



UNIVERSITI PUTRA MALAYSIA

***EFFECTS OF CLIENT PROBABILITY OF FAILURE, AUDITOR
CHARACTERISTICS, OWNERSHIP STRUCTURE ON ISSUANCE OF
GOING CONCERN OPINION***

MOHAMMAD NOOR HISHAM BIN OSMAN

GSM 2016 22



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CHARACTERISTICS, OWNERSHIP STRUCTURE ON ISSUANCE OF
GOING CONCERN OPINION**

By

MOHAMMAD NOOR HISHAM BIN OSMAN

**Thesis Submitted to the School of Graduate School of Management,
Universiti Putra Malaysia, in Fulfillment of the Requirements for the
Degree of Doctor of Philosophy**

July 2016

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DEDICATION

I dedicate this thesis to my mother Maimunah binti Mat Ibrahim and
father Allahyarham Osman bin Abdul Hamid;
wife Roheida and children Haziqe, Hannah, Hadiya and Hafiya.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the Degree of Doctor of Philosophy

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MOHAMMAD NOOR HISHAM BIN OSMAN

July 2016

Chairman : Ahmed Razman Abdul Latiff, PhD
Faculty : Graduate School of Management, UPM

International Standard in Auditing 570 (ISA 570) mentions that auditors are responsible (1) to gather evidence about the reasonableness of management in applying going-concern assumption during financial statement preparation, and (2) to conclude about a client company's ability to continue operating in the foreseeable future (para. 6). The instance an auditor issues a going concern opinion (GC opinion) in the appropriate situation can be seen as an indicator of high audit quality, however, such a good case is an ideal rather than a reality. Inappropriate GC opinion issuance, in which (i) an auditor issues GC opinion to viable client [Type I Errors] or (ii) does not issue GC opinion to a client which later fails [Type II Errors], is common at international and local levels. Issuing GC opinion accurately is important because it implies the auditor is protecting the stakeholder's interest. In the case of Enron, if Arthur Andersen (the company's audit firm since it was set up) had issued GC opinion one year prior to the company's collapse, billions of stakeholders' money could have been saved. Even though the importance of GC opinion is a fact, there are still unresolved matters in the literature related to the determinants of GC opinion issuance. This brings to light the need for additional research on GC opinion and variables associated with it. Accordingly, this thesis is an attempt to examine the effect of selected factors on the propensity of GC opinion issuance in Malaysia. To be specific, this study investigates the interplay between the probability of client failure, auditor characteristics, ownership structure and GC opinion issuance. This study uses agency theory as a framework to develop 13 hypotheses and tested them on data accumulated from annual reports of financially distressed Malaysian public listed companies. Panel data from 2006 to 2012 on a sample of 644 observations have been analyzed using logistic regression. It is found that certainty (rather than probability) of client failure affects the issuance of GC opinion. Auditor characteristics of specialization, tenure and fee do not directly predict the issuance of GC opinion. The level of management and family ownership does moderately affect the relationship between certain auditor characteristics and GC opinion issuance. This study is a contribution to auditing

literature as its findings can enhance our understanding about audit quality; particularly on the variables that are associated with the issuance of GC opinion. The output of this study which clarifies the GC opinion issuance process is useful for stakeholders, auditors and policy makers.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

**KESAN KEMUNGKINAN KLIEN GAGAL, CIRI-CIRI JURUAUDIT,
STRUKTUR PEMILIKAN KEPADA PENDAPAT BERKAITAN USAHA
BERTERUSAN**

Oleh

MOHAMMAD NOOR HISHAM BIN OSMAN

Julai 2016

Pengerusi : Ahmed Razman Abdul Latiff, PhD
Fakulti : Sekolah Pengajian Siswazah Pengurusan, UPM

International Standard in Auditing 570 (ISA 570) yang terpakai pada masa ini menyatakan juruaudit bertanggungjawab (1) untuk mengumpul bukti tentang tahap pengaplikasian andaian usaha berterusan oleh pihak pengurusan semasa menyediakan penyata kewangan, dan (2) untuk membuat kesimpulan tentang kebolehan klien untuk terus beroperasi pada masa depan (perenggan 6). Keadaan di mana juruaudit memberikan pendapat berkaitan usaha berterusan (pendapat BUB) kepada keadaan yang sepatutnya boleh dilihat sebagai satu petanda kepada kualiti audit yang tinggi, walaubagaimanapun keadaan yang bagus tersebut adalah sesuatu yang ideal. Memberikan pendapat BUB kepada keadaan yang tidak sepatutnya, iaitu (i) juruaudit memberi pendapat tersebut kepada klien yang boleh terus beroperasi [Kesilapan Jenis I] atau (ii) tidak memberi pendapat BUB kepada klien yang akhirnya gagal [Kesilapan Jenis II], biasa berlaku di peringkat antarabangsa dan di negara ini. Memberi pendapat BUB dengan tepat sebenarnya dapat melindungi hak pihak berkepentingan. Kes Syarikat Enron menunjukkan bahawa jika Arthur Anderson (firma audit syarikat tersebut semenjak dari mula penubuhannya) memberikan pendapat BUB setahun sebelum syarikat tersebut runtuh, berbilion wang pihak berkepentingan dapat di selamatkan. Ini menzahirkan keperluan kepada kajian tambahan terhadap pendapat BUB dan pembolehubah-pembolehubah yang berkaitan dengannya. Sehubungan dengan itu, tesis ini adalah satu cubaan untuk memeriksa kesan faktor-faktor terpilih terhadap kebarangkalian pemberian pendapat BUB di Malaysia. Secara lebih spesifik, ini adalah satu penyiasatan terhadap hubungkait di antara tahap kebarangkalian klien akan gagal, ciri-ciri juruaudit, struktur pemilikan dan pemberian pendapat BUB. Kajian ini menggunakan teori agensi sebagai kerangkakerja untuk membangunkan 13 hipotesis dan menguji hipotesis-hipotesis tersebut kepada data yang dikutip daripada syarikat-syarikat awam tersenarai di Bursa Malaysia yang menghadapi kekangan kewangan. Data panel dari tahun 2006 ke 2012 dari sampel yang berjumlah sebanyak 644 pemerhatian telah di analisis menggunakan regresi lojistik. Kajian ini mendapati kepastian (bukannya kebarangkalian) bahawa klien akan gagal memberi kesan kepada

pemberian pendapat BUB. Ciri-ciri juruaudit seperti kepakaran, tempoh perkhidmatan dan yuran tidak berkait secara langsung dengan pemberian pendapat BUB. Tahap pemilikan pengurusan dan keluarga mempunyai kesan moderasi kepada hubungan di antara ciri-ciri juruaudit dan pemberian pendapat BUB. Kajian ini adalah satu bentuk sumbangan kepada literatur dalam bidang audit kerana ia akan meningkatkan kefahaman kita tentang kualiti audit; khususnya tentang pembolehubah-pembolehubah yang berkaitan dengan pemberian pendapat BUB. Hasil kajian ini yang memperincikan proses pemberian pendapat BUB berguna kepada pihak berkepentingan, juruaudit dan penggubal polisi juga.



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I certify that a Thesis Examination Committee has met on 1 July 2016 to conduct the final examination of Mohammad Noor Hisham Bin Osman on his thesis entitled “Effects of Client Probability of Failure, Auditor Characteristics, Ownership Structure on Issuance of Going Concern Opinion” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

Bany Ariffin Amin Noordin, PhD

Associate Professor/ Deputy Dean (Academic & Students)
Faculty of Economics and Management
Universiti Putra Malaysia
Selangor, Malaysia
(Chairman)

Fatima Abdul Hamid, PhD

Associate Professor
Department of Accounting
Kulliyah of Economics and Management Sciences
International Islamic University of Malaysia
Off Jalan Gombak, Kuala Lumpur
(External Examiner)

Mohamat Sabri Hassan, PhD

Associate Professor
School of Accounting
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
Bangi, Selangor
(External Examiner)

Roszaini Haniffa, PhD

Professor
Heriot Watt University
Edinburgh EH14 4AS
United Kingdom
(External Examiner)

PROF. DR. M. IQBAL SARIPAN

Deputy Vice Chancellor (Academic & International)
Universiti Putra Malaysia
Date:

On behalf of,
Graduate School of Management
Universiti Putra Malaysia

This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

Ahmed Razman Abdul Latiff, PhD

Senior Lecturer
Putra Business School
(Chairperson)

Zaidi Mat Daud, PhD

Senior Lecturer
Department of Accounting and Finance
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Zulkarnain Muhammad Sori, PhD

Professor
INCEIF
Jalan University A
Kuala Lumpur
(Member)

PROF. DR. M. IQBAL SARIPAN

Deputy Vice Chancellor (Academic & International)
Universiti Putra Malaysia
Date:

On behalf of,
Graduate School of Management
Universiti Putra Malaysia

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Signature: _____ Date: _____

Name and Matric No.: Mohammad Noor Hisham Bin Osman , GM03343

Declaration by Members of Supervisory Committee

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Chairman of Supervisory Committee

Signature : _____
Name : Dr. Ahmed Razman Abdul Latiff
Faculty : Putra Business School

Members of Supervisory Committee

Signature : _____
Name : Dr. Zaidi Mat Daud
Faculty : Faculty of Economics and Management, UPM

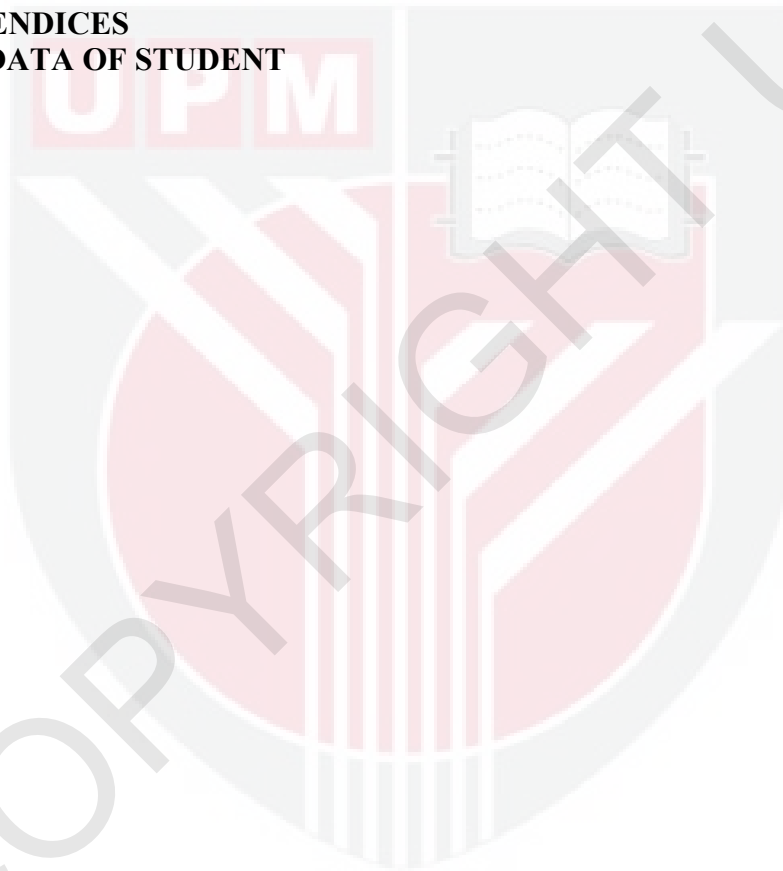
Signature: _____
Name : Professor Dr.Zulkarnain Muhammad Sori
Faculty : International Centre for Education in Islamic Finance (INCEIF)

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LIST OF ABBREVIATIONS

FRS	Financial Reporting Standard
FRSC	Financial Statement Review Committee
GC	Going concern
IFAC	International Federation of Accountants
ISA	International Standard in Auditing
KWSP	Kumpulan Wang Simpanan Pekerja (Employee Provident Fund)
LTH	Lembaga Tabung Haji
MCCG	Malaysian Codes of Corporate Governance
MIA	Malaysian Institute of Accountants
PLC	Public listed companies
PN 17	Practice Notes 17

CHAPTER 1

INTRODUCTION

1.1 Background

The main and ultimate responsibility of an auditor is to issue audit opinion and this study focuses on the issuance of going concern opinion (GC opinion). The applicable International Standard in Auditing 570 (ISA 570) states that auditors are responsible (1) to gather evidence about the reasonableness of management in applying going-concern assumption during the financial statement preparation process, and (2) to conclude about the ability of a client company to continue to operate in the foreseeable future (International Standard in Auditing, 2008, para 6)¹. Auditors are supposed to provide external and independent professional certification (Garcia-Blandon & Argiles, 2015). The instance that an auditor issues GC opinion in the appropriate situation can be seen as an indicator of high audit quality (Hossain, 2013; Knechel & Vanstraelen, 2007) but such a good case is an ideal rather than a reality, particularly in Malaysia (see Accountants Today, December 2009, May/June 2012, November, 2009). Inappropriate audit opinion issuance, in which (i) auditor issues GC opinion to a viable client [type 1 error] or (ii) does not issue GC opinion to a client which later fails [type 2 error], are not rare in this country and other parts of the world. This brings to light the need for research on GC opinion and variables associated with it.

The purpose of this section is to introduce the issues related to and the importance of GC opinion. The incident of major corporate collapses at the beginning of this millennium particularly Enron and WorldCom and the cost stakeholders had to pay for it, has in a way, demonstrated the importance of the issuance of GC opinion. The case of Enron, for instance, reveals the fact that Arthur Andersen (the company's audit firm since it was set up) did not issue GC opinion even though they were aware of the major viability problem faced by the company and this omission by the auditor caused great financial loss to shareholders and creditors. In Malaysia, the importance of GC opinion transpired in the investigation of the controversial high profile case of 1 Malaysia Development Berhad (1MDB). Among the most pertinent aspect of investigation of Malaysia's Public Account Committee (PAC) is to question Deloitte, the external auditor of the company, on the reason why the debt laden 1MDB had been issued a clear audit opinion instead of a GC opinion (see Asia One Business News, 2015; The Star Online, 2015a). Auditors are not responsible to predict corporate failure, nor future mishaps, but auditors should issue GC opinion when it is necessary because it is a major, if not only, information cue on the financial and operational viability of a company to stakeholders (see Hopwood, McKeown, & Mutchler, 1989; Kausar, Taffler, & Tan, 2015).

¹This version of ISA570 is effective starting from January 1, 2010.

In the context of Malaysia, the practice of not issuing GC opinion in appropriate situations is a pressing local issue, particularly from the policy makers' view. As early as in 2009 (and until recently), Financial Statement Review Committee (FSRC) of Malaysian Institute of Accountant reveals that the most common weakness in financial statements under their selective review is in the assessment of the appropriateness of GC assumption (see Accountants Today, December 2009, May/June 2012, November 2010, November, 2009). In a strong tone Stephen Ong, the FRSC Chairman, stated that the committee will not prevent itself from recommending "action to be taken" against public listed companies that produce such materially flawed financial statements (Accountants Today, November, 2009, p. 17). As the members of this committee are experts in auditing, when they highlight a problem with GC opinion issuance then there should be no doubt a problem exists. Furthermore, Zarinah Anwar the Chairman of Securities Commission (SC) of Malaysia, in at least two occasions, questioned the practice of Malaysian auditors that seem to issue GC opinion to selected distressed companies only but made significant others an exception (see Anwar, 2004; Anwar, 2007).

The rate of GC opinion issuance at international level and in Malaysia is low and this seems to attract researchers to explore this topic:

Table 1.1 : The Rate of GC Opinion Issuance

Country	Sources	Criteria of sample	Rate of GC opinion issuance
US	Read (2015)	Bankrupt companies	Only 49.8% of bankrupt companies (101/203 companies) received GC opinion in the year prior to bankruptcy
UK	Citron and Taffler (2004)	Financially distressed companies	Only 12.9% received GC opinion (213/1650 companies)
Australia	Young and Wang (2010)	Companies from building industry	Only 18 per cent (13/72) of the total audit opinions were appropriately reported as GC opinion
Malaysia	Abdul Wahab, Mat Zain and Abdul Rahman (2013)	Financially distressed companies	Only 6.3% received GC opinion (24/379 companies)
Spain	Garcia-Blandon and Argiles (2015)	Companies listed in Spanish Stock Exchange (year 2002 to 2009)	Only 3.2% received GC opinion (21/652 observations)

Ironically, it is not an unexpected development for Malaysian auditors as well as auditors in the countries revealed in Table 1.1 to not issue GC opinion to more distressed clients. Auditors seem to hold on the idea that no auditing standards require them to predict corporate failure; albeit this is the opposite of financial statement user expectation². Even the current ISA 570 (International Standard in Auditing, 2008) contains a ‘disclaimer’ to the auditor which says “the absence of any reference to going concern uncertainty in an auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern”. Also, issuing a GC opinion is a less favourable resort for auditors because it could lead to losing a client³. A client that had been given GC report tends to switch auditors due to the reasons of punishing the auditor, finding a new more ‘flexible’ auditor or simply due to management-auditor conflict post GC opinion issuance is too severe (Carcello & Neal, 2003; Craswell, 1988). For the non-litigious context – a condition where the

² There exist an expectation gap i.e. the different between user’s and auditor’s view about the responsibilities of the later to issue GC opinion (Ryu, Uliss, & Roh, 2009).

³A Malaysian example is the case of dispute between Oilcorp Berhad and its auditor, Baker Tilly Monteiro Heng. The auditor who had issued disclaimer opinion after disagreed with the management of the company about the value of a significant asset was terminated in an EGM (Loh, 2008).

pressure for auditors to issue GC opinion is less compared to litigious environment (Geiger & Raghunandan, 2002b) - like Malaysia, the likely pressure for the auditor to issue GC opinion, if any, is to maintain good reputation.

Not unlike the auditors, client companies are reluctant to accept GC audit opinion given as such situation would have negative effect on their listing status. The current Bursa Malaysia's Practice Note 17 (PN17) states that criteria for public listed companies (PLC) that would fall into distress status include one that receives modified opinion with emphasis on the inappropriateness of GC assumption (Bursa Malaysia Securities Berhad, 2009, para. 2.1e). Companies that fall into the aforementioned status would have to prepare (and implement) Regularisation Plan (para. 3.1) and whether the plan would significantly change the business policy or not, the company has to submit the plan to Securities Commission to ensure adherence to it (para. 5.0). Furthermore, when a company falls into PN17 status it sends a negative signal to shareholders and creditors and consequently risking the possibility of acquiring future cheap capital and could even face forced liquidation (the case of Kenmark Industrial Co. (M) Bhd., for instance). Insights from US shed light that companies that have been issued GC opinion would face negative market reaction (Blay & Geiger, 2001; Citron, Taffler, & Uang, 2008; Kausar, et al., 2015; Loudder, et al., 1992) higher cost of equity capital (Amin, Krishnan, & Yang, 2014) and inability to continue operation (Callaghan, Parkash, & Singhal, 2009).

Even though the issuance of GC opinion is not favored by Malaysian auditors and is unfavorable to their clients, the appropriate issuance of such opinion primarily stands on the firm ground of the preservation of stakeholders' interest. Arguably, stakeholders including customers, suppliers and creditors are the main beneficiaries of the issuance of such audit opinion. GC opinion could function as an early signal to the stakeholders on the ability of a company to stay afloat and could save billions of dollars of stakeholders' capital if issued appropriately. Investors, for instance, change their focus from profitability [income statement] to financial condition [balance sheet] of a business and would change their financial statement analysis methods after a company had received GC opinion (Blay, Geiger, & North, 2011). Also, at least one study found that investors in US and UK react negatively in capital market after GC opinion issuance, showing the opinion's market relevance (Kausar, et al., 2015). However, reliance on auditors to issue GC opinion as a protection of one's financial interest in a particular company is a false hope. Research in US reveals that auditors become more conservative and the propensity for them to issue GC opinion increases in the period of high public scrutiny (particularly after Enron case) but will return to a less conservative state after public attention on the audit declines (Feldmann & Read, 2010). Thus, understanding the input and process of GC opinion issuance is pertinent for the preservation of stakeholder interest.

At the macro level, the appropriate issuance of GC opinion is relevant to the New Economic Model (NEM) initiated by Government of Malaysia. The government reveals that the poor quality of Malaysian corporate governance is a critical issue it opts to address. The model stresses that corporate Malaysia must honour transparency and accountability (National Economic Advisory Council, 2009, para.

3.2), and the idea can be materialized through the practice of high quality audit services. Furthermore, Prime Minister Najib Razak, at the Invest Malaysia conference organized by Bursa Malaysia on 30th of March 2010, had set a positive tone at the top by stressing on proper corporate governance and transparency (Abdul Razak, 2010).

Overall, this section reveals two major points – 1. At both international and local levels, auditors do not want to issue GC opinion and clients do not want to accept it, and 2. The appropriate issuance of GC opinion is important for the preservation of stakeholders' interest. The preceding two points justify the need for studies on GC opinion and variables surrounding it. There are numerous studies on GC opinion conducted in the past, however, as this study will reveal in a later section, several questions have been left unanswered.

1.2 Problem Statement

GC opinion issuance is very important because stakeholders see it as one signal from auditor, if not the only signal, that warns them about the viability of a company. In the case of Enron, it is said that GC opinion could have saved stakeholders billions of dollars if it was issued accurately one year prior to the company's collapse. Consequently, the topic of GC opinion issuance to distressed companies has been examined both in the developed and developing markets. Most studies examined the effect of auditor characteristics on the issuance of such audit opinion (Boone, Khurana, & Raman, 2010; Chiang, Lin, & He, 2015; Firth, Oliver, & Wu, 2012; Garcia-Blandon & Argiles, 2015; Lim & Tan, 2008; Read, 2015; Shafie, Wan Hussin, Md. Yusof, & Md Hussain, 2009). Apart from that, the literature also informed that the ability of the auditor to perform audit activities independently is in a way affected by certain form of internal pressures particularly from management, family and institutions who own a company and hence affecting the propensity to issue GC opinion (Abdul Wahab, Mat Zain, & James, 2011; Ballesta & Garcia-Meca, 2005; Callaghan, et al., 2009) but no empirical tests on this relationship has been done.

Even though there are plenty of previous studies on GC opinion (as mentioned above), for the context of Malaysia there are at least three research problems left unanswered - particularly questions that are related to interplay of auditor, ownership level of influential stakeholders and GC opinion issuance. ISA570 mentioned that auditors should issue GC opinion if there is a doubt about the ability of a client to continue operation, so the first question is - in Malaysia, is client's probability of failure associated with GC opinion issuance? This question arises because both Malaysian academicians and regulators discovered that the issuance of GC opinion has not been proportionate with the number of financially distressed PLC. Specifically, Abdul Wahab et al. (2013) found that Malaysian auditors issue GC opinion to only 6.3 percent of financially distressed companies despite the fact that ISA570 mentioned that the state of financial distress is the main indicator of the probability of a client's failure. In addition, FSRC of MIA (Accountants Today, December 2009, February 2007, May/June 2012, November 2010, November, 2009)

and the Chairman of Securities Commission of Malaysia (Anwar, 2007) revealed that from their observation, the number of distressed Malaysian companies is considerable but only a handful of them had received GC opinion.

Secondly, to what extent do the auditor characteristics influence the issuance of GC opinion? Auditor characteristics are an important aspect to examine because an auditor is the party that decides whether to issue GC opinion or not. A number of studies on this topic had been conducted in developed market and it was found that, among others, the auditor size (Chiang, et al., 2015; Ryu & Roh, 2007), tenure (Geiger & Raghunandan, 2002a), and the extent of non-audit services (Callaghan, et al., 2009) have an impact on GC opinion. This second question arises because: (1) studies done in developed countries might not be relevant to Malaysia because of this country's non-litigious ways whereby a negligent auditor would less likely be sued in court by stakeholders (Johl, Jubb, & Houghton, 2007) and (2) studies on this topic in Malaysia are very limited with the exception of attempts to test the relationship between auditor's tenure and GC opinion issuance by Shafiee et al. (2004, 2009). These studies used out-dated data which are from the early 2000s and significant events particularly the release of Malaysian Codes of Corporate Governance 2007 and revisions of ISA 570 had taken place since the studies were done. It was noted that the number of auditor characteristics examined was limited as well. Due to this, a new comprehensive investigation is warranted.

Thirdly, the extent of moderating effect of ownership structure on the association between auditor characteristics and GC opinion issuance is the third unresolved research question. Issuance of GC opinion by auditor is not a straight forward process but it would involve at least two stages. First stage is when the auditor sets an initial judgment. And in second stage, the auditor considers new information and become involved in strenuous negotiation with other corporate governance mechanisms within a company (Asare, 1992; Mutchler, 1984, 1985). Malaysian corporate governance is characterised by the presence of at least three influential owners - management, family, and institution (Abdul Wahab, Mat Zain, James, & Haron, 2009; Amran & Che Ahmad, 2010) and the extent of their influence can be measured via the extent of their ownership. Each owner could influence the auditor in the opinion issuance process (in the second stage of GC opinion issuance process mentioned above) and their roles or activities may explain the propensity of GC opinion issuance. Thus, there is a need to assess the moderating effect of pressures put by owners on the relationship between auditor characteristics and GC opinion issuance if a holistic view of GC opinion issuance process is to be understood.

Thus, an empirical examination of interplay between probability of client's failure, auditor characteristics, ownership level and GC opinion issuance can be a significant contribution to the extant literature as well as the practice. Coherence with the unresolved matters stipulated above, the research questions of this study are as follows:

1. Is there a significant association between a client's probability of failure and the issuance of GC opinion?

2. Is there any significant association between auditor characteristics viz. specialization, tenure and fee, and the issuance of GC opinion?
3. Do the level of management, family and institutional ownerships moderate the association between auditor characteristics and the issuance of GC opinion?

The research problems and research questions identified above shape the objective of this study.

1.3 Research Objectives

The general objective of this research is to examine the effect of selected factors on the propensity of GC opinion issuance in Malaysia. Accordingly, this study is set to achieve the following three specific objectives:

1. To examine the association between client probability of failure and the issuance of GC opinion;
2. To ascertain the impact of auditor characteristics in terms of specialization, tenure and fee on the issuance of GC opinion; and
3. To assess the moderating effect of ownership structure of management, family, and institution on the relationship between auditor characteristics and auditor's decision to issue GC opinion.

1.4 Contributions and Scope

This study is a contribution to current literature as it would enhance our understanding about audit quality; particularly about the variables that are associated with the issuance of GC opinion. This study adopts a holistic approach in assessing the predictors of GC opinion by assessing both variables that directly and indirectly affect GC opinion issuance. Specifically, this study examines the direct relationship between client probability of failure and auditor characteristics and GC opinion issuance. The study also tests the moderating effect of ownership level of selected dominant Malaysian stakeholders particularly family, management and institutions. Previous Malaysian studies in this area (see Shafie, et al., 2004; Shafie, et al., 2009) as well as studies in other countries (Callaghan, et al., 2009; Chiang, et al., 2015; Garcia-Blandon & Argiles, 2015) provided no holistic view about factors that determined the GC opinion issuance and had only investigated the direct relationship between a selected auditor characteristics and the GC opinion issuance. This is despite the fact that prior literature suggested that an auditor has to negotiate with several stakeholders of a client before issuing GC opinion (see Kida, 1980; Mutchler, 1985, 1986). This study contributes to the literature by providing evidence about auditor characteristics that can affect GC opinion issuance and also the way corporate owners namely management, family and institution influence can influence auditor in the GC opinion process. Overall, this study would provide an input on whether Malaysian auditors have acted independently by issuing GC opinion appropriately. If auditor independence is lacking then policy makers, among

others, should improve the situation and the findings of this study can be an input in the process to do so.

Furthermore, this study is an advancement of previous studies in this area in terms of methodology. In terms of data collection, this study would involve panel data that covers the period from 2006 to the current year 2012. Previous Malaysian studies on this topic have either covered a shorter time span or they lack recentness (see Shafie, et al., 2004; Shafie, et al., 2009). Even though the data had only been collected up to 2012, there should be no doubt about the validity of the findings of this study to reflect current practice of GC opinion issuance. This is because there were no major events that had happened that may affect GC opinion issuance happened between 2012 and 2016 like the release of new set of auditing standard related to GC opinion (Citron & Taffler, 2004; Ryu, et al., 2009) and/or corporate governance promulgation (Hossain, 2013; Linck, Netter, & Yang, 2009). In terms of data analysis, this study would not only test the direct relationship between auditor characteristics and GC opinion but would also assess the moderating effect of relevant corporate ownership on the mentioned relationship. At the time this thesis is written there is no known study on the moderating impact of corporate ownership on GC opinion issuance at local as well as international level.

The findings of this study would benefit Malaysian listed companies' stakeholders in several ways. Firstly, this study would reveal the characteristics of auditors that are associated with appropriate GC opinion issuance. This study tests the effect of auditor specialization, auditor tenure and audit fee on the issuance of GC opinion and hence would ascertain which kind of auditor would issue such opinion appropriately. This study would also reveal which group of corporate owners (management, family or institutions) that could enhance or weaken the propensity of GC opinion issuance. The findings of this study are not only useful for understanding the Malaysian situation but also to understand other less litigious contexts i.e. developing countries. It is commonly mentioned in the literature that auditing practice in most less litigious contexts is almost similar because in these contexts auditors are less likely to be brought to court for negligence (Johl, et al., 2007).

Another significant contribution of this study is that it has policy impact in at least two ways. Firstly, the findings could become an input to the process of developing future promulgation as well as refining the existing one. For instance, if this study finds that the auditor tenure is negatively associated with the GC opinion issuance then this finding can be used as one of the justifications for policy makers to introduce measures that can curb the practice of auditor switching at the early years of providing services. Input on the effect of family ownership on the issuance of GC opinion is also very useful because a large proportion of Malaysian PLC is family business. Secondly, at the organizational level, the findings could be used as a basis to formulate internal policies related to audit quality.

1.5 Thesis Overview and Structure

This study examines client probability of failure and auditor characteristics' direct relationship with GC opinion issuance (specific objective 1 and 2). The moderating effect of management, family and institutional ownership on the GC opinion issuance process is also assessed (objective 3). At the time this study is written, this study is Malaysia's first in testing the direct effect of auditor specialization, audit fee, and moderating effect of ownership level of influential stakeholders on GC opinion decision. Agency theory which explains the interplay between auditor and corporate owners in the process of audit opinion decision is taken as the theoretical framework of this study. This empirical test involves 13 hypotheses. The findings of the study would have an impact on knowledge, practice and policy.

The remainder of this thesis is organized as follows:

Chapter 2 – Literature Review and Hypotheses Development. This chapter undertakes review of the literature that is relevant to the topic under study. The first segment contains a review of previous studies on GC opinion to conclude the issues that are left unexplored. This is followed by segments on prior studies that relate to the variables that will be tested against the GC opinion – (1) Client probability of failure, (2) Auditor characteristics, and (3) Ownership structure. The chapter ends with sections on hypotheses development.

Chapter 3 - Methodology. The third chapter contains three main sections. The first section is allocated for the philosophical position of this study (research paradigm), and the research strategy and process adopted in this study. The second and third sections are dedicated for data collection and data analysis respectively.

Chapter 4 – Findings and Discussion. This is where the results of the study are discussed and reported. This chapter is divided into four main sections: the results of the (1) descriptive statistics analysis, (2) univariate analysis, (3) correlation analysis, and (4) multivariate analysis. Additionally, this chapter has dedicated sections on robustness and additional analyses.

Chapter 5 – Summary, Recommendation and Conclusion. This closing chapter begins with a summary of the study. This is followed by sections on the impact of the findings, suggestions on future research topics and limitations of the study. The final segment of this chapter is devoted for the conclusion.

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