Internal and External Governance Impact Analysis and Contribution on Operating Performance during Goods and Services Tax Implementation. A Malaysian Evidence

Sitraselvi Chandren[1] *, Mujeeb Saif Mohsen Al-Absy[2], Ameen Qasem[3]
[1,2]Tunku Puteri Intan Safinaz School of Accountancy, College of Business, Universiti Utara Malaysia, Malaysia
[3]Department of Accounting, College of Business Administration, University of Hail, Hail, Saudi Arabia and Accounting Department, Faculty of Administrative Sciences, Taiz University, Taiz, Yemen
[1]sitraselvi@uum.edu.my

***Abstract*— The Goods & Services Tax (GST) is a beneficial consumption-based tax for a country development. However, during GST implementation an adequate planning is required in the business supply chain functions and operations as to avoid any unfavourable outcome to operating performance. The GST implementation is a challenge to internal and external governance as it requires changes in the business operations. In this paper, we analyze the impact of GST to external auditors and internal control system of the Malaysian listed firms from year 2014 to 2016 using the paired t-test. We identify that the changes in audit firms and audit partners occurred during GST implementation period. Thus, no major significant impact occurred to position of external auditors and internal control system during and after GST implementation. In addition, the 200 firm-year observations regression results from year 2015 to 2016 during GST implementation reports that the external auditors to reserve independence and do not influence the relationship between internal control system with operating performance. Further, the results reveal that lower internal control system cost provides a significant improvement to firms' short-term commitments during GST implementation.**

***Keywords*—** *External Auditors, Goods & Services Tax, Internal Control System, Operating Performance*

1. Introduction

Goods & Services Tax (GST) or Value Added Tax (VAT) is a well-known efficient and effective indirect service tax that contributes to countries economy development.

GST is been practiced by many developed or developing countries in the world and Malaysia practiced GST from year 2015 to 2018. Basically, GST was one of the government financial policy in Malaysia. The role players for GST are the GST-registered businesses or firms that collect GST on behalf of the government by including GST amount in their taxable supplies. It is common on the existence of timing differences between sales and receivable collections, further with GST payment (output tax minus input tax) based on taxable supplies within the regulated datelines, might probably affects the overall firm earnings or performance. Generally the implementation period of GST is critical to firms particularly to the business supply chain functions and operations which requires involvement of internal and external corporate governance besides the management of the firm. An effective supply chain functions executed through proper planning, organizing and control gives a positive impact to operating performance. According to [1] certain board and CEO characteristics representing the corporate governance shows their commitment and support during GST implementation for the smooth flow of firm operation in achieving the desirable operating performance. GST implementation possible to give impact to firm cash flow position and pricing policy [2]. Further, the implementation cost is practical problem for firms during GST implementation [3]. According to [4], firms should evaluate the impact of GST to firms' operations and pricing strategy as incorrect decisions influence the firm performance. Basically, the involvement of those charge with governance is essential during the implementation of GST or any new financial policy implementation. Thus, internal corporate governance role representing the internal control system is essential for effective and efficient business operations during GST implementation challenge with diligent decision making in pricing

IJSCM, ISSN: 2050-7399 (Online), 2051-3771 (Print)

strategies and cash-flow management as it could influence the firm operating performance. With good and effective internal control system (internal governance) in place for pricing strategies and cash-flow management during the implementation period of GST intends to protect the firms from decrease earnings performance and short-term financial position that ultimately affects the shareholder wealth and firm growth. Even after GST implementation period is essential for an effective internal control system as it indicates on how firm operates to cope with this national financial and tax policy of the country. If there is an adverse earnings performance, it provides a negative impression to investors/ shareholders that questions on the effectiveness of corporate governance in discharging their executive and monitoring duties during GST implementation. This is a demanding situation particularly to those charged with governance (internal control system – lead by the internal audit department) who is involving in organizing, operating and controlling the internal control system to minimize firms operating risk in the control environment affecting the operating performance.

The external governance representing the external auditors shall assess the matters or issues involving estimates or the exercise of judgement by management which could have material impact on the financial statements. The external auditors requires to understand the components of internal control system which will help in audit plan [5]. Further, the external auditors show concerned on the internal controls that gives rise to the relevance on the reliability of financial reporting [5]. The GST implementation may cause some possible changes in the business practices where modification is necessary to occur in the business processes involving the internal control system. Thus, due care in the implementation of accounting policy and business operation during GST implementation is essential as to avoid any material issues that may negatively impact on the financial reporting quality. Basically the external auditors work on the understanding of the internal control system possible for them to influence the internal control system that indirectly have effect to the operating performance without compromising on independent issues. Hence, we believe that the external auditors' involvement are essential during GST implementation so that the internal audit department are well guided and advised for a fairly designed business operating system during the GST implementation as to avoid any unfavorable results to operating performance. Practically, this external auditor's team play their role compellingly as to add value to firm internal control system directly and indirectly for a smooth transition of policy and processes during and after GST implementation. However, the outcome of this paper shall reveal whether external auditors do influence the operating performance and the internal control system.

Generally, these corporate (internal and external) governance are significant in controlling risk and promoting the best practices in operations during GST implementation. However, how is the challenge faced by these internal and external governance team (external auditor and internal control system) during GST implementation, is there any changes in the audit structure (change in audit firm or partner), audit fees and internal control system structures (cost & changes from in house to outsource, vice versa) during this period? The purpose of this paper is twofold. First, the imperative impact analysis is conducted to identify any significant changes in the position and function of external auditors and internal control system for example any changes in audit firm, audit partners, audit fees, audit report lag, internal control type and internal control cost before, during and after the GST implementation as to observe for the significant GST impact to the internal and external audit team during the implementation challenge. If there are no major changes in the internal and external audit team structure shall indicate on GST do not cause any major impact to internal and external governance. Further it reveals on the steady professionalism relationship between the firm and auditors (internal & external auditors) on their effectiveness and support provided during GST implementation.

Second, the investigation on direction of relationship between internal control system and external auditors with firm operating performance during GST implementation. This reports on the roles played by the internal control system and external auditors in achieving the desirable operating performance during GST implementation. So far, there is no research done to investigate the impact analysis of audit (internal and external auditors) team and relationship between operating performance and audit team during GST implementation. Thus, the outcome of this paper shall be a relevant contribution to reveal how compelling the audit team in designing, executing, controlling (internal control system), advising and overseeing (external auditors) the business systems for a positive operating performance during GST implementation. Generally, this paper shall shed light on the internal control system and external auditors encountered challenges through impact analysis and role played during GST implementation that reflect on its contribution to the current, past or future users of GST. Part of external auditors' work is to understand and assess the quality of the internal control system of the firm. With this, the external auditors may indirectly influence the relationship between internal control system and operating performance. Moreover, as to our knowledge no studies have investigated the external auditors directly or even as a moderator involving the operating performance. Thus, this paper extends the literature by incorporating external auditors as the moderator for the relationship between internal control systems with operating performance.

2. Literature Review

2.1 Operating Performance

Operating performance indicates on the firm operational effectiveness and efficiency in managing the profitability and liquidity position [6]. Operating performance is a form of financial statements analysis where its reports the firm performance through profitability analysis representing growth in revenue including profit for example sales growth and liquidity analysis reports the firm ability to meet the short-term liabilities or commitments for example current ratio [6]. During GST implementation possible to influence the pricing policy and cash flow position of firm [2]. The operating performance is significant during GST implementation as it reports on the profitability and cash flow position of firms.

2.2 Internal Control and Operating Performance

Generally, the internal control system ensure the firms achieve its objectives through effective and efficient business operations, comply with law and regulations and achieving reliable financial reporting. Accordingly the external auditors rely and assess the internal control system for their audit works to an extent recommending for further improvement in the internal control system. In sum, a good internal control system increases the quality of financial reporting and operating performance. The internal control enhances the firm performance [7]. The internal control system is headed by internal audit departments in firms. Further, internal auditor characteristics influence significantly the effectiveness of internal control system [8]. The internal control system incorporate the business risk and control when designing an effective internal control system that enhances the business operations. This internal control system is audited by internal auditors to ensure the best practices adopted in the operating system as to improve and add value to overall business operations. For good corporate governance one of the contributing factor is the internal audit [8].

The internal control system consist of plans, methods and measures adopted by business entities to "safeguard their assets, control the accuracy and reliability of accounting information, promote operational efficiency and effectiveness and encourage adherence to management policies" [9]. The efficient and effective business operations are due to a well-functioning internal control system [10]. The internal control system role is to meet the objective and goals of business operations, reporting and compliance [11]. The investor uses internal control system as a tool for sufficiency in corporate reporting practices [12]. The firms required to achieve the goals and being legitimate in the eyes of stakeholders for quality internal control system [13]. According [14] large firms with resources and expertise have in-house internal control system compared to medium size firms. The outsourcing has benefit to individual functional areas and not direct impact to stakeholder performance or financial innovation [15]. The firms may outsource the activities when they have limited capabilities and resources [16]. Consistently, [17] identify negative relationship between outsourcing and internal capabilities. Basically, by outsourcing the internal audit services it will be expansion to the internal audit functions where the outsourcing may assist or complement the firm internal control system operations [18]. Further, whether to outsource or in-house the internal control system or the internal audit functions it depends on firm's decision whether to treat the internal audit department as an asset or cost to firm [18]. Further, outsourcing is important to firms today as to conserve the competitive edge in business environment [19]. The outsourcing services is a cost savings and leads the firms to concentrate on the core competencies, however there should be a proper internal control system process for the outsourcing services as to avoid any risk [19].

Quality internal control system enhances accounting conservatism [20]. There is significantly positive associations between internal control system quality with internal audit function in terms of competency, control assurance in internal audit, follow-up process and audit committee in reviewing internal audit results including programs [21]. To an extent, the strong internal control system reduces real earnings management [22]. The internal control system for quality financial reporting provides reasonable assurance that the financial statements are reliable and prepared in accordance with the generally accepted accounting practices [23]. Consistently, the internal audit department quality is the reflected in the financial report [24]. This shows that strong internal control system enhances earnings quality of the firm. This explains the positive relationship between the internal control system and operating performance during GST implementation.

2.3 External Auditor and Operating Performance

The external auditor who reports the financial statements truth and fairness to shareholders are an effective monitoring mechanisms in reducing the agency cost. The reduction of agency cost indicates that the management of the firm are working the same direction with the shareholders in building the firm value and shareholder wealth through positive performance even any situation for example during implementation of new taxation policy. Thus, possible for the external auditors without compromising on their independence indirectly plays an important role in supporting the internal auditors by giving recommendations or advice on the internal control system for achieving better operating performance towards achieving a quality financial reporting. Particularly during GST implementation which requires changes in the pricing and cash flows system besides the board of directors involvement, the vast experienced of the professional external auditors guide and advice to internal control system will be effective for achieving a promising operating performance. Basically, the investors' confidence in financial reporting quality restored through the effectives of external auditors [25]. The external auditors conduct financial and management audits including providing advice with the auditing work and separate supplementary advice known as non-audit service work [26]. The firm performance reduced if the audit fees paid to auditors greater than consulting fees paid to auditors [27].

The firm's value is enhanced due to the quality of external auditors where the investors believes that firms that engaged big auditing firms have more transparency, reliable financial information that boost the investors' confidence [28]. If the firm value or firm performance decrease will this leads to audit firm or partner change? According to [29] the switching of audit firms are based on clients size measured by total assets, level of financial risk and audit firm type not based on operating income and market value changes. In addition the client management are more uncontroversial and accommodative to newly rotated audit partner compared to older audit partners [30]. Further, due to weakness in the internal control system leads to recent auditor changes in firm [31]. According to [32] the reasons for change in external auditors may not necessarily due to audit fees and the other reasons are:

"there may be other reasons why auditors are changed. Examples of these reasons might include: disagreements over the scope of the audit; concerns over the quality of the audit; personality clashes between the directors and audit partners; and a policy to rotate auditors."

The external auditors should practice due care not to be part of management team in dealing firm operating matters. The external auditors provide assurance audit services thus, external auditors require to avoid conflict of interest that possible to cause threat to the fundamental principle of objectivity to the assurance services [33]. The external auditors should be independent of mind and appearance in accordance with MIA By-Laws (On Professional Ethics, Conducts and Practice).

"(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances that a firm's, or a member of the audit assurance team's, integrity, objectivity or professional skepticism has been compromised."

The user of audit report determine audit efficiency through audit report lag as it indicates on the earnings information and audit timeliness [34]. The auditors who are industrial specialist have better knowledge on industry specific, competency and fast familiarization on client business operation complete the audit faster relative to non-specialist auditors [34]. This reflect that auditors' commitments and efficiency is judge through audit report lag by stakeholders. Moreover, the accounting information followed by quality audit work will be a value relevant to market participants the investor [35]). Thus, the big audit firms perform prestigious audit quality work [35]. This will be a challenge for auditors to complete the audit within the stipulated time during GST implementation. The external auditors has important role to deliver the earnings and financial position (truth and fairness of the financial statements) information through their auditors report during GST implementation. This reflects that the cooperation between the external and internal auditors are necessary during GST implementation for a favorable operating performance of firms to build stakeholders confidence and shareholder wealth. With these the external auditors' commitment without compromising their independence of mind and appearance, may indirectly involve to support the firm and internal control system with adequate guide and professional advices on operating system either to maintain or increase firm operating performance during GST implementation. Thus, this describe the positive relationship between external auditors and the operating performance during GST implementation.

2.4 External Auditor the Moderator for the Internal Control System and Operating Performance

According to [20]) external auditor assurance on internal control report enhances the internal control system on accounting conservatism. The foundation for effective internal control system to achieve efficient and effective business operations, strategic objectives, quality financial reporting is the firm control environment. The external auditor treat control environment is an essential element for internal control system [36]. Practically, external auditors evaluate the internal control system to place reliance on the control procedures of operation process of the firms to reduce the control risk. Thus, the involvement of external auditor may strengthen the internal control system. The external auditors shall communicate with those charged with governance through management letter is they identify any material weakness in the internal control system [37]. This reflects that even the external auditors is not part of management on the ground of independence, they indirectly influence the internal control system as to bring merit on the effectiveness and efficiency in business functional areas. Basically, the support given by the external auditors to internal control system possible to treat external auditors as moderators to internal control system during GST implementation.

According to [23] believes that quality of internal control system improves if the firm is audited by certified auditors. This reflects that external auditor influence is essential to boost the internal control system of the firms. Thus, the external auditors' indirect role in supporting the internal control system may have a positive impact to operating performance during GST implementation. With these practice, it helps in advancement of governance practices in firms which ultimately protects the shareholder wealth and welfare even there is any new implementation of policy and procedures influencing the business operations. This paper predicts that the external auditors possible to be the moderator to strengthen the role of internal control system in achieving positive operating performance. Therefore, this explains external auditor moderates the relationship between internal control system and operating performance during GST implementation.

3. Methodology

3.1 Sample Selection

The sample data was collected from top 100 non-financial listed firms on Bursa Malaysia from year 2014 to 2016. The paired t-test was utilized to analyze the mean difference to reflect the impact analysis of external auditor and internal control system structure and cost before (year 2014), during (year 2015) and after (year 2016) GST implementation.

Regression analysis with 200 firm-observations during (Year 2015) and after (Year 2016) GST implementation was utilized to investigate the strength of relationship between the dependent variables and independent variables including the control variables. The dependent variable is the operating performance representing sales growth (SG) and current ratio (CR). The SG representing the pricing policy and the CR is representing the short-term commitments of the firms. The independent variables are the external auditors and internal control system variables. Finally, we control for audit report lag (Lag), firm size (LnSIZE), leverage (LEVEG), lag of SGt-1 and CRt-1 including the year and sector dummies.

3.2 Dependent Variables Measurements

The measurement for sales growth (SG) measurement is the difference between current year sales with previous year sales divided by the previous year sales. The current ratio (CR) measurement is current assets/current liabilities.

3.3 Independent Variable Measurements

Audit type (BIG4) binary measurement where give 1 if the auditor is from one of the Big 4 auditing firms or otherwise 0. Audit fee (LnAFEES) the natural logarithm of audit fees divided by total assets. Internal control system cost (IAFCOST) the natural logarithm of internal control system cost divided by total asset. Internal control type (IAFTY) binary measurement give 1 if the company have in-house control system or otherwise 0. The audit report lag (Lag) measured by number of calendar days from financial year-end to the date of the auditor's. Firm size (LnSIZE) measured by log of total assets. For leverage (LEVEG) is measured by book value of total debt over total assets. This paper includes year and sector dummies to control for possible time and industry on the operating performance. Further, we control for lag of SG_{t-1} and CR_{t-1} to avoid any potential endogeneity in our models. Finally, (BIG4 * IAFTY) represents the interaction between external auditors and internal control system type and (BIG4 * IAFCOST) represents the interaction between external auditors and internal control system cost.

The model 1 & 2 for the regression analysis represents the relationship of internal control system and external auditors with the operational performance. The regression analysis for model 3 & 4 explains the moderating of external auditors for the relationship between internal control system and operating performance.

The regression models as follows:

Model 1: SG:

SGit =β0 + β1 BIG4it + β2 LnAFEESit + β3 IAFTYit + β4 LnIAFCOSTit + β5 Lagit + β6 LnSIZEit + β7 LEVEGit + β8 SGit-1 + Year dummies + Sector dummies + εit

Model 2: CR:

CRit =β0 + β1 BIG4it + β2 LnAFEESit + β3 IAFTYit + β4 LnIAFCOSTit + β5 Lagit + β6 LnSIZEit + β7 LEVEGit + β8 CRit-1 + Year dummies + Sector dummies + εit

Model 3: SG:

SGit =β0 + β1 BIG4it + β2 LnAFEESit + β3 IAFTYit + β4 LnIAFCOSTit + β5 BIG4it * IAFTYit + β6 BIG4it * IAFCOSTit + β7 Lagit + β8 LnSIZEit + β9 LEVEGit + β10 SGit-1 + Year dummies + Sector dummies + εit

Model 4: CR:

CRit =β0 + β1 BIG4it + β2 LnAFEESit + β3 IAFTYit + β4 LnIAFCOSTit + β5 BIG4it * IAFTYit + β6 BIG4it * IAFCOSTit + β7 Lagit + β8 LnSIZEit + β9 LEVEGit + β10 CRit-1 + Year dummies + Sector dummies + εit

4. Results and Discussions

4.1 Descriptive Statistics

Table 1. Descriptive Statistics for Continues Variables

Variables	N	Mean	Median	Std. Deviation	Min.	Max.
SG	300	0.376	0.047	2.667	-0.656	30.765
CR	300	2.063	1.523	2.476	0.256	27.099
AFEES (RM)	300	2730.802	1125.500	4789.870	32.000	43200.000
LnAFEES	300	7.195	7.026	1.126	3.466	10.674
IAFCOST	300	2,612,243	947,457	5,286,379	15,000	44,200,000
LnIAFCOST	300	13.797	13.761	1.453	9.616	17.604
Lag	300	82.627	87.000	23.896	34.000	120.000
SIZE (RM000)	300	12,100,000	4,960,077	17,600,000	409,639	133,000,000
LnSIZE	300	15.718	15.417	1.020	12.923	18.705
LEVEG	300	28.352	28.640	15.006	0.000	63.020

Table 1 reports the descriptive statistics for all the continuous variables in this study. The statistical results show that the mean of sales growth (SG) is 0.376, ranging between -0.656 and 30.765. In terms of current ratio (CR), the maximum is 27.099 and the mean 2.063. Further, the results in the table indicate that the mean of audit fees (AFEES) is RM2,730, where the maximum is RM 43,200. The mean of internal control system cost (IAFCOST) is RM 2,612,243 and the minimum is RM15,000 where the maximum is RM44,200,000. In addition, the results in the Table 1 shows that the mean of audit report lag (Lag) is 82.627 with minimum 34 days and maximum 120 days for the sampled companies. Regarding company size, which is proxy by total assets (SIZE), there is considerable variation, ranging from RM409 million to RM1.33 billion with a mean of RM1.2 billion. Finally, the mean of total debt to total assets ratio (LEVEG) is 28.352.

Table 2 shows the statistics results for the dichotomous variables. The results show that that 87.67% of sampled companies are audited by BIG4 firms. In addition, 84% of study sample have in-house internal controls (IAFTY).

Table 2. Descriptive Statistics for Dichotomous Variables

	Yes		No	
	No	%	No	%
Big4	263	87.67	37	12.33
IAFTY	252	84.00	48	16.00

4.2 T-Test Results

The Table 3 presents the paired t-test results for the external auditors variables represented by audit type (BIG4), audit fees (LnAFEES), audit firm change (CHG_AFIRM), audit partner change (CHG_APART) and audit report lag (Lag). For internal control system variables represented by internal control system cost (IAFCOST) and internal control system type (IAFTY). The audit firm change (CHG_AFIRM) binary measurement where give 1 if the audit firm change during GST implementation or otherwise 0. Followed by the audit partner change (CHG_APART) binary measurement where give 1 if the auditor (audit partner) change during GST implementation or otherwise 0. The measurement for other variables have been explained in earlier section.

The results show no major significant mean difference for the period 2014 (before), 2015 (during) and 2016 (after) for the audit type, audit fees and audit report lag. This reflects that GST implementation did not cause any major significant changes in audit firm type as most firms still maintain BIG4 professional firms and no notable increase or decrease in audit fees. The outcome for audit report lag reveals that no delay is observed in completing the audit process during GST implementation. However, during GST implementation significant mean difference is perceived change in audit firm in year 2015 compared to year 2014. Further, there is also significant mean difference is observe for the change of audit partners within the same audit firm during (2015) and after (2016) GST implementation.

This indicates that firms do change the audit firms and audit partners for effective client engagement audit service during GST implementation. This findings support the [32] study that firms do change audit partners and firms. For internal control system no indicative significant mean difference is noticed during and after GST implementation. This highlights GST implementation did not cause a profound impact to internal control cost and changes in internal control type. Thus, most firms did not switch the internal control system structure during GST implementation.

Table 3. T-test

		Mean	
	2014	**2015**	**2016**
BIG4	0.89	0.88	0.86
Pr(|T| > |t|)		-0.221	-0.419
LnAFEES	7.110	7.249	7.227
Pr(|T| > |t|)		0.879	-0.139
CHG_AFIRM	0.00	0.06	0.03
Pr(|T| > |t|)		2.514**	-1.021
CHG_APART	0.00	0.38	0.25
Pr(|T| > |t|)		7.790***	-1.989**
Lag	84.660	81.710	81.510
Pr(|T| > |t|)		-0.837	-0.062
LnIAFCOST	13.669	13.819	13.904
Pr(|T| > |t|)		0.712	0.430
IAFTY	0.83	0.84	0.85
Pr(|T| > |t|)		0.190	0.194

***99%, ** 95% *90%

4.3 Correlation Analysis

This study uses Pearson correlation to test for significant relationships between variables to check whether there is a multicollinearity problem; the results are reported in Table 4. According to [38] the problem of multicollinearity happens if the correlation between the explanatory variables exceeds 0.8. Table 4 displays the highest correlation between variables is between LnIAFCOST and LnSIZE at 0.752. Thus, multicollinearity is not a cause for concern.

Table 4. Correlation Matrix

	SG	CR	BIG4	LnAFEES	IAFTY	LnIAFCOST	Lag	LnSIZE	LEVEG	SGt-1	CR_{t-1}
SG	1.000										
CR	0.144**	1.000									
BIG4	-0.259***	-0.170**	1.000								
LnAFEES	-0.120*	-0.212***	0.203***	1.000							
IAFTY	0.071	-0.216***	-0.001	0.301***	1.000						
LnIAFCOST	-0.095	-0.222***	0.185***	0.741***	0.431***	1.000					
Lag	0.027	-0.125*	-0.036	-0.067	-0.152**	-0.366***	1.000				
LnSIZE	-0.037	-0.073	0.076	0.746***	0.222***	0.752***	-0.253***	1.000			
LEVEG	0.014	-0.397***	0.039	0.196***	-0.048	0.069	0.220***	0.112	1.000		
SG_{t-1}	0.133*	-0.007	-0.146**	0.005	0.059	-0.024	0.073	0.037	0.150	1.000	
CR_{t-1}	0.173**	0.818***	-0.162**	-0.179**	-0.210***	-0.145**	-0.138*	-0.038	-0.345***	0.113	1.000

4.4 Regression Results

For the purpose of this study, the regression models are estimated using OLS regression with Huber-White robust standard error in order to control for any presence of heteroscedasticity and serial error correlation. Overall, as shown in Table 5, the models as a whole are significant at p<0.01. The highly significant results indicate that most explanatory variables have a significant effect on the dependent variables. The model (1) and (2) presents the direct relationship results between the external auditors and internal auditors with operating performance. The model (3) and (4) regression results represents the moderating effect the external auditors on the relationship between internal control system and operating performance.

Table 5. Ordinary Least Square (OLS) Regression Results

VARIABLES	(1) SG	(2) CR	(3) SG	(4) CR
BIG4	-0.0881	0.0302	-0.343	-1.916
	(0.0610)	(0.183)	(0.594)	(2.573)
LnAFEES	-0.0205	0.0699	-0.0218	0.0562
	(0.0191)	(0.0687)	(0.0195)	(0.0659)
IAFTY	0.0684	-0.0345	0.0704	0.503
	(0.0499)	(0.167)	(0.222)	(0.897)
LnIAFCOST	-0.0147	-0.161**	-0.0285	-0.314
	(0.0244)	(0.0675)	(0.0540)	(0.222)
BIG4 * IAFTY			0.000476	-0.580
			(0.229)	(0.928)
BIG4 * IAFCOST			0.0191	0.183
			(0.0516)	(0.232)
Lag	-7.93e-05	-0.00212	-9.65e-05	-0.00242
	(0.000706)	(0.00195)	(0.000696)	(0.00191)
LnSIZE	0.0266	0.0713	0.0252	0.0769
	(0.0253)	(0.0802)	(0.0255)	(0.0790)
LEVEG	3.07e-05	-0.0129**	0.000199	-0.0115**
	(0.00126)	(0.00646)	(0.00120)	(0.00548)
SGt-1	0.0824		0.0756	
	(0.102)		(0.104)	
CRt-1		0.724***		0.719***
		(0.0689)		(0.0713)
Constant	0.119***	1.798***	0.318***	3.314***
	(0.279)	(1.273)	(0.546)	(2.849)
Time & Sector Dummies	Yes	Yes	Yes	Yes
Observations	200	200	200	200
R-squared	0.164	0.712	0.166	0.717

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The estimated coefficient of external auditors is insignificant with operating performance for the Model (1) and (2). The consistency of the external auditors variables representing audit type (BIG4) and audit fee (LnAFEES) with operating performance representing sales growth (SG) and current ratio (CR) highlights on the external auditors independence level. The independence is a mental attitude that emphasize in integrity, objectivity, honesty and impartiality [5] as to avoid negative threat for the external audit work which increase the audit risk unnecessarily. The outcome of this paper reflects the independence of the external auditors of not involving in the firm operating matters that possible to affect their professional judgment in rendering the audit opinion or conclusion.

The internal control system type (IAFTY) is not related to operating performance (SG & CR) in both Models (1) and (2). These results imply that whether the internal control system is operated in-house or outsource do not significantly improve the operating performance. The in-house internal control system or outsource internal control system possible to benefits the business process or functional areas [15] but it do not have any positive impact to operating performance. However the internal control system cost (LnIAFCOST) shows significantly negative association with current ratio (β=-0.161 in Model 2). This opines that lower internal control system cost improves the firm's ability to pay the short-term obligation. The internal control system cost related to current ratio; nevertheless no significant relationship with sales growth (β=-0.0147 in Model 1). The insignificant findings which is in contrary to [7] study suggests that the internal control system is not related to operating performance despite it promotes a best practices to improve business operations. The paper predicts that the external auditor moderates the relationship between internal control systems with operating performance, however the outcome of the interaction regression results is insignificant for external auditors interaction with internal control system type (BIG4 * IAFTY) (β=0.000476 in Model 3; β=-0.580 in Model 4) and external auditors interaction with internal control system cost (BIG4 * IAFCOST) (β=0.0191 in Model 3; β=0.183 in Model 4). Consistently, we draw our inferences on the regression results that portrays on the external auditors independence in mind and appearance. This implies that the external auditors do not strengthen or weaken the relationship between internal control system and operating performance. Practically to maintain the integrity and objective in the audit process, the external auditors do not moderate the relationship between internal control system and operating performance even during GST implementation. There is no relationship between with operating performance for the respective control variables, the audit report (Lag), firm size (LnSIZE) and lag sales growth (SGt-1) during GST implementation. However, the leverage (LEVEG) shows negative relationship with operating performance (β=-0.0129 in Model 2) and (β=-0.0115 in Model 4) that justify the lower firm leverage has positive impact operating performance mainly to short-term obligation. The higher lag current ratio has strong positive impact to current year short-term obligation (β=0.724 in Model 2) and (β=0.719 in Model 4)

4.5 Additional Analysis

To confirm the results in the main models we re-run our main models excluding the time and sectors dummies variables. The results in the Table 6 reinforce the main results reported in the Table 5 . where mostly similar outcome is perceived for the significant level and directions of relationship of the regression results in Table 5 relative to Table 6. This provides confirmation on the robustness of the regressions results for the models

Table 6. Ordinary Least Square (OLS) Regression Results with Time and Sector Dummies

VARIABLES	(1) SG	(2) CR	(3) SG	(4) CR
BIG4	-0.132**	-0.0742	-0.546	-2.110
	(0.0585)	(0.191)	(0.560)	(2.745)
LnAFEES	-0.0279	0.0399	-0.0295	0.0290
	(0.0196)	(0.0633)	(0.0199)	(0.0616)
IAFTY	0.0728	-0.0490	0.0857	0.551
	(0.0487)	(0.160)	(0.235)	(0.926)
LnIAFCOST	-0.0137	-0.168***	-0.0385	-0.337
	(0.0224)	(0.0599)	(0.0511)	(0.236)
BIG4 * IAFTY			-0.0110	-0.649
			(0.241)	(0.948)
BIG4 * IAFCOST			0.0317	0.195
			(0.0492)	(0.245)
Lag	0.000125	-0.00239	9.47e-05	-0.00266
	(0.000708)	(0.00205)	(0.000692)	(0.00195)
LnSIZE	0.0266	0.103	0.0250	0.108
	(0.0241)	(0.0743)	(0.0249)	(0.0727)
LEVEG	0.000448	-0.0102**	0.000570	-0.00951**
	(0.00111)	(0.00509)	(0.00105)	(0.00469)
SGt-1	0.110		0.102	
	(0.0940)		(0.0949)	
CRt-1		0.725***		0.721***
		(0.0612)		(0.0641)
Constant	0.0518	1.474***	0.405	3.206***
	(0.260)	(1.037)	(0.554)	(2.897)
Observations	200	200	200	200
R-squared	0.100	0.702	0.105	0.708

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

5. Conclusion

Motivated by the GST implementation in Malaysia, we believe that for a favorable operating performance requires a proper system in business supply chain operations through the involvement of internal and external governance. In this paper, we have studied the impact of GST on the internal control system and external auditors including the relationship of internal control system and external auditors with operating performance. The GST implementation is a challenge for the internal control system to assure for effective and efficient business operations to adopt the indirect tax policy in operating systems. This suggests for a support of external auditors to the internal control system during GST implementation. However, the results of the impact analysis gives an impression that GST is a business friendly indirect tax system as it gives a marginal impact to external auditors particularly on change of audit partners and audit firms during GST implementation period.

In addition, the outcome of this study reveals that the external auditors do not have relationship with operating performance. Consistently, the external auditors also do not moderate the relationship between the internal control systems with operating performance. This explains that the external auditors keep away from being involved in the management role to improve the business operations or operating performance particularly during GST implementation. Practically, it reflects on external auditors' independence focusing on their primary duty to express opinion on the truth and fairness of the financial statements. As matter of fact, the internal control system objectives is to promote the best practices in business functions supporting the corporate governance for an effective and efficient operating systems. This findings indicate that the internal control system cost has implication to firms' short term obligation. In sum, our findings would be of interest to firms' stakeholders on GST minimum impact to internal and external governance and the independence of the external auditors for the benefits of the stakeholders. Future research suggest to use other corporate governance variables to determine corporate governance role during GST implementation.

Acknowledgement
This research work was funded by a grant from Ministry of Higher Education of Malaysia (Research Acculturation Grant Scheme (RAGS). The authors thank MOHE for the RAGS.

References

[1] Chandren, S., Che Ahmad, A., & Abdullah, Z. (2018). A conceptual paper on impact of corporate governance on operating performance during Goods Service Tax implementation in Malaysia. *International Journal of Supply Chain Management, 7* (4), 185-190
[2] Mansor, N.H.A., & Ilias, A. (2013). Goods and Services Tax (GST): a new tax reform in Malaysia. *International Journal of Economics Business and Management Studies, 2* (1), 12-19.
[3] Saravanan S., & Chandra, M.K. (2017). Assessment and impact of existing indirect tax of Goods and Service Tax in India. *International Journal of Scientific Research in Computer Science, Engineering and Information Technology, 2*(3), 623-629.
[4] GST impact to business. Retrieved from www.kpmg.com/my/en/services/tax/gst/pages/gst-impact.aspx
[5] Messier, Glover, & Boh, P.M. (2007), *Auditing and assurance services: A systematic approach* (3rd ed.). Kuala Lumpur: McGraw-Hill.
[6] Chandren, S., Che Ahmad, A., & Nadarajan, S. (2018). Operating performance analysis and Goods Service Tax implementation in Malaysia. *International Journal of Supply Chain Management, 7* (3), 38-41.
[7] Zhou, H., Chen, H., & Cheng, Z. (2016). Internal control, corporate life cycle, and firm performance, in J. Jay Choi , Michael R. Powers , Xiaotian Tina Zhang (ed.) *The Political Economy of Chinese Finance (International Finance Review, 17*) Emerald Group Publishing Limited, 189 – 209
[8] Endaya, K.A., & Mohd Hanefah, M. (2016). Internal auditor characteristics, internal audit effectiveness, and moderating effect of senior management. *Journal of Economic and Administrative Sciences, 32* (2), 160-176.
[9] American Institute of Certified Public Accountants (1949), *Internal Control*. American Institute of Certified Public Accountants, New York, NY.
[10] Committee of Sponsoring Organizations of the Treadway Commission (1992*), Internal Control - Integrated Framework.* American Institute of Certified Public Accountants, Jersey City, NJ.
[11] Committee of Sponsoring Organizations of the Treadway Commission (2013), *Internal Control - Integrated Framework*. AICPA, Durham, NC
[12] Khlif, H. & Samaha, K. (2016). Audit committee activity and internal control quality in Egypt: Does external auditor's size matter. *Managerial Auditing Journal, 31*(3), 269-289.
[13] Akisik, O. & Gal, G. (2017). The impact of corporate social responsibility and internal controls on stakeholders' view of the firm and financial performance. *Sustainability Accounting, Management and Policy Journal, 8* (3), 246-280
[14] Van Peursem, K., & Jiang, L. (2008). Internal audit outsourcing practice and rationales: SME evidence from New Zealand. *Asian Review of Accounting*, *16*(3), 219-245

[15] Gilley, K. M., & Rasheed, A. (2000). Making more by doing less: an analysis of outsourcing and its effects on firm performance. *Journal of management*, *26*(4), 763-790.

[16] Sink, H.L. & Langley, C.J. (1997). A managerial framework for the acquisition of third-party logistics services. *Journal of Business Logistics, 18* (2) 163-89.

[17] Espino-Rodriguez, T. F., & Rodriguez-Diaz, M. (2008). Effects of internal and relational capabilities on outsourcing: an integrated model. Industrial Management & Data Systems, 108(3), 328-345.

[18] Barr, R. H., & Chang, S. Y. (1993). Outsourcing internal audits: a boon or bane?. *Managerial Auditing Journal, 8*(1).

[19] Mohapatra, P., El-Mahdy, D. F., & Xu, L. (2015). Auditing and internal controls for offshored accounting processes: a research agenda. *International Journal Of Accounting & Information Management, 23*(4), 310-326.

[20] Ji, X., Lu, W., & Qu, W. (2016). Internal control weakness and accounting conservatism in China. *Managerial Auditing Journal, 31*(6/7), 688-726.

[21] Oussii, A.A. & Taktak, N.B. (2018). The impact of internal audit function characteristics on internal control quality. *Managerial Auditing Journal, 33* (5), 450-469.

[22] Amoah,N.Y, Anderson, A., Bonaparte, I., & Tang A.P. (2017), Internal Control Material Weakness and Real Earnings Management, in Cheryl R. Lehman (ed.) *Parables, Myths and Risks (Advances in Public Interest Accounting, 20)* Emerald Publishing Limited,1 – 21.

[23] Nalukenge, I., Tauringana, V., Ntayi, J.M. (2017). Corporate governance and internal controls over financial reporting in Ugandan MFIs. *Journal of Accounting in Emerging Economies, 7* (3), 294-317.

[24] Al-Matari, E. M., Al-Swidi, A., & Fadzil, F. H. B. (2013). The effect of the internal audit and firm performance: A proposed research framework. *International Review of Management and Marketing, 4*(1), 34-41.

[25] Abdallah, S. (2018). External auditor type, discretionary accruals and investors' reactions. *Journal of Accounting in Emerging Economies, 8* (3) 352-368.

[26] Collin, S.O.Y., Ahlberg, J., Berg, K., Broberg, P., Karlsson, A. (2017). The auditor as consigliere in family firm. *Journal of Family Business Management*, 7 (1), 2-20.

[27] Brown, L. D., & Caylor, M. L. (2004). Corporate governance and firm performance. *Available at SSRN 586423*.

[28] Afza, T., and Nazir, M. S. (2014). Audit Quality and Firm Value. *Research Journal of Applied Science, Engineering and Technology, 7*(9), 1803-1810.

[29] Abdul Nasser, A.T., Abdul Wahid, E., Syed Mustapha Nazri, S.N. F., & Hudaib, M. (2006). Auditor-client relationship: the case of audit tenure and auditor switching in Malaysia. *Managerial Auditing Journal, 21* (7), 724-737.

[30] Schmidt, R.N. & Britney E. Cross, B.E. (2014). The effects of auditor rotation on client management's negotiation strategies. *Managerial Auditing Journal, 29* (2), 110-130.

[31] Zhang, Y., Zhou, J., & Zhou, N. (2007). Audit committee quality, auditor independence, and internal control weaknesses. *Journal of accounting and public policy*, *26*(3), 300-327

[32] Gregory, A., & Collier, P. (1996). Audit fees and auditor change; an investigation of the persistence of fee reduction by type of change. *Journal of Business Finance & Accounting*, *23*(1), 13-28.

[33] Malaysian Institute of Accountants (MIA). *By-Laws (On Professional Ethics, Conduct and Practice) Amended 22 March 2018.*Retrieved15April2019from: https://www.mia.org.my/v2/downloads/handbook/bylaws/2018/03/22/MIA_By-Laws_Revised_Jan_2011_Updated_22_March_2018.pdf

[34] Habib, A., & Bhuiyan, M. B. U. (2011). Audit firm industry specialization and the audit report lag. *Journal of international accounting, auditing and taxation*, *20*(1), 32-44.

[35] Al-Dhamari, R. A. A., & Chandren, S. (2018). Audit Partners Gender, Auditor Quality and Clients Value Relevance. *Global Business Review*, *19*(4), 952-967.

[36] O'Leary, C., Iselin, E., & Sharma, D. (2006). The relative effects of elements of internal control on auditors' evaluations of internal control. *Pacific Accounting Review, 18* (2), 69-96.

[37] International Auditing and Assurance Standards Board (2009). *International Standards on Auditing (ISA) 265 - Communication Deficiencies in Internal Control to Those Charged with Governance and Management.* International Federation of Accountants. .

[38] Gujarati, D.N. and Porter, D.C. (2009) Basic Econometrics. 5th Edition, McGraw Hill Inc., New York