

A STUDY ON AUDIT OPINION AND EARNING MANAGEMENT BETWEEN PN17 COMPANIES AND HEALTHY COMPANIES

Alhana Binti Othman
Nor Ayuni Atiqah Binti Mohamed Ruslan
Izzati Farhan Binti Shamsuddin
Nur Amalina Binti Rosli
Siti Raihanah Binti Janjori

ABSTRACT

Produces a better quality of audit opinion and avoid manipulating of earnings are among the key challenges facing by the organization to improve decision making and behavior and protect the shareholder interest. This study is attempted to investigate the relationship between audit opinion and earning management of PN17 companies. In addition, it also determines the differences of audit opinions and earning management between PN17 companies and healthy companies. This study scrutinizes the annual report of 27 companies that listed on the Bursa Malaysia which is classified as PN17 companies. Overall, it is found that healthy companies produce unqualified opinion in last four years compared to the PN17 companies. It indicates that PN17 companies try to hide certain information due to their bad financial performance.

KEYWORDS: audit opinion, earnings management, PN17 companies, distressed companies

1.0 INTRODUCTION

Earnings Management (EM) plays an important role in determining financial information, whether it is properly prepared or not. Healy and Wahlen (1999) defined EM as “managers used creative accounting to alter the transaction in the financial report or to mislead some stakeholder about the performance of the company either to influence contractual outcomes. Farisha, Hafiza Aishah and Zalailah (2012) stated that the absence of earning management in financial reporting would create positive image such integrity and reliability in the financial information that can attract the investor to invest in the organization. There many factors that cause the occurrence of the earning management, such as lack of integrity, pressure from top management, lack of motivation and others. That situation may lead the manager used the creative accounting to simplify their work. Farisha, Hafiza Aishah and Zalailah, (2012) stated that the manager in Tunisia does the creative accounting to avoid the losses and earning decrease. Other than that, the conflict of earning management arises when manager tries to fulfill their own benefit or try to meet their personal interest. Farisha, Hafiza Aishah, and Zalailah (2012) studied the motivation among auditor for EM in Malaysia. The findings of the research are auditor that involved in EM derived from the pressure of top management.

The auditor’s opinion is expressed in an audit report and normally in a brief and standard form. Audit report must be prepared according to an identified financial reporting framework. “International Standards on Auditing (ISA) faces with the auditor’s responsibility to issue the report in forming an opinion according to the ISA 700” (ISA 705, 2009).

Practice Note 17 (PN17) is setting out from Bursa Malaysia regarding to the financial condition and level of operation of the company on a consolidated basis, which does not warrant continued listing in the Official List. PN17 Company is required to fulfill all the requirements as stated in paragraph 8.04 and PN17 of the Main Market Listing Requirement. If the company failed to fulfill the entire requirement as stated, the company will be suspended (Bursa Malaysia, 2013).

Audit Opinion and EM are the most important issues nowadays. There is a lot of studies regarding to these issues. Lin, Jiang and Xu (2011) investigates whether modified audit opinions have the economic consequences in China. That research used empirical evidence based on the financial constraint. Seung and Stephens (2010) found that the investor is more passionate and interesting towards EM. Besides, Tspouridou and Spathis (2013) study about the relationship between audit opinion and EM in the Greece. The prior research also studies the differences of audit opinion in distressed firms and EM in distressed firms in the United States (Charitou, Lambertides & Trigeorgis 2007). They found that the firm has been received unqualified opinion 4 or 5 years prior to the bankruptcy event. They also found EM manipulate in distressed firms.

Lin, Jiang and Xu (2011) where the study investigates whether modified audit opinions have the economic consequences in China. That research used empirical evidence based on the financial constraint. Seung and Stephens (2010) found that the investor is more passionate and interesting towards EM. Besides, Tspouridou and Spathis (2013) study about the relationship between audit opinion and EM in the Greece. The prior research also studies the differences of audit opinion in distressed firms and EM in distressed firms in the United States (Charitou, Lambertides & Trigeorgis 2007).

Thus, these studies provide three specific objectives to investigate more deeply about the research. The specific objectives of this study are:

- i. To investigate the relationship between audit opinion and EM of PN17 companies.
- ii. To determine any significant difference of audit opinion between PN17 companies and healthy companies.
- iii. To determine any significant differences in EM between PN17 and healthy companies.

This study contributes information to the body of knowledge. It may provide the most accurate information about the EM and audit opinion. It also help to gain more understanding of EM and audit opinion. The study also contributes to the government and specifically to the Bursa Malaysia. It may help the government to improve their performance and find a solution to avoid creative accounting occur in the government. For Bursa Malaysia, it may help them to revise back their standard and criteria to improve the effectiveness of company performance. Furthermore, it also contributes to the auditor. It may help the auditor to prepare the audit report based on the criteria and well prepared based on the requirement in accordance ISA. In addition, it may help the auditor to be more aware and concerned about any material misstatement in the financial statement.

2.0 LITERATURE REVIEW

2.1 EARNINGS MANAGEMENT (EM)

Baralexis (2004), define that Earnings Management is “the process of intentionally exploiting or violating the GAAP or the law to present financial statements according to one’s interest.” Earnings management is often associated with legal actions against the firm’s management and the auditor. Arens, Elder, Beasley, (2006), defined fraud as an intentional act to seize others property or rights for their benefits. Fraud may be result from misstatement of financial statement, which is fraudulent financial reporting, and misappropriation of assets. Fraudulent financial reporting is an intentional misstatement or omission of amounts or disclosure with the intent to deceive the users. On the other hand, misappropriation of assets is fraud that involves theft of an entity’s assets.

2.2 AUDIT OPINION (AO)

Audit opinion is an important thing that should emphasize when prepared financial reporting to the users. The internal or independent external auditors normally issue an audit opinion in order to evaluate performance of legal entity. The opinion will give large impact to the user to make a decision making whether they should invest in that company or not. Audit opinion is prepared in accordance with International Standards on Auditing (ISA) and its framework. There are two types of modified opinion. The first type is actually doing not related to this study because it is not affecting the auditor’s opinion and requiring the admittance of an emphasis-of-matter paragraph. Last but not least, the second type of modification is concerned about the matters, which do affect the auditor’s opinion, Farrugia and Baldacchino (2005). Based on International Standard on Auditing or ISA 701, (2004) stated that there are two types of opinion, which are modified opinion and unmodified opinion. In modified opinion, it is divided by three classifications, which are qualified opinion, adverse opinion and disclaimer opinion. Meanwhile, the unmodified opinion is only unqualified opinion. The qualified opinion is basically used when the auditors simplified that the overall financial statements are fairly represented, while the adverse opinion is issued by the auditors when the auditor believes that the overall financial statements contains a material misstatement or in other words the financial statement are prepared is not fairly represented. Ultimately, disclaimer opinion only can be issued when the auditor has been unable to satisfy him or her that the overall financial statements fairly presented and it might be rise due to some limitation of audit scope or a non-independent relationship such as a relationship between the auditors and the client.

2.3 RELATIONSHIP BETWEEN AUDIT OPINION (AO) AND EARNINGS MANAGEMENT (EM)

To produce a high quality audit opinion report. Auditors need to be an independent person. Independence in mind which is the auditors’ needs to perform an unbiased attitude, and independence in appearance which is the auditors is prohibited to have any relationship with the client. Thus, how auditor’s response to the EM has been the issues here. Auditors play an important role to produce a high quality audit in order to avoid fraud or accounting scandals, for example like what happen to Enron. According to Reem and Ali, (2011), the previous study mostly examined the relationship audit quality with the size of the audit firm. They investigated whether the auditor will or how the auditor’s responses to EM by comparing the large audit firm auditors with smaller audit firm’s auditors. Thus, Reem and Ali et.al, (2001), focused on how the size of the audit firm affects the audit opinion.

2.4 DIFFERENCE OF AUDIT OPINION BETWEEN DISTRESSED COMPANIES AND HEALTHY COMPANIES.

Stanley, De Zoort and Taylor (2008) investigate about the relationship between going concern audit opinion in a bankruptcy company. They found that going concern audit opinion is related positively to the bankrupt companies. They have also expanded their research to examine the link between going concern audit opinion and client status of bankruptcy. They highlight on the potential trading of insider activity. Besides that, Etemadi, Dehkordi and Amirkhani (2012) studied about the effect on the discretionary accrual behavior of audit opinion in distressed firms. At last, they found that distressed firms were forced to take conservative procedure in reporting income because of the pressure of audit opinion. They also stated that auditor issued the modified audit opinion when the company involved in financial distress has a positive relation to the earning management decrease in company for the next subsequent year. In this study, it will determine the difference of how the distressed company discloses the audit opinion and healthy company discloses the audit opinion.

2.5 DIFFERENCES OF EARNINGS MANAGEMENT BETWEEN DISTRESSED COMPANY AND HEALTHY COMPANIES.

Charitou, Lambertides, and Trigeorgis, (2007), found that most previous study did not examine the EM behavior of distressed company, but more focused on the EM behavior at the company that have problems in managing their finances, such as the company failed to pay back the loan, the company having a constant loss and etc. Charitou, Lambertides, and Trigeorgis (2007) examine the sample of US firms that filed for bankruptcy and found that it is important to examine the firms that were filed for bankruptcy in detail in order to know the reason why the firms going bankrupt. The previous study examines whether the EM behavior of healthy company is more likely to adopt EM compare with distressed company in going-concern years than non-going concern years. The study suggests that distressed company is more likely drive the managers to practicing EM compare to healthy companies in going concern years.

2.6 HYPOTHESIS DEVELOPMENT

Charitou, Lambertides and Trigeorgis (2007) studied about whether qualified audit opinion causes conservative earnings management. The AO may affect the level of behavior of the manager in subsequent years. Tspouridou and Spathis (2013) investigate the relationship between AO and EM in a condition whereby the tendency to manage earnings may be higher. The relationship between AO and EM become important since the current economy is questioning about the role of auditor in order to maintain confidentiality of financial statement users in the audit report.

H₁: AO has a significant relationship between EM of distressed companies.

Etemadi, Dehlordi and Amirkhani (2012) studied about the effect on the discretionary accrual behavior of audit opinion in the distressed firm. They examined whether the distressed firm is more involved in earning management compared to the healthy company. Regarding this, they examined whether AO contributed or not in this behavior. Charitou, Lambertides and Trigeorgis (2007), they investigate whether qualified audit opinion are more conservative in the financial reporting between bankrupt firm and non-bankrupt firms. They predict that the distressed firms with qualified AO in at least one or two years before bankrupt have significant lower discretionary accrual compared to the healthy companies.

H₂: AO has significant differences between healthy and distressed companies.

The previous research also investigated that distressed company is more likely to practicing EM compare to healthy companies in going concern years. Charitou, Lambertides, and Trigeorgis, (2007), focus on the EM behavior on distressed company. They investigated whether financially distressed company is more likely to practicing EM compare to healthy company. They claimed that the distressed firm has incentives manage their earnings to avoid debt and conceal their distressed situation. Heltzer (2010) studied about the difference of EM between strength sample firm and neutral sample firms. The finding of the research found that neutral sample concern about the earning management compare to the strength sample firms.

H₃: EM has significant differences between healthy and distressed company.

3.0 RESEARCH METHODOLOGY

3.1 POPULATION AND SAMPLE

The total population would be 821 companies from Bursa Malaysia for this study. However, only 28 companies are classified as Practice Note 17 companies in Bursa Malaysia. Unfortunately, three companies from PN17 companies do not have enough data to be used in this study. As a result, only 25 of healthy companies will be matched accordingly to several circumstances: 1) within the same industry; 2) similar in total asset. In Bursa Malaysia, PN17 is classified as distressed company and will be compared with the healthy company for the purpose of data collection. This study will be evaluated for four year consecutive year from 2010 to 2012.

3.2 DATA COLLECTION PROCEDURE

3.2.1 AUDIT OPINION

Audit opinions are categorized into four types of opinion, which is qualified opinion, unqualified opinion, adverse opinion and disclaimer opinion. All the type of opinion is issued based on its circumstances. Qualified opinion occurs when some information contains material misstatement and the rest of the information is fairly presented. However, unqualified opinion is issued when all information is fairly present in the financial statement. When the auditors believe the financial statements are not fairly presented and not in accordance with accounting standards, it is called adverse opinion is issued. Lastly, disclaimer opinion happens when the opinion cannot express as a whole in the financial statement, thus the auditor disclaims any opinion on it. In order to measure audit opinion, these studies also use scoring method. The following table shows the score that will be represented for each type of audit opinion.

Table 1: Scoring Method of Audit opinion

Type of Audit Opinion	Score
Qualified opinion	1

Unqualified opinion	2
Adverse opinion	3
Disclaimer opinion	4

3.2.2 EARNING MANAGEMENT

EM is measured based on the computation of the accrual measures. This study is adapted from Teoh, Welch and Wong (1998).

Computation of the accrual measures

It describes the four step accrual estimation. Numbers in parentheses are Compustat item numbers. Total accruals (T AC) consist of current accrual (CA) and long-term accrual (LA). The T AC calculated as below:

Equation (a):

$$T AC = AC + LA$$

$$= NET INCOME - CASH FLOW FROM OPERATION$$

Current accrual is calculated from changes in noncash current asset minus the change in operating current liabilities:

Equation (b):

$$CA = \Delta[\text{current asset} - \text{cash}] - \Delta[\text{current liabilities} - \text{current maturity of long-term debt}]$$

To get the discretionary and non-discretionary accruals year, cross-sectional that adapted from modified Jones (1991) model will be used as in (Teoh, Welch & Wong, 1998). A common least squares regression of current accruals for a given year is a decline of the changes in sales for the year by using all firms in the two-digit SIC code the same as the most experienced of new issuer, but excluding the issuer. This is between industries cross-sectional regression is estimated for each year in duration of the test (from years -3 to +3 compared to fiscal year issues). In accordance the using of the model in the accounting literature, all variables included the regression intercept term cross-section deflated by beginning total assets to reduce heteroskedasticity:

Equation (c):

$$\frac{CA_{jt}}{TA_{j,t-1}} = a_0 \left(\frac{1}{TA_{j,t-1}} \right) + a_1 \left(\frac{\Delta SALES_{jt}}{TA_{j,t-1}} \right) + \varepsilon_{jt}$$

J = same two digits of SIC code as issuing firm but exclude the issuer;

$TA_{j,t-1}$ = total asset in year t-1

$\Delta SALES_{jt}$ = changes in sales in year t for firm j

NDCA₋₁ stands for non-discretionary current accrual that represents the portion determined by the firm sales growth and that can be as independent of managerial control. It is calculated as follows:

Equation (d):

$$NDCA_{it} = \hat{a}_0 \left(\frac{1}{TA_{i,t-1}} \right) + \hat{a}_1 \left(\frac{\Delta SALES_{it} - \Delta A/R_{it}}{TA_{i,t-1}} \right)$$

$\Delta A/R_{it}$ = changes in account receivable in year(t)for issuer(i)

A sale has been subtracted for an increasing in account receivable to allow for possibility of credit sales manipulation by the issuer. The issuer might be allowing the generous credit policy in order to get high sales. The discretionary current accrual DCA₋₁ the portion of current accrual that manipulated by the management:

Equation (e):

$$DCA_{it} = \frac{CA_{it}}{TA_{i,t-1}} - NDCA_{it}$$

For long-term accruals, total accruals calculated by using a regression similar to equation (c). Total accrual is independent variables. Including of property, plant, and equipment as an additional regression because long-term accruals such as depreciation levels affected by the amount of long-term assets:

Equation (f):

$$\frac{T AC_{jt}}{TA_{j,t-1}} = b_0 \left(\frac{1}{TA_{j,t-1}} \right) + b_1 \left(\frac{\Delta SALES_{jt}}{TA_{j,t-1}} \right) + b_2 \left(\frac{PPE_{jt}}{TA_{j,t-1}} \right) + \varepsilon_{jt}$$

j = firms belong in the same two-digit SIC code as the issuer (excluding the issuer)

$T AC_{jt}$ = total accrual

PPE_{jt} = gross property, plant and equipment for firm(j) in a year (t)

NDT AC stands for non-discretionary total accrual by asset are computed as follows:

Equation (g):

$$NDT AC_{it} = \hat{b}_0 \left(\frac{1}{T A_{i,t-1}} \right) + \hat{b}_1 \left(\frac{\Delta SALES_{it} - \Delta A/R_{it}}{T A_{i,t-1}} \right) + \hat{b}_2 \left(\frac{PPE_{it}}{T A_{i,t-1}} \right),$$

While, the discretionary total accrual by the asset is computed as follows:

Equation (h):

$$DT AC_{it} = \frac{T AC_{it}}{T A_{it}} - ND TAC_{it}$$

3.3 STATISTICAL ANALYSIS

3.3.1 CORRELATION ANALYSIS

Correlation analysis is used to determine whether it has any relationship between two or more variable and determine the strength of the relationship and its nature. Correlation analysis focuses on two types of correlation which is Pearson correlation and Spearman's correlation. In this study, Spearman's correlation would be used since the data is not normally distributed.

3.3.2 MANN-WHITNEY TEST

In this study, Mann-Whitney test would be used to test the difference of variable. Mann-Whitney is non-parametric test that tested when the data is not normal. Non-parametric test is used to test the data collected using the nominal and ordinal scale measurement. In non-parametric test, no assumption is made about the underlying distribution of the sample. In other words, Mann-Whitney test is used when do not able to fulfill the assumption of the t-test.

4.0 RESEARCH FINDINGS

4.1 CORRELATION ANALYSIS

Hypothesis 1 predicts that AO have a significant relationship with earning management of PN17 companies. Table 2 reported the result of the relationship between AO and EM. Based on the Spearman's correlation, it shows a negative correlation along the three years. Since the p-value for 2010 and 2011 is 0.735 and 0.621 which more than 0.05, it means that there is no significant relationship between AO and EM. However, in 2012, p-value of 0.019 is less than 0.05. This indicated that there is a significant relationship between AO and EM for that year. Nonetheless, the p-value for both two years is proving to be statistically insignificant. Thus, the hypothesis is rejected. The findings contradict with the Charitou, Lambertides and Trigeorgis (2007), which is they claimed that earning management is more conservative related to audit opinion.

Table 2: Relationship between Audit Opinion and Earning Management of PN17 companies

Correlation		2010	2011	2012
AO 2010	Spearman's	-0.071		
	Sig. (2-tailed)	.735		
	N	25		
AO 2011	Spearman's		-.104	
	Sig. (2-tailed)		.621	
	N		25	
AO 2012	Spearman's			-.467
	Sig. (2-tailed)			.019
	N			25

4.2 MANN-WHITNEY TEST

4.2.1 DIFFERENCES OF AUDIT OPINION BETWEEN PN17 COMPANIES AND HEALTHY COMPANIES

Hypothesis 2 predicts that AO have significant differences between PN17 companies and healthy companies. Table 3 explained and shown the result obtain from running data process. From the Table 3, mean for PN17 companies is a bit higher than healthy companies. In other words, PN17 companies do not disclose unqualified audit opinion compared to the healthy companies from year 2010 until 2012. Besides, the mean for both companies are positive values. In year 2010, mean for PN17 companies (28.00) is higher than healthy companies (23.00). P-value in 2010 is 0.020 which is lower than 0.05. It means that AO have significant difference between PN17 companies and healthy companies. Meanwhile, in year 2011, PN17 companies obtain a higher mean value which is 27.50 compared to 23.50 which is mean of the healthy company. In this year, p-value also is lower than 0.05 which is 0.039. In year 2012, mean for healthy companies also lower than PN17 companies whereby mean healthy companies is 22.50 compared to 28.50 for PN17 companies. The p-value also is lower than 0.05 which is 0.010. Regards to the result, the p-value for the three years is lower than 0.05. It means that AO have significant differences between PN17 companies and healthy companies. Thus, the hypothesis is accepted. This finding is consistent with the Charitou, Lambertides and Trigeorgis (2007),

whereby they claimed that distressed firms disclosed qualified AO that has significantly lower discretionary accruals compared to the healthy companies which produce only unqualified opinion during the years.

Table 3: Differences of Audit Opinion between PN17 Companies and Healthy Companies

	2010	2011	2012
Mean for PN17 companies	28.00	27.50	28.50
Mean for Healthy Companies	23.00	23.50	22.50
Mean Differences	5.00	4.00	6.00
P-Value	.020	.039	.010
N	25	25	25

4.2.2 DIFFERENCES OF EARNING MANAGEMENT BETWEEN PN17 COMPANIES AND HEALTHY COMPANIES

Hypothesis 3 predicts that there is a significant difference of EM between PN17 companies and healthy companies. Table 4 shows the result of differences of EM between both companies. In other words, the distressed firm obtains initiative on managing their earnings during the distressed situation to avoid debt violation. From the result, mean for PN17 companies is lower than healthy companies from 2010 until 2012. In year 2010 and 2011, mean for PN17 companies is lower than healthy companies. However, there is no much gap of the mean difference between both companies. In this two year, the p-values are higher than 0.05 which are 0.347 and 0.148. Since the p-value is higher than 0.05, it obviously shows that the data is statistically insignificant. Meanwhile, in 2012, mean for healthy companies is also higher than PN17 companies. However, in 2012 show that the p-value is 0.017 which is lower than 0.05. This indicates that the data is statistically significant which mean EM has statistically differences between PN17 companies and healthy companies. Regarding to the given result, it proved that p-values for the three years are statistically insignificant. Thus, the hypothesis is rejected. The findings of the study contradict with the Charitou, Lambertides and Trigeorgis (2007) whereby they claimed that distressed companies manage their earnings during the distressed situation to maintain their financial statement and avoid debt violation.

Table 4: Differences of Earnings Management between PN17 Companies and Healthy Companies

	2010	2011	2012
Mean for PN17 companies	23.56	22.52	20.56
Mean for Healthy Companies	27.44	28.48	30.44
Mean Differences	-3.88	-5.96	-9.88
P-Value	.347	.148	.017
N	25	25	25

5.0 CONCLUSION

This paper identified that there is the relationship between AO and EM in PN17 Companies, so the objectives of the studies have been achieved through the research finding above by using Spearman's Correlation analysis and Mann-Whitney test.

This study indicated that the all objectives are accomplishes. First objective was to investigate the relationship between AO and EM of PN17 companies. The result that obtained from the research and the test was carried out revealed that there is no significant relationship between AO and EM in PN17 companies. Second objective was to determine any significant difference of AO between PN17 companies and healthy companies. This study showed that there is significant difference of AO between PN17 companies and healthy companies. Lastly, third objectives was to determine any significant differences in EM between PN17 and healthy companies. This study revealed that there are no significant differences between EM in PN17 companies and Healthy Companies.

As for limitation, this study is conducted by using the list of PN17 Companies which are classified as distressed company in Bursa Malaysia. Bursa Malaysia was listed only 28 companies as PN17 companies. However, only 25 companies were taken into consideration in this study due to unavailable and inappropriate information. Hence, this study conducted only 25 companies to be compared with Healthy Companies based on same industry and their total asset. Furthermore, for future research, it is recommended to revise how to measure accrual since this study used Teoh, Welch and Wong (1998)'s accrual measures. The accrual is very important as it is indicator for earnings management.

Lastly, there is a significant difference of AO between Healthy Companies and PN17 Companies. This study shows that Healthy Companies produce unqualified opinion rather than PN17 Companies which only certain company produce unqualified opinion since they have bad financial performance.

REFERENCES

Arens, A. A., Elder, R. J. & Beasley, M. S. (2006). *Auditing and Assurance Services: An Integrated Approach*. 15th Edition. Pearson.

- Baralexis, S. (2004). Creative Accounting in small advancing countries: The Greek case. *Managerial Auditing journal*, 19 (3), 440-461
- Bursa Malaysia Bhd., PN17 companies, (2013). Retrieved 27 November 2013: <http://www.bursamalaysia.com.my>.
- Bursa Malaysia Securities Bhd. (2013). Listing requirement, Practice Note 17 Company, Bursa Malaysia Kuala Lumpur.
- Charitou, A., Lambertides, N. & Trigeorgis, L. (2007). Managerial Discretion in Distressed Firms. *The British Accounting review* 39, 323-346.
- Etemadi, H., Dehkordi, H.F., & Amirkhani, K. (2012). Effect of auditor's opinion on discretionary accrual behavior of distressed firm: empirical evidence from Iran. *African Journal of Business Management*, 7(20), 1956-1965.
- Farisha, H., Hafiza Aishah, H., & Zalailah, S. (2012). Motivation for earning management among auditor in Malaysia. *Procedia- Social and Behavioral Sciences*, 65, 239-246.
- Farrugia, K. J., & Baldacchino, P. J. (2005). Qualified audit opinions in Malta. *Managerial Auditing Journal*, 20 (8), 823-843.
- Healy, P. M., & Wahlen J. M. (1999). A review of the earning management literature and its implication of standard setting. *Accounting Horizon*, 13(4), 365-383..
- Heltzer, W. (2010). The asymmetric relationship between corporate environmental responsibility and earning management. *Managerial Auditing Journal*, 26 (1), 65-88.
- Lin, Z., Jiang, Y. & Xu, Y.,(2011), Do modified audit opinions have economic consequences? Empirical evidence based on financial constraints, *China Journal of Accounting Research*.
- Peursem, K. V., & Pumphrey, L. D. K. (2005), Internal Auditors And Independence: An Agency Lens On Corporate Practice. *Journal of Financial Reporting, Regulation and Governance*, 4 (2). Curtin Business School publishing.
- Reem, J.A. & Ali, A.T., (2011), The Effect of Audit Quality on the Earnings Management Activities, *Dirasat, Administrative Sciences*.
- Seung, W.K. & Stephens, A.A.(2010), Investor reaction to earnings management, *Managerial Finance*.
- Stanley, J., De Zoort, R. T., & Taylor, G. (2008). The association between insider trading surrounding going concern audit opinion and future bankruptcy. *Managerial Auditing Journal*, 24 (3), 290-312.
- Teoh, S. H., Welch, I., & Wong, T. J. (1998). Earning management and underperformance of seasoned equity offerings. *Journal of Financial Economics*, 50, 63-99.
- Tsipouridou, M. & Spathis, C. (2013). Audit opinion and earning management: Evidence from Greece. *Accounting Forum*. Accepted 13 September 2013.

Alhana Binti Othman
Lecturer, College of Business Management and Accounting,
Universiti Tenaga Nasional, Malaysia.
Alhana@uniten.edu.my

Nor Ayuni Atiqah Binti Mohamed Ruslan
Izzati Farhan Binti Shamsuddin
Nur Amalina Binti Rosli
Siti Raihanah Binti Janjori
Under-graduate students, College of Business Management and Accounting,
Universiti Tenaga Nasional, Malaysia.