to more stakeholders, and ultimately God, this study expects that the level of audit quality in Islamic banks will be higher than conventional ones. Therefore, this study investigates the difference between AQIF of Islamic and conventional banks in Malaysia. This study analyzes a sample of 33 banks, composed of Islamic and conventional, listed on Bursa Malaysia, to meet its objectives. The results of this study found that conventional banks' AQIF are better than Islamic banks' indicators.

Key words: Audit quality, Islamic banks, Coventional banks, Malaysia

1. Introduction

The auditing profession, as any other profession is a very sensitive occupation in the sense that auditors' services can affect a large category of stakeholders. The significance of the auditing profession was clearly obvious to the public after the scandals of Enron, and WorldCom because the auditors' opinion in these cases had serious consequences on company's stakeholders; e.g. investors may lose their entire wealth. For this reason, many regulatory bodies and academic researchers have put a lot of scrutiny on how to improve auditing quality whether by adding more restricting standards by authoritative bodies (Nagy, and Cenker 2007; Jackson, Moldrich, and Roebuck, 2008), or by empirical studies that investigated audit quality influencing factors (Deangello, 1981; Jeong, and Rho; 2004; Carlin, Finch, and Laili, 2009).

Several previous studies have investigated the factors that determine audit quality by giving more attention to client companies' specific characteristics that may lead to better auditing quality (Lam, and Chang, 1994; Lee, Stokes, Taylor, and Walter, 2003; Chen, Lin, and Zhou, 2005; Jain, and Martin, 2005). In addition, they examined determinants that are outside the auditing and clients firms' control, such as the rules imposed by regulatory bodies (Jackson, Moldrich, and Roebuck, 2008; Boon, McKinnon, and Ross, 2008; Kim, and Yi, 2009).

On the other hand, many studies have been done on the field of Islamic banks in terms of their efficiency, like Sufian (2007) who has compared the competence of domestic, foreign, and Islamic banks operations in Malaysia, whereas, Dusuki, and Abdullah (2007) have investigated the major factors that encourage customers to deal with Islamic banks mostly in a double banking environment like the Malaysian one. On other hand, Satkunasingam, and Shanmugam, (2004) have examined the current state of corporate governance and disclosure of Islamic banks in Malaysia. However, from all the above mentioned studies it seems that till the moment there is no study that covered the issue of audit quality in Islamic banks, specifically in the Malaysian environment.

However, audit quality in Islamic banks has not been studied because of difficulties that accompanied its measurement, unless the researcher has access to internal audit information. Nonetheless, indicators of audit quality may be used to measure its level. In this study they are known as AQIF which can be defined as a set of factors that may direct influence on audit quality level improvement like audit firms' size, corporate governance, Audit tenure, client firm size, etc, as stated by (Hoitash, Markelevich, and

Barragato, 2007; Lai, 2009; Wahab, Zain, James, and Haron, 2009).

As a result, the aim of this paper is to investigate if the level of audit quality of Islamic banks in Malaysia in the year 2009 is comparable to conventional banks. In achieving this aim, this paper is divided into six parts as follows; the next section of this paper includes a simple overview on auditing in Malaysia. The third section reviews the literature about issues related to audit quality. The fourth section contains hypotheses development. The fifth section will show research methodology and study's results. The last section concludes with the study's limitation and some suggestions for future research in this area.

2. Auditing in Malaysia

Wahab et al. (2009) stated that auditors in Malaysia are restricted by auditing standards and requirements as in many other countries in the world. However, the 1965 Malaysian companies act scrutinized auditors' independence, gave auditors authority to attend client company meetings, and offered auditors sufficient accessibility to the company accounting records and information (Ali, Haniffa, and Hudaib, 2006). Additionally, Ali et al. (2006) argued that the current Malaysian auditing profession and practices came as result of satisfying legal requirements and providing an attractive economical environment for international investors. Nonetheless, Wahab et al. (2009) mentioned that 30% of the Malaysian auditing market is controlled by big auditing firms.

3. Prior studies on audit quality

Auditing quality has been defined as; auditor' capability of finding out any probable client violations in the accounting system, and its ability to declare the discovered violation in the auditing report (DeAngelo, 1981). Elitzur and Falk (1996) have described audit quality as the total of standardized units of audit verifications collected by an independent auditor. However, an audit failure takes place when an independent auditor fails to discover a material error. Additionally, Titman and Trueman (1986), mentioned that auditor quality is defined in terms of the information accurateness that they provides to investors; the information provided by a higher-quality auditor permits investors to do a more accurate approximation of the firm's value. However, it seems from all the above definitions that achieving audit quality is related to the auditors' ability to detect material error.

Some of the mentioned studies have studied the issue of audit quality from the angle of audit firm size. In this essence, the results of these studies were incompatible in the extent that some studies have proven that audit quality is not linked to the presence of big auditing firms (Carlin, Finch, and Laili, 2009; Boone, Khurana, and Raman, 2010). While, other studies have found that the presence of a big auditing firm is a very effective factor in terms of determining audit quality (Deangello, 1981; Hussainey, 2009; Lai, 2009)

However other studies have looked into a variety of factors that can determine audit quality like audit fees (Hoitash, Markelevich, and Barragato, 2007), time pressure, such as (Leventis, and Caramanis, 2005; Gundry, and Liyanarachchi, 2007), regulation (Nagy, and Cenker 2007), the impact of an obligatory audit firm rotation on audit quality (Jackson, Moldrich, and Roebuck, 2008), earnings management (Chen, Lin, and Zhou, 2005), and corporate governance (Ballesta, and Meca, 2005).

Additionally, the studies that have been conducted in Malaysia (Ismail, Iskandar, and Rahmat, 2008; Abdullah, Ismail, and Jamaluddin, 2008) have found a significant relationship between some components of corporate governance and audit quality in listed companies, while, Ismail, Haron, Ibrahim, and Isa (2006) examined audit quality determinates on public listed companies in terms of firm client specific characteristics. Other researchers have examined audit quality level depending on the characteristics of the audit firms, such as audit firm size (Carlin, Finch, and Laili, 2009), and auditors' behaviours (Paino, Ismail, and Smith 2010).

With this respect, it seems that most of the prior studies have used indicators of audit quality in order to measure its level in the companies which are under these previous studies' scope since audit quality level is hard to measure like (Ballesta, and Meca, 2005) who have used corporate governance as a proxy of audit quality, while, other studies have used other indicators like audit tenure, audit firm size, audit client size, and auditor specialization as proxies of audit quality (Thomas, Davis, and Seaman, 1998; Ghosh and Moon, 2005; Francis and Yu, 2009). Thus, this study will depend on audit quality influencing factors to measure the level of differences of audit quality in Malaysian Islamic and conventional banks.

However, audit quality in Islamic and conventional banks in the Malaysian context has not been studied because of difficulties that accompanied its measurement unless the researcher had access to internal audit information. Nonetheless, indicators of audit quality may be used to measure its level. In this study they are known as AQIF which can be defined as set of factors that may direct influence on audit quality level improvement like audit firm's size, corporate governance, Audit tenure, client firm size, etc as stated by (Hoitash, Markelevich, and Barragato, 2007; Lai, 2009; Wahab, Zain, James, and Haron, 2009).

4. Hypothesis development

This study's objective is to compare between two bank categories which are Islamic and conventional banks. These two types of institutions have one main divergence which is represented by the concept of Islamic accountability in the essence that this concept is considered as the main reason for establishing Islamic banks and most of its principals stem from it. Therefore, this study will start its hypothesis development by defining this concept.

From the western perspective accountability has been clarified by Gray (2001, p. 11) as "identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information". Additionally, Abdul Rahman (1998: 57) argues that accountability is viewed as "a relationship involving the giving and demanding of reasons for conduct. It assumes that some individual, small group or organization has a certain "right" to make demands of another and to seek reasons for action taken".

The concept of accountability from an Islamic point of view has been defined by many researchers including Lewis (2001: 144) who defined Islamic accountability "as being first and foremost, accountability to God through making information available to all. Truthful and relevant information is important in all aspects of Islamic life". Further, Abdul Rahman (1998: 60) explained that "Islam has developed its own concept of accountability. The concept of Taklif (accountability) means everyone is accountable for his actions or inaction on the Day of Judgment. Taklif is clearly differentiated from its non-Islamic counterparts by insisting that each person is responsible for his own deeds. Accountability in Islam also means as well as the benefits of any ownership or responsibility".

Maali, Casson, and Napier (2006: 271) have clarified this concept from an Islamic point of view by stating that the supposed relationship of individuals and firms with God, shapes the concept of accountability. This has sourced mainly from the fundamental Islamic concept of Tawhid (the unity of God) which considers that the creator is one and everything came from him. As a result, everything created on this earth are elements of a single set and this implies total submission to God's will and following the religious requirements in all aspects of life. Each Muslim is thus responsible to God for everything that he or she does.

From the previous definitions, many researchers (Abdul Rahman, 1998; Baydoun and Willet, 2000; Lewis, 2001, Maali, Casson, and Napier, 2006) argued that the concept of Islamic accountability is broader than the Western one, since the latter is more concerned with the self interest of the individual through the capitalistic ideology. On the other hand, Islamic accountability takes the whole community or stakeholder interest as the primary priority of an individual who is involved in any business activity.

Since Islamic banks are the focus of this research, it is important to relate the concept of Islamic accountability and expected founded Islamic values in Islamic banks to audit quality, in order to provide more explanation and clarification of audit quality practices in Islamic banks compared to their counterparts, conventional banks. Nevertheless, to the best of my knowledge it appears that there is no study that relates this concept to audit quality or even studied audit quality in an Islamic environment like Islamic banks.

Based on the above discussion it could be useful to look to the environment where Islamic accountability is applicable and try to connect it to audit quality. For this reason, one of the most critical issues that is influencing or reducing audit quality is managers' rationality or earnings management (Jensen, and Payne, 2005; Maijoor, and Vanstraelen, 2006; Johl, Jubb, and Houghton, 2007; Tendeloo, and Vanstraelen, 2008; Abdullah, Ismail, and Jamaluddin, 2008; Wahab, Zain, James, and Haron, 2009).

However, in Islamic institutions because a manager is working under god's trust given to him/ her, the manager is entrusted by the principal, stakeholders, the community, and ultimately Allah SWT to manage. Therefore, based on this trust the manager should do everything possible to fulfill this trust, and trust is similar with other employees of the Islamic banks. Thus, this is considered as a sphere of employees, providing guidance, vision, and care for subordinates to maximize their outputs, and preserve the values and obligations of religion (Baydoun, and Willet, 2000).

Moreover, Hassan and Christopher (2005) argued that Islamic banks could be very careful regarding appointing their board members and managers in terms of explicit qualification requirements. Additionally, Kasim, Ibrahim, and Maliah (2009) argue that managers of Islamic financial institutions give the impression to be held accountable not only for the way they allocate the funds, but also for the competence in how they use those funds as well. Further, managers should be working in line with the broad scope of the Shariah in all aspects of their duties.

Abed Alkarim (1990) argued that religious incentives are more influential than self interest incentive in terms of minimizing managers incentive to manipulate accounts or be involved in fraud. In addition to that, he argued that Shariah supervisory board has a very important role of controlling managers in terms of their commitment to Islamic obligation which may decrease unethical behaviours. Furthermore, Abdull Rahim (1998) documented that an individual well aware about God will not dare to undertake an action for their self interest only without putting in consideration on its impact on other stakeholders because Islam emphasizes truthfulness and justice.

In addition to that, these kinds of firms contain a Shariah supervisory board as an important function in their internal audit element which has a very important role of controlling mangers in terms of their commitment to Islamic obligation which may decrease unethical behaviours (Abed Alkarim, 1990). As a result, it seems that audit quality in such kind of environment will be higher since auditors will conduct their audit with the full cooperation of Islamic bank's management and employees.

On the other hand, Ahmad and Mansor (2009) argued that Chinese controlled companies in Malaysia may have different levels of agency practices than their Bunmputra counterpart and are associated with a higher level of auditor risk. From this point it seems that ethnicity has a certain influence on audit quality since ethnic behaviour emerges from a certain concept of life that is consistent with the ethnic group beliefs.

Based on the discussion, since the managers and employees of Islamic banks are more accountable and have society in mind, they will be more demanding on themselves and their appointed board members. Therefore, they will ensure that not only their boards of directors are qualified and regularly fulfil their duties and responsibilities effectively, they will also ensure that their audit committee members are also qualified and diligent (Abed Alkarim, 1990; Hassan and Christopher, 2005). These Islamic banks will also appoint more experienced and qualified auditors to be assured that their obligations to the community are discharged properly (Abdull Rahim, 1998; Hassan and Christopher, 2005; Kasim, Ibrahim, and Maliah, 2009). All these above dimensions would lead to higher audit quality, however since this study cannot specifically measure audit quality, these dimensions or AQIF are tested instead.

Thus, this study takes a different approach that is consistent with Islamic accountability i.e., examining the differences between Islamic and conventional banks regarding audit quality influencing factors. The suggested hypothesis is as follows:

H1: There are no differences between Islamic and conventional banks regarding audit quality influencing factors.

5. Study's Methodology and results

5.1 Audit quality influencing factors measurements

This part discusses how to measure the selected variables in this study which are AQIF variables.

5.1.1 Auditor specialization

Thomas, Davis, and Seaman (1998) pointed out that the firms that have been audited by the big auditing firms with previous experience in specific firm characteristics (e.g. secured loan, non shareholders owners) have received better auditing quality than other companies. Lowensohn, Johnson, Elder, and Davies (2007) and Carcello and Nagy (2004) found that specialization is positively correlated to audit quality level.

Wright and Wright (1997) noted that specialized auditors are better in terms of finding out material errors in the financial statements along with clients inside their industry specialization than outside their specialization. In addition, specialized auditors are more expected to be in compliance with auditing standards than non specialists auditors. Davidson, and Neu (1993) pointed out that specialist auditors are more expected to invest in technologies, personnel, and organization control systems that improve the level of audit quality in clients' firms. Industry-specialist audit firms also hold industry detailed information and abilities that they can rely on powerfully to help clients in enhancing certain industry disclosure plans.

Consistent with these studies (Thomas, Davis, and Seaman, 1998; Lowensohn, Johnson, Elder, and Davies, 2007; Carcello and Nagy, 2004) this study will use auditor market share as proxy for auditor specialization by taking any auditor with a market share of 20 percent or more as a specialist and auditor specialization in this study will be dichotomous variable with the value of "1" if the auditor is specialized and "0" otherwise.

5.1.2 Auditing firm size

Previous studies propose that Big auditing firms are accompanied by higher audit quality and suggesting a lower occurrence of fraud when a company maintains a big auditing firm (De Angelo, 1981; Lai, 2009; Hussainey, 2009). Francis and Yu (2009) argued that bigger auditing offices have better proficiency in finding out material errors in the client's financial statements. As a result, auditors in smaller auditing offices have lesser experience, resulting in insufficient proficiency in detecting such errors. Their results indicate that Big six auditing firms perform as a competent element in minimizing earnings management of their clients, which in turn will enhance the auditing quality level. Finally, Big 4 firms offer greater audit quality as their size can preserve more effective training programs and more opportunities for appropriate partner evaluations (Lawrence, Meza, and Zhang, 2011).

Taking the mentioned above in consideration, this study measures auditor size by using a dummy variable (1 for Big four firms ([1]); 0 for others).

5.1.3 Audit client size:

Keasey, Watson, and Wynarczyk (1988) mentioned that larger companies seek regularly to get higher level of audit quality because these kinds of firms have a higher level of scrutiny from the public. Ballesta and Meca (2005) stated that large companies seem less probable to be unsuccessful, and auditors may hesitate to issue a qualified opinion due to anxiety about losing an important share of auditing fees provided by large clients. Furthermore, Carcello and Nagy (2004) stated that auditor's capability in constraining any potential financial fraud has a direct interaction with client firm size and industry specialization. Lai (2009) found that companies with high investment opportunities are more probable to be discretionary and are more exposed to earning management manipulation but this relationship is lesser when they hire big auditing firms because the former are more expected by many clients to have experience and capabilities to minimize effectively managers' manipulation than smaller auditing firms. Also, this study will use total asset as proxy of client size as it was used by Carcello and Nagy (2004).

1. Deloitte, Ernst & Young, PricewaterhouseCoopers, KPMG

5.1.4 Corporate governance

Studies that have used corporate governance as an affecting variable in measuring audit quality, by focusing on audit committee, ownership structure, and CEO duality as proxies for an effective corporate governance that results in higher audit quality include Adeyemi, and Fagbemi, 2001; Ismail et al. 2008; Abdullah, Ismail, and Jamaluddin, 2008; Ismail et al. 2008. In this essence, Adeyemi, and Fagbemi (2001) found evidence that ownership by non executive directors may have the possibility of achieving a higher level of audit quality. Ismail et al. (2008) stated as well that audit quality level is higher in companies with multiple directorship and better reporting quality compared to companies with poor reporting quality and without multiple directorships.

Goodwin, and Seow (2002) argued that auditors place higher confidence on the internal audit occupation as a way of recognizing weak points in the client firm controls and to prevent fraudulent practices; this can be viewed from two views. First, auditors are familiar with the occupation and that internal audit is capable of limiting audit risk. Second, auditors have a preference of offering their services with an internal audit function to develop the internal controls in their clients' company.

This study will use audit committee function to measure corporate governance by using the factor utilized by Ismail et al. (2008). These elements are represented as follows: Financial literacy of audit committee members measured by whether one of audit committee members holds any financial qualification, frequency of audit committee meeting that will be measured by number of meetings held per year, and number of audit committee members.

5.1.5 Audit tenure

Ghosh & Moon (2005) found that audited financial statements, specifically reported earnings, seem to be more trustworthy for firms with longer auditor tenure. Solomon, Shields and Whittington (1999) argued that when the auditor spends more time with clients he/she will be less dependent on managers as he/she will be specialized in the firm's specific characteristics and this allows him/her to also know all the problems that may affect his/her capability of misstatement detection in the financial statements.

In addition, George (2009) stated that since the long auditor-client relationship is seen as a helping factor in developing an economic connection between auditor and his client this may create a very good and broader view of the company financial working process of the auditor. Myers, Myers, and Omer (2003) suggested that long period auditors' association with the clients may decrease auditors' independence from managers which can restrict a managers' ability in generating future manipulated earnings.

Consequently, this study will utilize dummy variables with a value of 1 if auditor tenure is more than three years, 0 otherwise as a proxy of auditor tenure as used by Knechel & Vanstraele, 2007.

5.2 Sample and Data Collection

Since the objective of the study is to compare between AQIF both conventional and Islamic banks, this study will use annual report of the year 2009 as the selected period which contains many banks of the two banks' categories, which may help in generalizing the results of this study in such kinds of institutions. Only Financial institutions; commercial banks and financial companies listed in the Bursa Malaysia Berhad (BMB), have been selected as samples for the current study.

This paper has generated its data source from annual reports of banks listed on Bursa Malaysia because many previous studies in the field of audit quality have depended on annual reports as the main source of data specifically those which have used audit quality influencing factors. This has been the reason that annual reports contain proxies that could be used as accurate measures for these indicating factors (Ballesta and Meca, 2005; Abdullah, Ismail, and Jamaluddin, 2008; Lai, 2009; Paino, Ismail, and Smith, 2010). As a result, this study will use annual reports only as source of data since AQIF proxies have been proved by prior studies to be significantly available on annual reports (Lam, and Chang, 1994; Lee. et al. 2003; Lowensohn el al. 2007; Jackson el al. 2008; Hussainey; 2009).

A total of 33 banks were selected as the sample representing two bank categories; Islamic and conventional banks listed both on BIMB in the year 2009. Table 1 summarizes the distribution of sample according to bank type.

Table 1: Distribution of sample according to bank type

Year/bank type	Islamic bank	Percentage	Conventional banks	Percentage
Year 2009	15	45.45%	18	54.55%
Total banks	33			

5.3 Results

5.3.1 Descriptive statistics:

Table 2: Descriptive statistics of Dichotomous variables for Islamic and conventional banks

Year/variables	Islamic banks			Conventional banks		
	Total banks	Frequency	Percentage	Total banks	Frequency	Percentage
Auditor size						
Big 4	15	1	6.7%	18	18	100%
Non- Big 4		14	93.3%		0	0.00%
Auditor specialization						
Specialized	15	10	66.7%	18	9	50.0%
Non-specialized		5	33.3%		9	50.0%
Audit tenure						
One year	15	0	0%	18	0	0%
Two years		1	6.7%		1	5.6%
Three years		3	20.0%		3	16.7%
Four years		11	73.3%		14	77.8%

Table 3: descriptive statistics of continuous variables for Islamic and conventional banks

Bank type	Islamic banks		Conventional banks	
Variable name	No	%	No	%
Audit committee members	=3 4-5 >5	33.33% 60.00% 6.67%	=3 4-5 >5	44.44% 50.00% 5.66%
	Mean	3.64	Mean	3.61
Financial literacy of audit committee members	< 2 2-3 >3	53.33% 40.00% 6.67%	<2 2-3 >3	50.00% 50.00% 0.00%
	Mean	1.66	Mean	1.55
Number of Board of directors members	<6 6-10 >11	13.33% 86.67% 0.00%	<6 6-10 >11	11.11% 77.78% 11.11%
	Mean	7.00	Mean	8.00
Frequency of audit committee members	0-10 10-20 >20	60 % 30 % 10 %	0-10 10-20 >20	61.11% 16.66 % 16.66%
	Mean	10.80	Mean	10.72
Client size (total assets)	Mean	RM 152,242	Mean	RM 406,980

Table 2 shows descriptive statistics of dichotomous AQIF for Islamic and conventional banks which are; audit firm size, auditor specialization, and audit tenure. The results of the first indicator show no significant difference between both banks categories since 100 % of the conventional banks are audited by big 4. While 93.3% of the Islamic banks are audited by big 4 only 6.7 % are audited by non big and this former ratio is representing only one bank from total Islamic banks.

With respect to auditor specialization, the results show that Islamic banks are better than conventional banks. Almost 66.7 % of the Islamic banks are audited by specialized auditing firm compared to 50 % for conventional banks, while the other 33.3 % of the Islamic banks are audited by non specialized firms as opposed to 50 % for conventional banks.

In terms of audit tenure, the results show that both bank's categories are equal in terms of fulfilling this indicator since all the banks have not changed their auditors. For the other banks that have been audited less than four years, this was as a result of these banks starting their activities or issuing their annual reports after 2006, not a result of changing the auditor.

Table 3 shows the mean of continuous indicators of both bank categories which are Islamic and conventional banks. The results show that about 60 % of Islamic banks have between four to five audit committee members as opposed to 50 % for conventional banks. A majority of conventional banks (i.e. 44.44%) have audit committee members equal to three members compared to 33.33% for Islamic banks. On the other hand, the results point out as well that 6.67% of the Islamic banks in comparison to 5.66% of the conventional banks have more than five members in this board. Finally, the mean indicates that there is no significant difference between both bank categories in terms of number of audit committee members (3.643.61).

In terms of board of directors, the results show that the majority of both banks' categories have come from six to ten members; this was indicated by a ratio of 86.6% from the total of the Islamic banks as compared to 77.78% from the total sample of the conventional banks, whereas, 11.11% of the conventional banks and 13.33 % of the Islamic banks have less than 6 members. On the other hand, the remaining 11.11 % of conventional banks have more than ten members, while, none of the Islamic banks have more than 10 members. This indicates that conventional banks are better than conventional banks in terms of board of directors' members, and this was supported by the mean results which show that the mean (8.00) of conventional banks is higher than Islamic banks' mean (7.00).

The table shows as well that about 50 % of conventional, compared to 40 % of the Islamic banks, have from two to three qualified members from the total number of audit committee members. The results show also that most of the Islamic banks have one qualified member which is mentioned by 53.33% of these banks compared to 50.00 % of the total conventional banks. On the other hand, only 6.7 % of the Islamic banks have more than three qualified members in contrast to 0.00 % for conventional banks. However, the mean results point out that there is no significant difference between Islamic and conventional banks in fulfilling the criteria of audit committee members' financial literacy (1.551.66).

With respect to frequency of audit committee meetings, the table shows that Islamic banks meet more often than conventional banks since 30% of the former handle an average of ten meetings and less per year as opposed to 16.66% for conventional banks. For the Islamic banks group a ratio of 60 % and 10 % shows that this bank's category met more than 5 and 14 times accordingly per year, compared to 61.11% and 16.66 % for conventional banks. As a result, by looking to the mean results and the later analysis this table shows that Islamic banks are approximately equal to conventional banks in terms of the number of meetings per year.

Regarding client size, the results show that conventional banks have a higher size than Islamic banks with a mean of RM 406,980 as opposed to Islamic banks which have a mean of RM 152,242. This difference can be interpreted in the essence that the total number of conventional banks in Malaysia is more than Islamic banks which means higher total assets. In addition, this former bank category starts its activities in the financial Malaysian market before Islamic banks which could be a good reason for affording it more time for conventional banks to develop their assets than Islamic banks.

5.3.2 Hypothesis test

In order to test this study's hypothesis, this paper uses two different types of tests for its two kinds of indicators; dichotomous and continuous. It uses Mann-Whitney U test which is equivalent to a Chi-Square test distribution in the essence that this test is the most commonly used method for comparing between two proportions (Fink, 2003). Therefore, this test will be useful for dichotomous indicators which are audit firm size, auditor's specialization, and audit tenure. The results of this test are summarized in Table 4.

However, this study uses independent sample t-test to evaluate whether there is any difference between the two bank types (i.e. Islamic and conventional banks) in terms of continuous indicators. This kind of test is chosen because it is more appropriate in comparing between two different categories (Ismail et al., 2008). The results of the analysis are summarized in Table 5.

Both tables (4) and (5) show that there is no significant difference between AQIF of both Islamic and conventional banks at $p>.10$ (at .10 alpha level two tails) for the following indicators; audit firm size, audit tenure, number of board of directors, number of audit committee members, frequency of audit committee meetings, financial literacy of audit committee members, client firm size. These results were consistent with descriptive results shown before in both tables two and three which show some of these indicators are approximately

Table 4: Results of Mann-Whitney U test

AQIF	Asym. Sig. (2 tailed)
Audit firm size	.273
Auditor's specialization	.066
Audit tenure	.378

Table 5: Results of Independent Samples t-tests

AQIF	Mean difference	Df	Sig. (2-tailed)
Number of board of directors	-.66667	30.876	.356
Number of audit committee members	.26667	28.005	.367
Frequency of audit committee meetings	.07778	29.312	.976
Financial literacy of audit committee members	.11111	24.043	.689
Client firm size	-255884	21.571	.521

equal in the mean, like audit committee members, frequency of audit committee meetings, Financial literacy of audit committee members.

However, the descriptive statistics in Table 3 show that there is no huge significant difference in AQIF of Islamic and conventional banks in terms of number board of directors' members and client firm size which is consistent with results of Table 5 that indicates a slight difference at p=.365 and p=.521 (p>.10) in both former indicators respectively. Therefore, this non significant difference is represented by a higher number of board of directors and client size for conventional banks compared to Islamic ones.

With regard to auditors specialization, Table 4 shows that Islamic banks are better than conventional banks at p=0.066. This can be supported from the results shown in Table 2 which indicates that more about 66.7 % of the Islamic banks are audited by specialized auditing firms which is more than conventional banks where 50 % of this bank group are audited by specialized auditing firms.

In conclusion, since conventional banks have two indicators which are client size and number of board of directors members, they seems better than Islamic banks, while, Islamic banks are better than conventional banks in terms of auditor specialization indicator. However, both bank categories are equal or approximately equal in the other indicators.

Therefore, conventional banks are better than Islamic banks in terms of audit quality since the latter are better than Islamic banks by only one indicator. This result rejects this study hypothesis since conventional banks are better than Islamic banks in terms of audit quality level.

6. Conclusion

The aim of this paper was empirically to examine if there is any difference in the level of audit quality between Islamic and conventional banks. Since audit quality is something which is hard to measure this study has used some audit quality indicators which are believed to have some kind of relationship with audit quality, to indicate the level of audit quality in both bank categories. The included indicators in this study were audit firm size, auditor specialization, audit tenure, number of audit committee members, financial literacy of audit committee, frequency of audit committee, number of board of directors' members, and client size. Based on these indicators this study tested its hypotheses.

The result of this paper indicates that conventional banks are better than Islamic banks in term of audit quality. This is because conventional banks have two indicators that are better than Islamic bank indicators which are number of board of director members and client size, while Islamic banks have only one better indicator than conventional banks which is auditor specialization. Further, Islamic banks and conventional banks were quite equal in the other study's variables especially audit committee indicators. This can be interpreted that both bank categories are focusing more on how to fulfil Bursa Malaysia code of corporate governance since all the listed banks should meet a certain minimum level of necessities to be in compliance with listing requirements.

Therefore, as audit quality is considered as one of the means to enhance the quality of financial statements that would be targeted to a large category of stakeholders (Ismail et al., 2008). This may indicate that this study result could be considered as contradictory with the concept of Islamic accountability that is expected to be in the primary principals and considerations of Islamic banks.

This research contributes to regulators and stakeholders in determining the level of audit quality in Malaysian banks and it allows banks in Malaysia to improve their audit quality since most of the AQIF are under the bank's control.

This study is subject to several limitations. Firstly, the scope of this study is limited to the banking industry in Malaysia. Secondly, a limited number of factors influencing audit quality were used in this study. Finally, this study focuses only on analyzing annual reports for its RM, and excludes other methods like (interview, questionnaires) that may reveal more influencing factors. Consequently, these limitations can be a starting point of future research to extend the results of this study by studying (Sharia'h and non Sharia'h approved companies). Further, for more reliable, comprehensive, and accurate results future studies may analyze reports and use questionnaires at the same time in order to obtain more influencing factors on audit quality.

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