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**THE RELATIONSHIP BETWEEN MANAGEMENT, AUDIT  
COMMITTEE AND EXTERNAL AUDITOR CHARACTERISTICS  
AND MODIFIED AUDIT OPINIONS: EVIDENCE FROM  
MALAYSIAN LISTED-FIRMS**



By  
**ALI RAZA (900795)**

**UUM**  
Universiti Utara Malaysia

**Submitted to**  
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**In Fulfillment of the Requirement for the Degree of Doctor of Philosophy**



**Kolej Perniagaan**  
(College of Business)  
**Universiti Utara Malaysia**

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Tarikh: **30 September 2020**  
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Nama Pelajar  
(Name of Student) : ALI RAZA

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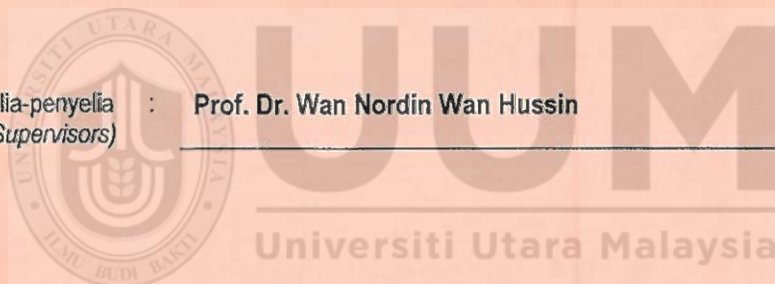
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Nama Penyelia/Penyelia-penyelia  
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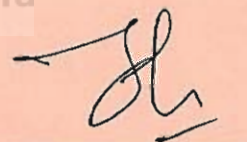


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## ABSTRACT

The study is motivated by the distinctive ownership structure in the Malaysian firms which differs from other developed markets. The role of corporate governance in such institutional settings is more crucial. This study primarily examines the characteristics of management, audit committee and the external auditor to ascertain how these governance mechanisms can enhance the financial reporting quality. The data is obtained from the annual reports of the companies listed in Bursa Malaysia. The data related to 120 firm-year observations which received modified audit opinions during the period 2012 to 2016 were matched with the firms which received clean audit opinions based on pre-determined criteria. In total 240 firm-year observations were included in the empirical examination. The statistical methods including univariate and multivariate regression models were employed to examine the study hypotheses. The findings reveal that CEO age, founder status and ownership have a strong association with modified audit opinion. Management is an integral part of the financial reporting process and the findings signify that powerful management considerably influences the reporting outcomes. The results related to the audit committee and its chair illustrate that number of meetings and the busyness of its chair are positively associated with the issuance of modified audit opinion. This finding is interesting in that a busy audit committee chair has a negative influence on the financial reporting quality of the firm. The external audit partner's busyness is also found to be positively associated with the modified audit opinion. This result shows that workload affects the audit efforts of external auditors. Further, interaction analysis reveals that there is a negative impact of the interaction between audit committee independence and CEO duality on the issuance of modified audit opinion. Overall, the results are significant in emerging markets context.

**Keywords:** Financial Reporting Quality, Modified Audit Opinion, Management, Audit Committee, External Auditor

## ABSTRAK

Kajian ini didorong oleh struktur pemilikan tersendiri dalam firma-firma di Malaysia yang berbeza dengan pasaran maju yang lain. Peranan tadbir urus korporat dalam institusi tersebut adalah lebih penting. Kajian ini menyelidik ciri-ciri pengurusan, jawatankuasa audit dan juruaudit luar terutamanya, untuk memastikan cara mekanisme tadbir urus ini dapat meningkatkan kualiti pelaporan kewangan. Data diperoleh daripada laporan tahunan syarikat-syarikat yang tersenarai dalam Bursa Malaysia. Data berkaitan dengan 120 pemerhatian-tahun firma yang menerima pendapat audit yang diubah dalam tempoh 2012 hingga 2016 telah dipadankan dengan syarikat-syarikat yang menerima pendapat audit bersih berdasarkan kriteria yang telah ditentukan. Secara keseluruhannya, sebanyak 240 pemerhatian-tahun firma dimasukkan dalam pemeriksaan empirik. Kaedah statistik termasuklah model regresi univariat dan multivariat telah digunakan untuk meneliti hipotesis kajian. Hasil kajian menunjukkan bahawa usia CEO, status pengasas dan pemilikan saham mempunyai kaitan yang erat dengan pendapat audit yang diubah. Pengurusan merupakan bahagian yang penting dalam proses pelaporan kewangan dan penemuan menunjukkan bahawa pengurusan yang dominan banyak mempengaruhi hasil pelaporan. Hasil yang berkaitan dengan jawatankuasa audit dan pengerusinya menggambarkan bahawa jumlah mesyuarat dan kesibukan pengerusinya mempunyai kaitan yang positif dengan penerbitan pendapat audit yang diubah. Penemuan ini menarik kerana menggambarkan bahawa ketua jawatankuasa audit yang sibuk mempunyai pengaruh negatif terhadap kualiti pelaporan kewangan syarikat. Kesibukan rakan audit luaran juga didapati mempunyai kaitan yang positif dengan pendapat audit yang diubah. Dapatan ini menunjukkan bahawa beban kerja mempengaruhi usaha audit juruaudit luaran. Selanjutnya, analisis interaksi menunjukkan bahawa terdapat kesan negatif terhadap interaksi di antara kebebasan jawatankuasa audit dan kedualan CEO terhadap penerbitan pendapat audit yang diubah. Secara keseluruhannya, penemuan ini penting dalam konteks pasaran baru muncul.

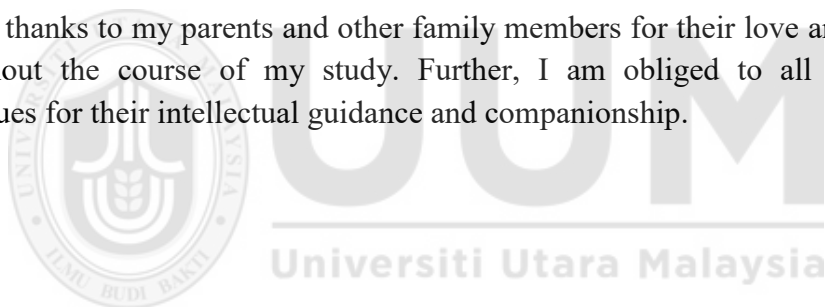
**Kata kunci:** Kualiti Pelaporan Kewangan, Pendapat Audit yang Diubah, Pengurusan, Jawatankuasa Audit, Juruaudit Luar

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## ABBREVIATIONS

AISG	Accountants International Study Group
AOB	Audit Oversight Board
AQI	Audit Quality Indicators
BFI	Banking and Financial Institutions
BMLR	Bursa Malaysia Listing Requirements
BNM	Bank Negara Malaysia
BRC	Blue Ribbon Commission
CPAB	Canadian Public Accountability Board
FASB	Financial Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IAG	International Auditing Guidelines
IAPC	International Auditing Practices Committee
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants Council
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
MCCG	Malaysian Code on Corporate Governance
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
PCAOB	Public Company Accounting Oversight Board
POB	Public Oversight Board
SC	Securities Commission
SOX	Sarbanes Oxley
TWC	Treadway Commission

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Overview**

In the first section, the study background and motivation is discussed. The next section explains how modified audit opinion and low quality of financial reporting affect the sound growth of Malaysian capital market. The research questions and objectives are also outlined in this chapter. The chapter concludes with the significance and scope of study.

### **1.2 Background of the Study**

An organized and inclusive record of transactions related to the finances of a business is known as accounting. It is crucial for any organization to continue to make profits in order to survive by keeping business finances on track. The performance and financial situation of a firm can be judged through its financial statements. Such statements can have significant implications for the financial market, and hence, must be reliable and accurate (Ozcan, 2016). Financial reporting is central for the policymakers, standard setters and regulators because the disclosed information is directly linked to economic consequences (Ball, 2008). It gives stakeholders an accurate depiction of a company's finances, including their revenues, expenses, profits, capital, and cash flows. Users of financial information may make incorrect decisions related to investment or financing if the financial reports are not of high quality, which subsequently can lead to waste of resources.

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