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The Influence of CEO and Board Members' Religious Affiliation on Auditor Choice

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ABSTRACT

This paper investigates how the religious affiliation of a firm's top leaders, CEO, and board members determines auditor choice selection. In particular, this study aims to study the impact of Muslim CEOs and Muslim boards of directors on auditor choice decisions of listed firms in Malaysia. A firm-year observations from 2017 to 2019 are 1,892 listed firms on Malaysian Stock Exchange were employed to scrutinise the impact of religion on the choice of appointing an auditor. Two proxies of religious affiliation which are Muslim CEO and Muslim board members were examined to represent the impact of religion. A logistic regression model results show a significant and favourable association between selecting high-quality audit firms, the percentage of Muslim directors on the board, the Muslim CEO, and religious affiliation proxies. According to the findings, Malaysian listed companies with Muslim CEOs and a sizable percentage of Muslims on their boards are likelier to use Big 4 audit firms to signify high-quality audits. As this study is one of the first empirical studies to explore the role of Muslim CEOs and Muslim board members in Malaysian firms' auditor selection, the findings are helpful to investors, policymakers, and regulators as it offers an understanding of the roles of the religious affiliation of the firm's top leaders in promoting demand for high audit quality.

Key words: Auditor choice; religious affiliation; CEO; Board of Director; Malaysia.

INTRODUCTION

The number of cases of fraudulent financial reporting among listed companies all over the world (Nasir et al. 2019; Nasir & Hashim 2020; ACFE 2020), shows a lower quality of audit and the failure of the external auditor to monitor and ensure the credibility of accounting information provided by management (Ugoni & Ibeenwo 2022; Asare et al. 2015). It is because It is the job of external auditors to ensure that audited financial statements do not have any big lies in them because of fraud. DeAngelo (1981) and Watts and Zimmerman (1986) point out that one common definition of audit quality is an auditor's ability to find and report accounting mistakes, lies, or omissions and report them. But research from the past shows that auditors only find a small number of major frauds (Dyck et al. 2010, KPMG 2009). This evidence makes me wonder about the quality of both the auditing process and the external auditors.

Seethamraju and Hecimovic (2022), Watts and Zimmerman (1986) say that the quality of an audit depends on the knowledge and skill of the auditor, which come from investing in audit technology and getting the right training. The literature agrees that Big4 audit firms are better (Afsay et al. 2023; Ngo et al. 2020; Karim et al. 2013; Barton 2005; Choi & Wong 2007) because they have more resources to provide a certain level of services, a larger scale and technical expertise, and a high brand-name international reputation. These attributes strengthen the incentive of Big4 auditors to fulfil their responsibility in identifying and exposing accounting irregularities of their clients. Nevertheless, selection process of auditing firm, either to hire Big 4 audit firm which reflect high quality audit works or its counterparts is complicated (Whittington & Margheim 1993) and based on the discretion of firm's key stakeholders including CEO and board of directors (Soyemi 2020).

Prior studies document various factors influencing auditor choice including firms-specific characteristics (Al-Ahdal et al. 2023; Broye & Weill 2008; Banimahd & Vafaei 2012; Dwekat et al. 2018), auditor attributes (Ahmad et al. 2006), corporate governance (Lai et al. 2017; Lin & Liu 2009; Johansen & Pettersson 2013) and ownership (Ahmad et al. 2006; Wang et al. 2008; He et al. 2014; Kim et al. 2019; El-Dyasty & Elamer 2021).

According to the IAASB (2019), auditors are expected to carry out their responsibilities impartially, independently, and competently. However, in actuality, the religious background of CEOs or board members and their cultural customs may indirectly impact the auditor's capacity to identify fraud or, in some circumstances, the choice of auditors. Trust and relationships are essential in business transactions in certain religious or cultural situations. The capacity of the auditor to maintain professional scepticism and objectively evaluate financial facts may be impacted by the CEOs or board members (King 2022; Ramadhan 2022) from specific religious backgrounds, who may place a significant premium on personal relationships and trust in their commercial relationships. Auditors may find it difficult to question or contest management's claims out of concern that doing so could sour the working relationship or violate cultural norms, hindering their ability to detect fraud efficiently. They ought to outline the ethical obligations of auditors and forbid conduct that would jeopardise their objectivity, independence, or integrity (IESBA 2018). Hence, companies may use the religious or cultural background as a selection factor when hiring auditors.

Nevertheless, there is few research on the function of religion as a determinant of auditors' selection, even though scholars have explored a variety of other factors. Cai et al. 2019; Baatwah et al. 2020; Rahman et al. 2018); corporate social responsibility (Iguchi et al. 2021; Harjoto & Rossi 2019; Anggraeni et al. 2020; Alazzani et al. 2019); corporate risk taking (Jiang et al. 2015; Baxamusa & Jalal 2016); and firm (Al-Ebel et al. 2020). Consequently, this study aims to extend and supplement this line of research by evaluating how the religious affiliation of a company's top leaders, CEOs, and board members influences the selection of an auditor in Malaysia.

This study focuses on Malaysia since the country provides an intriguing research context in which to investigate the relationship between religious affiliation and auditor selection. Al-Ebel et al. (2020) argue that past studies that link accounting and auditing characteristics to religious characteristics are predicated mainly on the religiosity of the culture. Thus, in this study, we enhance the auditing literature by studying the audit choice decision in a country with a Muslim majority using an alternative proxy for religion, namely individual religious membership. Malaysia is a cosmopolitan nation comprised of three major ethnic groups: the majority Muslim Malays, and the minority non-Muslim Chinese and Indian communities. Buddhism and Hinduism are the predominant faiths of the Chinese and Indian populations in Malaysia. In addition, the makeup of boards of directors of companies listed on Bursa is subject to scrutiny. Malaysia is also distinctive in that corporate ownership affects the country. Typically, firms held by the federal and state governments are led by a Muslim CEO and have a high proportion of Muslim board members. In the meantime, Malaysian Chinese control the majority of family-owned businesses (Abdullah et al. 2016). Given that Malaysia provides a suitable environment for investigating the role of religious affiliation of a company's senior management in corporate decision making, in particular auditor selection, Malaysia is a viable location for this study. By utilising this context, this study expands earlier research on the drivers of auditor selection by making strong comparisons and inferences between the auditor selection among firms with Muslim CEOs and Muslim board members vs firms with non-Muslim CEOs and non-Muslim board members.

Using a logistic regression model, the data indicate a substantial and positive link between religious affiliation proxies, Muslim CEO and the proportion of Muslim board directors and high-quality auditor selection. The results reveal that Malaysian listed companies led by a Muslim CEO and with a high proportion of Muslim board members are likelier to use a Big Four auditing firm to signal audit quality. The upper echelon idea, also known as the upper echelon perspective, contends that top executives' backgrounds, traits, and behaviours, particularly those of CEOs and board members, impact organisations' decisions. The upper echelon idea contends that religious CEOs' and board members' practises and beliefs may influence discussions and corporate behaviour. According to the upper-echelon theory, decision-making is influenced by the demographic traits of senior executives, including their age, gender, level of education, and background. According to Cornelius (2003) and Pfeffer & Salancik (1978), religious CEOs and board members may bring their religious identity, values, and viewpoints to the boardroom, influencing board discussions and business behaviour. Thus, consistent with the upper echelon theory, our findings support the notion that the presence of a religious CEO and board members influence board deliberations and business behaviour.

This study contributes to the current literature by advancing the fields of auditor selection and religion research. This research contributes to the existing literature on audit selection factors. In addition to firm-specific criteria, auditor characteristics, corporate governance, and ownership, the results indicate that the religious affiliation of a company's senior executives can significantly impact auditor selection. Second, this study contributes to the expanding body of research on religion by analysing how the religious affiliation of a firm's CEO and board of directors are crucial determinants in business decision-making. This study measures the influence of religion on the firm's decision-making based on the personal religious beliefs of the firm's decision-maker, as opposed to past research that measured the influence of religion on the firm's decision-making based on the society's religious qualities. Very few studies have explored the religious affiliation of a firm's senior leaders on auditing attributes (Al-Ebel et al. 2020), and no studies have examined the effect of individual religious affiliation on auditor selection.

The remaining sections are organised as follows. The literature review and hypotheses are presented in Section 2. The research methodology is described in Section 3, and the study's findings are presented in Section 4. Section 5 is the study's conclusion.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

MUSLIM CEO AND AUDITOR CHOICE

In order to guarantee the accuracy of financial reporting, auditing is a crucial external governance instrument. Additionally, through increasing transparency, it is one of the methods for addressing information asymmetry issues brought on by the division of management and control. The choice of auditors is a reflection of the calibre of a company's financial reporting, making the appointment of auditors an essential corporate decision. Whittington et al. (1984) contend that the choice of an auditing firm is difficult and dependent on the judgement of the firm's decision-makers, including the CEO and board of directors (Soyemi 2020).

Prior studies (McGuire et al. 2012; Hooy & Ali 2017; Alazzani et al. 2019; Ooi et al. 2019; Brahmana & You 2021) argue that personal values including religiosity and religious affiliation of the firm's decision makers affect corporate decision making and strategic choice. Following prior works (Hooy & Ali 2017; Ooi et al. 2019; Brahmana & You 2021), this study uses upper echelons theory to develop a theoretical link in between firm's top management's religious affiliation; CEO and board of directors; and auditor selection decision. Corporate operational strategies and evaluation are a mirror of the decision maker's personal beliefs and cognitive basis. (Hambrick & Mason 1984). Cai et al (2019) stress that religion influences personal values and ultimately affect corporate decision making and transparency. They document strong evidence on how CEO's religiosity measure by church-affiliated college attendance affects corporate strategic choice. Consistent with their hypothesis, the results show that firms with religious CEOs are more likely to choose ethical accounting choices discretion, proxy by lower degree of earnings management than firms with non-religious CEOs.

Shariah comprehensive system of norms, ethics, values, and laws, governs the manner of life of its adherents. The Shariah has established precise moral norms for economic operations and corporate conduct. The Islamic code of ethics stipulated some ethical rules for the maintenance of harmonious relationships between a company and its shareholders, other stakeholders, and the natural environment. Generally speaking, the Islamic ethical framework is supported by two fundamental values: unity (tawhid) and fairness (adl) (Alhabshi 1987). The notion of unity denotes that Allah is the one god and creator of everything in the heavens and earth, as well as man's position as Allah's representative and trustee on earth. Given this, humanity must obey Allah's commands by performing all commitments and avoiding immoral behaviour that is destructive to all beings on Earth. The second basic value is fairness, which is the highest ethical principle in Islam (Securities Commission 2009) and has been emphasised in Al- Qur'an, both directly and indirectly. For example, the Al- Qur'an states:

"Allah requires justice, the doing of good, and generosity toward relatives, while He bans all disgraceful conduct, injustice, and rebellion." (Al-Qur'an, 16:90)

Justice refers to treating everyone fairly (Maali et al. 2006). Thus, Muslims are banned from engaging in any activity that involves exploitation, leads to injustice, or causes harm to another person. These two principles have a considerable impact on the ethical behaviour of management as a trustee of shareholders' money in the business context. Moreover, Islamic principles emphasise the importance of transparency in commercial transactions. According to Ali and Al-Owaihan (2008), Islam prescribes transparency as a moral obligation. Transparency entails, essentially, that financial transactions must be done so that all parties are aware of the material facts of the transactions (Securities Commission 2009). It is essential to prevent all sources of disputes, conflicts, and damages to any party. In light of this, companies led by Muslim CEO and Muslim directors should be more honest regarding the administration of their properties and should not abuse the trust.

Empirical investigations appear to support the aforementioned ideas. Alazzani et al. (2019), who evaluated the influence of Muslim CEO on corporate social responsibility (CSR) practises among Malaysian listed corporations, found that firms led by MuslimCEOs are more likely to provide additional CSR information. The findings indicate that Muslim CEOs prioritise transparency by advocating for increased CSR disclosure. Anggraeni et al. (2020) discover, consistent with their findings, that Indonesian enterprises included on the Jakarta Islamic Index with a Muslim CEO voluntarily reveal significantly more information on social responsibility than firms with non-Muslim CEOs. Based on the above discussion, we anticipate that a Muslim CEO will be more likely to encourage the company to hire a Big Four auditor to signal a high-quality audit of his/her company. Thus, it is hypothesised that:

H_1 Firm with Muslim CEO is positively associated with the appointment of Big 4 auditor.

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MUSLIM-DOMINATED BOARD AND AUDITOR CHOICE

Another factor influencing corporate strategic auditor selection could be director religion. As a result, this study considers the directors' religious affiliation as a possible religious proxy for such a firm's external auditor selection. Religion, being one of the most fundamental components of culture, comprises of ethical ideals that influence the practices accordingly of its adherents. As a result, the constant presence of religious instruction alters organisational behaviour. Previous research by McGuire et al. (2012) emphasises the importance of a firm's director's religiosity in corporate decisions. Because religion influences the beliefs, attitudes, and behaviours of its followers, which in turn influence organisational behaviour. Consistent with the argument, empirical research suggests that religion reduces managerial malfeasance, unethical business practices, and misappropriations while also improving corporate performance (Boone et al. 2013; Gharbi et al. 2021); (Haron 2018).

In the context of auditing, Leventis et al. (2018) contend that religious directors are more likely to request that auditors extend their timeframe and examination to verify that financial reports are free of errors. Indeed, according to Hooy and Ruhani (2017), a Muslim-dominated board establishes a strong risk-averse managerial norm that might affect company decisions such as auditor selection. As a result, if Muslim directors seem to be more risk adverse, they are more likely to require high-quality auditing processes to prevent problems such as class action lawsuits, restatement of financial statements, and legal actions that harm the firm's brand and employment.

Corporate decisions and strategic choices are more likely to be impacted by Islamic teaching in a corporation with a Muslim-dominated board. As a result, boards headed by Muslims are more likely to hire high-quality auditors who share their ethical ideals and risk-averse, conservative management style. Considering this, we anticipate that firms with Muslim-dominated boards will be more likely to hire high-quality auditors than firms with non-Muslim-dominated boards. Therefore, we hypothesise:

H_2 Firm with Muslim dominated board is positively associated with the appointment of Big 4 auditor.

RESEARCH METHOD

SAMPLE SELECTION AND DATA

This study employs 1,892 firm-year observations of Malaysian Stock Exchange-listed enterprises from 2017 to 2019. The sample was chosen due to our records on the firm's external auditor, as well as the CEO's and board of directors' religious backgrounds. Data on external audit, religious affiliation, and other governance characteristics are gathered from yearly reports. Meanwhile, Thompson Reuters Datastream is being used to collect data for firm-specific features control factors. We omit firms in the banking and financial sectors since their guidelines and governance systems differ (Abdul Rahman & Mohamed Ali 2006). We also eliminate firm-year observations with incomplete information or no yearly statements. This method produces 1,892 firm-year observations.

RESEARCH MODEL

The primary variable in this research is auditor preference. This work employs the Big 4/non Big 4 classification system, consistent with previous research (He et al. 2014; Francis et al. 2003; Choi & Wong 2007). The preceding logit regression model is used to investigate the impact of top management religiosity on auditor selection.:

$$AC_{ft} = \alpha + \alpha_1 MUSLIMCEOft + \alpha_2 MUSLIMBOARD_{ft} + f\ (control\ variables) + \xi$$

Where AC represents the dummy variable of auditor choice, noted 1 if audited by Big-4 audit firms or 0 otherwise. MCEO is coded 1 if the sample observations lead by Muslim Chief Executive Officer and 0 otherwise. Meanwhile, MBOARD is a proportion of firm's Muslim board members. We assume a positive and significant coefficient on MCEO and MBOARD to recommend that firms that have Muslim top management will choose Big 4 auditors to reflect their risk averse characters and high quality and transparency demand on financial reporting. We include two categories of control variables grounded on past studies on the causes of auditor alternatives (Habib et al. 2017; Al-Qadasi et al. 2018; Ngo et al. 2020; Ianniello et al. 2015), namely firms-specific characteristics and firm's corporate governance. Four variables of firms-specific characteristics consist of firm's size (SIZE), firm's leverage (LEVERAGE), firm's growth (GROWTH) and firm's profit (PROFIT). In addition, we include four variables from corporate governance; board's size (BODSIZE), CEO duality (DIFCEOCHAIR), board's independence (BODIND) and audit committee's independence (ACIND). The parameter controls the industry and year-fixed effect. The following table shows the measurement of the variables.

TABLE 3.1. Operationalisation of variables

Variables	Abbreviations	Measurement
Auditor choice	AC	1 if a firm is audited by Big-4 audit firms and 0 otherwise.
Muslim CEO	MCEO	1 if the firm has Muslim Chief Executive Officer and 0 otherwise
Muslim director	MBOARD	The proportion of Muslim board members
Control variables:		
Firm size	SIZE	Natural log of total assets of firm
Firm leverage	LEVERAGE	The ratio of total liabilities to total assets
Firm growth	GROWTH	Market to book value
Firm profit	PROFIT	Earnings (EBIT) to total assets
Independent director	BIND	The proportion of independent directors on the board
Board size	BSIZE	The number of directors on the board
Independent audit committee	ACIND	The proportion of independent directors on the audit committee
CEO/Chairman roles	DIFFCC	1 if CEO is not board chair and 0 otherwise

RESULTS

RESULTS FOR DESCRIPTIVE STATISTICS

Table 4.1 indicates that 70 percent (1326) of sample firms are hired Big 4 auditors. The results also show that 21 percent (392) of the sample firms lead by Muslim CEO. In addition, majority of the sample firms, 79 percent (1503) have different persons for CEO and Chairman position.

TABLE 4.1. Descriptive Statistics for variables

Variables	Min	Max	Mean	Standard Deviation	Sum (dummy variables only)
AC	0	1	.7012	.4578	1326 firms
MCEO	0	1	.2073	.4054	392 firms
MBOARD	0	1	.3784	.2584	
BSIZE	3	17	3.750	1.025	
DIFCC	0	1	.7944	.4042	1503 firms
BIND	0	0.83	.4010	.1143	
ACIND	0.07	1	.7032	.1075	
SIZE	0.47	6.90	3.789	1.455	

LEVERAGE	0.03	11.89	3.423	1.828
GROWTH	0.07	3.65	0.618	0.692
PROFIT	0.90	.176	0.912	0.112

RESULTS FOR UNIVARIATE ANALYSIS

Pearson correlations matrix, as shown in Table 4.2, tests the correlation between main variables; AC, MCEO, MBOARD and control variables. Generally, the correlation coefficients reported in Table 4.2 are not greater than the 0.80 threshold, thus free from multicollinearity problems. In addition, Table 4.2 shows that both proxies of top management's religiosity; MCEO and MBOARD are positively associated to AC at the 1% significance level. Thus, it provides preliminary evidence that both of of H_1 and H_2 are supported.

TABLE 4.2. Pearson correlations matrix

Variables	AC	MCEO	MBOARD	BSIZE	DIFFCC	BIND	ACIND	SIZE	LEVERAGE	GROWTH	PROFIT
AC	1										
MCEO	.117**	1									
MBOARD	.093**	.690**	1								
BSIZE	.069**	.048*	.084*	1							
DIFCC	.060**	0.21	0.21	.199**	1						
BIND	-.057*	.163**	.163**	-.329*	-.068**	1					
ACIND	-.017	.149**	.149**	.055*	.055*	.369**	1				
SIZE	.003	-.145**	-.145**	-.086*	.027**	.064**	.025	1			
LEVERAGE	-.089**	.047	.047	.005	-.040	.084*	.002	-.108**	1		
GROWTH	.017	.068**	.068**	.053*	.028	.051*	-.043	.035	-.055*	1	
PROFIT	.080**	.209**	.209**	.261**	.002	.014	.033	-.188*	.074*	.197**	1

Notes:*,** shows significance at the 0.05, and 0.01 for industry and year correlation coefficients are not reported in the table.

RESULTS FOR MAIN REGRESSION

Table 4.3 shows the findings of the logit regression for such religious association of a company's senior management and the Big 4 audit firm versus non-Big 4 audit firm as an auditor preference proxy. This study regression model findings indicate the effect of a company's senior management's religious beliefs; a Muslim CEO and Muslim board members; on a company's likelihood of hiring a Big 4 auditor. Table 4.3 demonstrates that the global logistic model described between 19.5% (Cox and Snell R2) and 27.6% (Nagelkerke R2) of the variability in auditor selection and properly identified 69.6% of instances. As anticipated in H1 and H2, the results indicate that both the MCEO and MBOARD religious affiliation proxies have a strong positive correlation with AC. Specifically, Table 4.3 reveals that the coefficient on MCEO is positive and statistically significant (coefficient 0.514, p 0.01), indicating that enterprises led by Muslim CEOs are more likely to hire Big 4 auditors than those led by non-Muslim CEOs. In addition, the data indicate that coefficient on MBOARD is positive and statistically significant (coefficient 1.069, p 0.00), indicating that enterprises with a higher proportion of Muslim board members seem more inclined to choose a Big Four audit firm as their external auditors. The positive coefficient is in line with the past findings (Leventis et al. 2018; Hooy & Ruhani 2017) that firms with Muslim top management are more likely to choose Big 4 auditors to reflect their risk-averse personalities and high quality and transparency demands on financial reporting, knowing that high quality auditors are skilled at detecting irregularities in financial reports. Both H1 and H2 are so supported.

Regarding the control variables, Table 4.3 reveals that of the four firm-specific characteristics variables, LEVERAGE and GROWTH is statistically significant. High debt and growing firms are more inclined to use non-Big-four audit firms, according to the research. Consistent with previous research on auditor selection (Habib et al. 2017; Al-Qadasi et al. 2018; Ngo et al. 2020), the findings indicate that enterprises with high leverage have a greater need for non-Big 4 auditors. In addition, concerning corporate governance control variables, Table 4.3 reveals that board size (BSIZE) has a positive and statistically significant effect on auditor selection. This finding supports the findings of Ianniello et al. (2015). They discovered that a larger board is more motivated to hire a high-quality auditor to mirror its effective oversight of the financial reporting process. Table 4.3 also reveals that organisations with split function of CEO/Chairman (DIFFCC) have higher requirements for Big 4 auditors, like previous research highlighting the negative and substantial association between dual role of CEO/CHAIR and the likelihood of selecting a Big 4 auditor (Karim et al. 2013). Nevertheless, independent directors on board and audit committee remain insignificant, indicating that they do not influence the selection of the auditor.

TABLE 4.3. Summary of the regression output

	B	SE	Wald	df	Sig.	Exp(B)
MCEO	.514	.258	3.970	1	.002	1.672
MBOARD	1.069	.400	7.137	1	.000	2.913
BSIZE	.087	.036	5.820	1	.008	1.091
DIFCC	.462	.161	8.278	1	.002	1.587
BIND	-.543	.646	.705	1	.401	.581
ACIND	-.079	.670	.014	1	.906	.924
SIZE	.047	.047	.978	1	.323	1.048
LEVERAGE	-.096	.037	6.789	1	.004	.909
GROWTH	-.243	.095	6.493	1	.006	.784
PROFIT	.000	.000	2.407	1	.121	1.000
INDUSTY	YES					
YEAR	YES					
Constant	22.72	6.546	.000	1	.003	.001
Observations	1,892					
Model summary						
Cox & Snell R^2	19.5					
Nagelkerke R^2	27.6					

SENSITIVITY ANALYSIS

A sensitivity analysis was carried out. The proportion of Muslim board members was replaced by the absolute number of Muslims on the board (AMBOARD). The findings show that the AMBOARD coefficient is positive and statistically significant (coefficient 1.0964, p 0.00), implying that businesses with a higher proportion of Muslim board members are more likely to employ a Big Four audit firm as their external auditors. The other results remain.

TABLE 4.4. Summary of the regression output for sensitivity analysis

	B	SE	Wald	df	Sig.	Exp(B)
MCEO	.512	.257	3.968	1	.002	1.671
AMBOARD	1.064	.394	7.021	1	.000	2.905
ABSIZE	.084	.034	5.816	1	.008	1.088
DIFCC	.461	.160	8.277	1	.002	1.586
BIND	-.541	.642	.701	1	.398	.578
ACIND	-.078	.668	.013	1	.907	.923
SIZE	.046	.046	.977	1	.323	1.047
LEVERAGE	-.095	.037	6.787	1	.004	.908
GROWTH	-.242	.094	6.492	1	.006	.783
PROFIT	.000	.000	2.405	1	.120	1.000
INDUSTY	YES					
YEAR	YES					
Constant	22.71	6.544	.000	1	.003	.001
Observations	1,892					
Model summary						
Cox & Snell R^2	19.4					
Nagelkerke R^2	27.5					

SUMMARY AND CONCLUSION

This study's primary purpose is to determine if the religious affiliation of a company's senior management, notably the CEO and board of directors, influences corporate behaviour, specifically auditor selection. In line with previous research (Habib et al. 2017; Al-Qadasi et al. 2018; Ngo et al. 2020; Ianniello et al. 2015), this research utilised Big 4/non-Big 4 audit firms as a proxy for auditor choice to categorise high- and low-quality auditors. This study employs a sample of 1,892 firm-year observations from 2017 to 2019 from companies listed on the Malaysian Stock Exchange; Bursa Malaysia.

After adjusting for business-specific factors and governance, the results indicate that both of senior management's religious affiliation proxies, a Muslim CEO and Muslim board members, are associated with a reputable (Big 4) audit firm. The data indicate that companies with a Muslim CEO and a board dominated by

Muslims inclined to hire a Big Four auditor. The findings confirm the hypothesis that Islamic ethical principles of a company's top leadership influence quality of financial reporting and transparency through improving auditing process quality. In general, the results of this study support the findings of previous research by demonstrating that religion as an informal mechanism that influences accounting and auditing consequences (Cai et al. 2019; Al-Ebel et al. 2020; Rahman et al. 2018; Alazzani et al. 2019) is relevant when selecting an external auditor.

The sensitivity analysis results in Table 4.4 also show similar results. The results consistently show that the Muslim affiliation of board members is associated with a recognised (Big 4) audit firm. The findings validate that Islamic ethical principles of a company's senior leadership improve the quality of financial reporting and transparency by increasing auditing process quality.

This work makes several important contributions. To our knowledge, this is the first study to assess the effect of a Muslim CEO and Muslim board members on auditor appointment. Second, the study contributes to the body of knowledge regarding the factors of auditor selection by shedding light on the efficacy of the structure of the board of members and providing empirical proof that they are a significant factor in the selection of the external auditor. The results indicate that composition of the board may be a tool for promoting the demand for audits of high quality. Finally, unlike previous research that has focused on the religious characteristics of specific countries or communities, this study enriches the existing knowledge on the relationship amongst religious belief and individual auditor selection. This research has ramifications for both investors and regulators by emphasising the significance of the religious characteristics of enterprises' main players in enhancing the likelihood of employing a high-quality audit company.

The results of this study provide a few implications. For company operationalisation, having Muslim CEOs and board members can improve diversity and inclusion initiatives. A more inclusive workplace and good connections between auditors and management may be promoted by hiring auditors from various backgrounds, including those who share the CEO's or board members' culture or religion. A company's Muslim CEOs or Muslim board members may impact how the public and investors view them. Particularly in businesses with Muslim leadership, hiring auditors who are viewed as neutral and independent can assist in boosting trust and confidence in the financial reporting process. Companies could need to show transparency in their auditor appointment procedure and guarantee that auditors are chosen based on their credentials, competence, and integrity rather than on their cultural or religious associations.

Theoretically, the study emphasises how crucial cultural awareness is when choosing auditors. It may be advantageous to consider auditors knowledgeable about Islamic culture and practises when choosing auditors for businesses with Muslim CEOs or board members. To better understand the distinctive cultural characteristics of the organisation, its operations, and its stakeholders, auditors might use this information to adjust their audit methodology. It is also crucial for auditors to maintain their professional scepticism, regardless of the CEO or board members' cultural or religious background. Regardless of the leadership of the company's history, auditors should exercise professional judgement and the same level of professional scepticism during their audit procedures.

Nevertheless, this study has several limitations. This study focuses solely on the influence of the Islamic religiosity of senior executives on the auditor selection decision. Future research should therefore examine the impact of other religions, such as Christianity, Confucianism, and Buddhism, to produce more significant and generalisable findings. Second, this study employs a single proxy for audit quality: the size of the external auditor firm. Future research could further examine the validity of the findings by incorporating alternative proxies for gauging audit quality.

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