

Audit Opinions and Earnings Management: Evidence from Listed Firms in Kuala Lumpur Stock Exchange (KLSE)

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Abstract:

Background: Financial reports can be distorted by financial earnings management, which lowers their transparency and dependability. Consequently, it continues to be a major issue in financial reporting. By offering an impartial evaluation of financial statements, audits contribute to accurate reporting, and audit opinions strengthen managerial responsibility for the caliber of financial reporting.

Objectives: This research aims to probe the relationship between audit opinions and the earning management practiced by the KLSE's public companies. It In particular checks if the public companies with modified audit opinions have a different way of managing earnings from those of the firms with unmodified audit opinions, that is, clean ones.

Methods: This research uses a quantitative design based on panel data collected from KLSE-listed companies' annual reports and online databases. The sample comprises 665 firm-year observations over the period 2017–2021. To analyze the relationship between audit opinions and earnings management, various statistical tests were conducted.

Results: The findings indicate that Auditor Opinion is negatively and significantly associated with Earnings Management. This finding suggests that firms receiving more rigorous and skeptical audit opinions are associated with lower levels of earnings management.

Conclusion: The findings indicate that Auditor Opinion is negatively and significantly associated with Earnings Management. This negative association provides evidence of a significant relationship between audit opinions and financial reporting quality. The findings

may assist investors, regulators, auditors, and other stakeholders in assessing corporate reporting practices and financial transparency.

Keywords: Audit Opinion; Earnings Management; Financial Reporting Quality; Audit Quality; Kuala Lumpur Stock Exchange (KLSE).

Introduction:

Audit opinions indicate auditors' evaluations of whether the financial statements are faithful. Earnings management, in turn, involves manipulating financial reporting to change the way stakeholders perceive. Studies prior found that audit opinions of the type qualified or an opposite might prevent opportunistic management from the use of earnings manipulations, thereby reducing the use of earnings manipulation at a higher profit level (DeFond and Jiambalvo, 1994). High audit quality may be the main ingredient in reducing earnings management since auditors act on an auditor's role to give an independent certification of the facts represented by financial statement (Alzoubi, 2016). The document of financial statements also includes an auditor's opinion, a certified independent auditor's report, usually. Auditors examine the facts supporting the financial statements when giving their opinion. The auditor's report protects the faithful presentation of the information given in the financial statements (Watts & Zimmermann, 1983).

A firm's strategy of using financial reporting to show better figures might be closely tied to the audit opinion it has. Usually, a qualified opinion is given to those with higher discretionary accruals which as noted by Omid (2015), could be taken to mean that these firms have a big motivation to control profits to have better access to equity financing or simply to avoid delisting. Very high degrees of management of earnings would reduce the reliability of financial statements and because of this could be risky for the shareholders (Schrand and Dechow, 2010). A good and impartial auditor could be considered to check the manipulation of earnings mainly using unbiased investigation which would lead to pointing out material misstatements. A sudden change in attitude could cause negative reactions of the public, legal problems, and loss of reputation, each of these would be very strong deterrents against profit- management methods. An unexpected change in views from the management, if it leads to adverse market

reactions, legal troubles and damage to one's reputation, would make the users of profit management techniques to shy away. Dechow & Skinner (2000), Lennox & Pittman (2010) cite this as a consequence. The external auditors are supposed to help the Board of Directors and Shareholders be on one page, as they carry out financial statement review of the Company in an impartial manner. Through auditing, they provide their opinion, which is a check on management's attempts to overstate results to the unfair prejudice of shareholders. Their main objective is to see that financial statements do justice to the company's business performance by fairly disclosing them.

This study is significant as it helps in comprehending how audit outcomes could be employed to enhance financial reporting quality and reduce managerial practices of inflating or lowering earnings. Audit revelations aim at decreasing the asymmetry of management-stakeholders knowledge situations and providing a trustworthy stamp to financial disclosure (DeAngelo, 1981; Watts & Zimmerman, 1986) Prior investigations also revealed that even auditors cannot totally eliminate managerial discretion so managers can still do so that one gets an impression that audit findings are not capable of restraining managerial self-interest to that level. Studies on the efficacy of audit-related safeguards in reducing earnings management have yielded ambiguous findings when it comes to Malaysia, Most of all in situations where the ownership is concentrated and auditor-client ties are very close. (Johl, Jubb, & Houghton, 2007; Zakaria et al. 2022).

This study examines the relationship between Earnings Management and Auditor Opinion among companies listed on Bursa Malaysia. Audit opinions may serve as an important monitoring mechanism that enhances the credibility of financial reporting and limits managerial discretion in financial reporting. However, the role of audit opinions in constraining Earnings Management remains debated, as previous studies have reported mixed findings regarding whether external auditing can effectively detect and constrain managerial earnings manipulation (Bartov et al., 2001; Lennox, 2000). Although previous studies have analyzed audit opinions and earnings management, there are limited pieces of evidence on such a relationship and they have even been somewhat conflicting, mainly in Malaysia. Most existing studies done in Malaysia have concentrated on other aspects of audit quality, auditor traits and financial reporting quality whereas comparatively, auditor opinion as an audit related outcome and its

relationship with earnings management, have received less coverage. Besides that, the extent to which this relationship remains the same regardless of the estimation method employed also lacks much evidence.

This study addresses this gap by examining the association between Auditor Opinion and Earnings Management among Malaysian listed firms during 2017–2021. It employs Median Quantile Regression, Pooled OLS, and Two-Step System GMM to assess the robustness of the relationship. The study contributes to the literature by providing additional evidence from the Malaysian capital market and examining the consistency of the relationship across alternative estimation methods.

Methods:

1. Research Design

Through the use of quantitative methods, the study mainly examines the associations between audit opinion and earnings management in publicly listed companies in Malaysia. Since audit evidence and other financial information used by the researchers in quantitative methods are often measurable, precise statistical analysis of association between variables is made possible. That's why, quantitative research methods are also regarded as the suitable methods for the study. Panel regression models or pooled regression models are a big part of panel data techniques used in this study for their ability to capture simultaneously varying effects between the cross-section and time series in the model specification. In addition, panel data methods allow us to do more thorough investigation of firm level behavior over time.

2. Sample and Data Collection

The sample includes 133 non-financial companies traded on Bursa Malaysia during the five-year period, namely 2017 to 2021. After cleaning the data, we arrived at a total of 665 firm-year observations (133 companies 5 years). We got the data from the annual reports, audited financial statements, and the publicly available Bursa Malaysia database. We excluded firms with missing financial information needed for the estimation of earnings management and other study variables.

3. Variable Measurement

According to Dechow et al. (1995), total accruals (TA) are first estimated and then broken down into non-discretionary accruals (NDA) and discretionary accruals (DA). The estimation of NDA is done by employing the Modified Jones Model which relies on changes in revenues and adjusts for changes in accounts receivable property plant and equipment and finally takes the return on assets as well. Discretionary Accruals (DA) are obtained as the difference between estimated DA on one hand and estimated Non-DA on the other. In other words, $DA = TA - NDA$. In our paper, DA will be represented by EMDA in the regression models when a proxy of Earnings Management (EM) is used as Discretionary Accruals (DA). The presence of a large absolute value of DA reveals to some extent that managerial discretion has been exerted in financial reporting this way leading to greater levels of Earnings Management (EM).

$$\frac{TA_{i,t}}{A_{i,t-1}} = \beta_0 + \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{\Delta Sales_{i,t} - \Delta Rec_{i,t}}{A_{i,t-1}} + \beta_3 \frac{PPE_{i,t}}{A_{i,t}} + \beta_4 * ROA_{i,t} + \epsilon_{i,t} \dots (1)$$

TA_{it} = Total accruals

$T_{it,t}$ = Total assets at beginning of year

$\Delta Sales_{i,t}$ = Change in sales revenue

$\Delta Rec_{i,t}$ = Change in accounts receivable

$ROA_{i,t}$ = Return on assets

$\epsilon_{i,t}$ = Discretionary accruals (DA)

A higher level of discretionary accruals, positive or negative, indicates a greater level of earnings management

To test our hypotheses, we use the following models:

$$EMDA_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 SIZE_{it} + \beta_3 LIQU_{it} + \beta_4 LLOSS_{it} + \beta_5 BIGN_{it} + \beta_6 NEARN_{it} + \epsilon_{it} \dots (1)$$

Where:

$EMDA_{it}$ = Earnings Management measured by Discretionary Accruals (DA) for firm i in year t , estimated using the Modified Jones Model (Dechow et al., 1995).

AO_{it} = Auditor Opinion for firm i in year t

$SIZE_{it}$ = Firm Size of firm i in year t , measured by the natural logarithm of total assets

$LIQU_{it}$ = Liquidity of firm i in year t .

$LOSS_{it}$ = Loss indicator variable, taking the value of 1 if the firm reports a loss and 0 otherwise.

$BIGN_{it}$ = Audit firm size, taking the value of 1 if the firm is audited by a Big Four audit firm and 0 otherwise.

$NEARN_{it}$ = Net Earnings of firm i in year t

β_0 = Intercept

β_1 – β_6 = Regression coefficients

ε = Error term

i = Firm

t = Year

In this study, Auditor Opinion (AO) is measured as a binary (dummy) variable based on the type of audit opinion issued. A value of 1 is assigned when the auditor issues a modified opinion, including a qualified opinion, adverse opinion, or disclaimer of opinion, whereas a value of 0 is assigned when an unmodified opinion is issued. As audit opinions are essentially dichotomous, the technique of creating dummy variables is an adequate method for characterizing differences between modified and unmodified ones. This technique of measuring has been a common practice in many accounting and auditing researches (Tsipouridou & Spathis 2012; Megayanti & Budiarta 2016; Hu et al (Tsipouridou & Spathis, 2012; Megayanti & Budiarta, 2016; Hu et al., 2021; Cullinan et al., 2021; Wicaksono et al., 2024). 2021; Cullinan et al. 2021; Wicaksono et al. 2024). In this research, auditor opinion is considered an audit product that portrays an auditor's choice in reporting and not as a measurement of general audit quality. So, the empirical study explores the relationship between the auditor's opinion and earnings management without perceiving the auditor's opinion a substitute of the broader idea of audit quality.

4. Endogeneity and Dynamic Panel Estimation

The connection between audit opinion and earnings management can be affected by endogeneity which comes from reverse causality, omitted variable bias, and unobserved firm-specific heterogeneity. One such case, higher level of earnings managing firms will more probably get modified audit opinions whereas, then again, audit opinions may well be the reason for later financial reporting decisions too.

This research uses the two-step System Generalized Method of Moments (System GMM) estimator, first introduced by Arellano and Bover (1995) and later enhanced by Blundell and Bond (1998), mainly for solving the mentioned problems. It is best to point out that in case of panel data with a small-time dimension $T=5$ and a large cross-sectional dimension $N=133$, the System GMM method is highly appropriate and

effective. The idea here is to generate instruments from lagged variables that the researcher themselves create and use, which would, in a one-shot fashion, solve a number of problems at once like unobserved effects/heterogeneity, and both causal and dynamical simultaneous (contemporaneous) relationships as well as the problem of dynamic endogeneity. Diagnostic tests are included in System GMM to help one in deciding whether the results from System GMM are reliable. One such diagnostic test is the Arellano-Bond test for first-order [AR(1)] and second-order [AR(2)] serial correlation, the other is the Hansen J over-identifying restriction test. When the outcome of the Hansen test is significant and the outcome of the AR(2) test is significant, it is evidence for model well-specification and good validity of the instrument, respectively.

- Literature Review and Hypotheses Development

Earlier research has explored the link between audit opinions and earnings management. Yet, these studies have yielded no common conclusion. For example, Bartov Gul and Tsui (2001) found evidence for in reality companies having greater discretion in using accruals obtain non-clear audit opinions from their auditors, thereby indicating auditors can detect earnings management very well. In the same way based on their firm reporting analysis, Juhl Jubb and Houghton (2007), it is the auditors who, upon observing the companies' use of aggressive earnings management, issue more qualified opinions. Their insight from data analysis in Malaysia is that the issuing of audit opinion works well as a mechanism for the auditor to monitor company management through and could also be a way to prevent managerial exploitation of employees. Audit reports are not always indicators of earnings manipulations in firms since, as others, earnings management still can be done in companies that received non-qualified audit opinions (Lennox 2000). As a result, audit opinions' effectiveness in catching all types of earnings manipulations remains a question that has not found full resolution. On top of that, features of the organisation like highly concentrated ownership structure, family-owned companies, lack of investor protection, and tight bonds between auditor and client may mostly prevent audit opinions to limit earnings management when it comes to countries with less developed markets. Such factors will not let one establish exactly to what degree audit opinions affect the use of earnings management and thereby should become targets of the forthcoming studies, mainly in Malaysia.

Audits that are more closely scrutinised will probably constrain how much the managers can use their judgment or mislead people with reporting. This situation can be the reason for the company getting a qualified or modified opinion (Andra, 2014; Lopes, 2018). Research finds that when a firm receives a qualified or a modified audit report, such as when the auditor expresses doubts over the financial statements or when the auditors do not agree with the accounting practices used by the company. It has been found through empirical studies that companies that get a modified or a qualified audit report tend to exhibit a reduced tendency to manage their earnings. That is because such opinions are perceived by the market as a signal that auditors have more independence and That's why can be expected to audit the company's business fully, So preventing the possibility of managerial misconduct (Andra, 2014; Lopes, 2018). Though, a study carried out by Tsipouridon & Spathis (2014) showed that audit opinions and earnings management in fact do not have any significant relationship. This result may indicate that despite stricter auditor's oversight, managers can still effectively manage earnings if the environment so allows. In another study, the results of the research show that the type of audit opinion issued in a company is related to how much that company manipulates its earnings. Still, this view is challenged in Tsipouridou and Spathis' (2014) study, which found the relationship between the audit opinion and the earnings management to be negligible. Overall, studies supporting or refuting the connection between an audit firm's report and earnings management are still quite limited.

Empirical studies suggest that companies that receive an 'unqualified opinion' on their audited financial statements are, generally speaking, less likely to resort to earnings management activities. This negative relationship between 'clean opinions' and earnings management implies that the auditor's high-quality audit effectively curtails the possibility for a very secretive earnings manipulation by the managers. A number of researchers have associated the issuance of clean reports with a reduction or elimination of earnings manipulation. For instance, Bartov et. al. (2001) demonstrated in their research that the companies which had relatively larger discretion in their financial reporting (a measurement of earnings management) were A lot more frequently subjected to qualified auditors' opinions, rather than obtaining an unqualified opinion. In fact, Francis and krishnan (1999) have concluded that higher auditor independence

and auditor quality strongly correlate with low levels of opportunistic earnings management.

Also, earnings management (EM) is generally lower when unqualified auditors' opinions are the result of more in-depth audits. Per the study findings of Francis & Krishnan (1999) as well as Bartov et al. (2001), if auditors issue unqualified (clean) audit opinions, managers are more likely not to do earnings management, which indicates better reporting quality as well as more effective auditors. Based on previous research on earnings management practices in Malaysia, the effectiveness of restricting earnings management is mainly affected by auditor's judgements and auditor's quality. The study by Johl et al. (2007) revealed that firms that were audited by auditors who were perceived to have high quality of services (Big 5) were more likely to receive conditional or disclaimed audit opinions, which in turn was an indication of more independent auditor and Conservative reporting standards, if earnings Management is found in the operations. Supporting this role as a monitor, Nuhu et al. (2024) established a negative connection between audit opinions, a proxy for audit quality, and earnings management activities of Malaysian listed companies. As a result, a more rigorous Auditor Opinion is associated with lower levels of Earnings Management.

According to Bartov et al. (2001) and Lennox (2000), the firms that receive a qualified or modified auditors report However tend to manipulate their earnings to a higher degree. In other words, the modified/opinion-altered is a sign of either reporting irregularities or managerial self-interest. Very extreme forms, like an issue of a disclaimer/adverse audit opinion, are accompanied by either a very high extent of earning inaccuracies or impossibility to quantify their existence and are So considered an example of severe financial reporting errors as well as a complete collapse of managerial control and external regulation. Because of this these outcomes highlight the role of auditors' reports as vital tools for expressing the reliability of disclosure reports of the companies to the financial markets.

In fact, evidence from several studies conducted in different countries show that firms obtaining qualified or modified audit opinion are less likely to manage earnings because the audit opinion conveys auditor independence and audit quality that will limit management's opportunistic behaviour (Andra, 2014; Lopes, 2018). This result is in line with the argument that through detailed examination, auditing can improve financial

reporting quality by restricting the use of discretionary accruals. Similarly, Zakaria et al. (2022) show that various dimensions of audit quality significantly is related to earnings management behavior in Malaysian companies, reinforcing the view that effective auditing serves as an important governance mechanism in the Malaysian context.

And, the trustworthiness of audit reports and the power to impose fines could be slightly weakened if companies replace their external auditors, for example, the company might go for less trustworthy or lesser-quality auditors who would be less likely to spot earnings manipulation. The findings suggest that if a company wants to guarantee the quality of audits and also make certified audit opinions more effective at discouraging earnings management, those factors depend almost entirely on Really auditors are not replaced and are reputable. The relationship between audit opinion changes and discretionary accruals appears to be quite strong as supported by the facts, says this research. Additionally, a study conducted in the United States by Butler, Andrew, and Andrew Michael Borg (2004) discovered a positive correlation between absolute anomalous accruals and altered audit opinions. This demonstrates that companies with a higher degree of earnings manipulation are more likely to obtain competent audit opinions.

Various papers have confirmed the role of a high-quality audit in curbing profit manipulation at least via audit procedures. In essence, audit report is there for control reasons so it minimizes potential earning management. Experienced auditors who tend to be more conservative (like those from the Big 4 firms) are effective at deterring manipulative reporting. It has also been found that companies working with top-quality auditors' resort to less aggressive accounting methods. Such companies display a higher degree of caution about the level of discretionary accruals with audit quality being high. This just reflects Truth is characteristics of audit firms (for instance stability and reputation) are factors that may be useful for reducing Even so, as explained by Hu Muhammad and Yang (2022), the possibility that auditors will modify their audit opinions will be greater when a public company is managed by one major shareholder and the company's earnings have been manipulated partly. Li Wang and Wang (2005) and Chen, Chen, and Su (2001) indicate that auditors commonly revise audit reports for companies engaging in earnings management.

Research is currently very varied about how audit opinions and earnings management are linked together. In fact, several studies associate the practice of hiding higher profits with the receipt of either more frequent or not clean audit opinions (i.e., qualified ones). That is to say, when a firm wants to raise or lower its profits slightly, it might anticipate disapproval from the auditors and possibly a qualified or disapproved audit conclusion. In turn, changes in audit opinion are explained by the use of atypical or voluntary accruals (Butler et al. 2004). Raghunandan and Subramanyam (2002), Carey and Simnett (2006), Knechel and Vanstraelen (2007), and Boone et al. (2010) reached similar conclusions, suggesting that high-quality auditors are more likely to detect and report financial reporting fraud. Yet, Truth is some studies were hardly at all in agreement with the relationship between the two variables led to the acceptance that using an audit opinion as a constraint on earnings management might only be a very limited solution. These mixed findings show that characteristics and environment such as the legal system, the character of a country, and corporate governance can all play roles in how effectively audit opinions can be used as a watchdog mechanism.

Audit opinions play an important role in enhancing the reliability and credibility of financial statements by providing an independent assessment of financial reporting. Based on Agency Theory, conflicts between managers and shareholders may encourage managers to engage in Earnings Management to serve their own interests (Jensen & Meckling, 1976). External auditors help mitigate these conflicts by examining financial statements and issuing audit opinions on their compliance with accounting standards (Watts & Zimmerman, 1986). Auditor independence is therefore important for reducing agency costs and maintaining financial reporting credibility (Jensen & Meckling, 1976). From a Signaling Theory perspective, financial reports and audit opinions provide signals about the quality of a firm's financial reporting. However, these signals may be affected by Earnings Management, making the auditor's assessment an important additional source of information for stakeholders.

Audit firms may be trying to remove an ugly audit opinion by auditor turn-around, officials feel, and that is why they are worried (Defond & Zhang 2014; Ye 2023). To carry out a truly high-quality audit, the audit firm must have a full knowledge of the nature of the client's businesses (Salehi et al. 2022). In other words, the client is stuck with a dilemma about changing auditors. Given whether the customer has changed

auditor firms and auditor partners, any one of these can negatively is related to the total quality of audit tasks. Bartov et al. (2001) said that the more money that is being manipulated, the bigger the chance the auditors will give a different audited opinion. There is also a lot of discussion about the impact of auditor change on audit opinions and the extent of management opportunism, but no good solution. For example, in developing country of Malaysia, the auditors are still not able to find out accurately how the change of auditor will is related to the strength of the audited opinions.

Interestingly, as Bradshaw et al. (2001) and Butler et al. (2004), there is no evidence that companies with high accruals have higher chance being reported as not compliant. In spite of Really auditors are not required by the law to disclose such information in their audit reports, the presence of overstated accruals can be a sign to future profitability and financial difficulties if such a trend continues. In the same tone the authors say that auditors seldom give a qualified opinion in a case where the client is trying to manage its earnings. As the basis of the present research work we decided to further develop ideas raised above in the direction of audit opinions and earnings management. Hypotheses for the subsamples of financially distressed companies have been formulated:

H1: There is a significant relationship between Auditor Opinion and Earnings Management.

H2: Auditor Opinion is negatively associated with Earnings Management.

- Methods:

To analyze the relationship between audit opinions and earnings management, the researchers used a combination of panel data and a quantitative research approach. 665 firm-year data were sampled from companies listed on Bursa Malaysia (KLSE) for the 2017-2021 period. Data were obtained Mainly from relevant financial databases and annual reports of publicly listed companies. Earnings management was measured via discretionary accruals, and discretionary accruals were calculated using the Modified Jones Model, while audit opinion was measured with a dummy variable that was set as "1" if either audit opinion or modified disclosure opinion was present, and "0" if the audit opinion was an unmodified one (clean). The regression models also included other

relevant control variables. We used version 14 of the Statistical Data Analysis Software (Stata) for our data analysis. Besides, we first did the descriptive statistics and the association, then we did the regression on the panel data which showed us the relationship between audit opinions and earnings management. To ensure that our results are reliable, we have also done the proper diagnostic and robustness checks. The initial sample consisted of 133 listed firms. However, the System GMM estimation included 126 firms because the model requires sufficient observations to construct lagged variables and valid instruments. Firms with insufficient observations for the GMM estimation were excluded. Therefore, the final System GMM estimation consisted of 126 groups.

-Results:

Table 1. Descriptive Statistics

Variables	Sample				
	Obs.	Mean	SD	Min.	Max.
EMDA	665	0.786	0.102	0.121	3.824
AO	665	0.152	0.358	0.000	1.000
SIZE	665	2.829	0.976	1.108	6.091
LIQUI	665	0.211	0.145	0.014	0.562
LLOSS	665	0.341	0.206	0.001	1.925
BIGN	665	0.113	0.316	0.091	1.000
NEARN	665	0.162	0.115	0.088	0.264

Note. Note: Obs. = observations; SD = standard deviation; Min. = minimum; Max. = maximum, respectively.

Table 2. Correlation Matrix

	EMDA	AO	SIZE	LIQUI	LLOSS	BIGN	NEARN
EMDA	1.000						
AO	0.095**	1.000					
SIZE	0.108*	0.078***	1.000				
LIQUI	0.499***	0.052*	0.018*	1.000			
LLOSS	0.042*	0.037*	-0.197* **	0.029**	1.000		

BIGN	0.051*	0.044*	0.069*	0.251***	−0.099*	1.000	
NEARN	0.168***	0.068*	−0.326* **	0.131**	0.105*	0.505***	1.000

Note: Pearson correlation coefficients are reported. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 3. Regression Results

VARIABLES	EMDA
AO	-0.315*** (0.087)
SIZE	0.044* (0.012)
LIQUI	1.907*** (0.090)
LLOSS	0.066** (0.063)
BIGN	0.607*** (0.217)
NEARN	-1.084*** (0.141)
Constant	0.370*** (0.056)
Observations	665
R-squared	0.657

Standard errors are enclosed in parenthesis. * $p < 0.10$, ** $p < 0.05$, and *** $p < 0.01$.

Table 4. Robustness/Additional Tests: Median Quantile Regression, Pooled OLS, and Two-Step System GMM

Particulars	Model 1 Median Quantile Regression	Model 2 Pooled OLS	Model 3 Two-Step System GMM
EMDA	-0.062* (0.050)	-	-
AO	-0.471*** (0.061)	-0.416*** (0.013)	-0.379*** (0.020)
SIZE	-1.341* (0.002)	-0.026 (0.004)	0.042 (0.003)
LIQUI	-0.514*** (0.013)	0.731*** (0.046)	0.364*** (0.051)
LLOSS	0.418* (0.034)	-0.014 (0.041)	-0.516*** (0.020)
BIGN	0.261*** (0.014)	-0.070** (0.035)	-0.331*** (0.020)
NEARN	-0.477** (0.054)	-0.119*** (0.017)	0.448*** (0.022)
Constant	0.308*** (0.045)	0.325*** (0.033)	-
Observations	611	665	665
Number of groups	—	—	126
Number of instruments	—	—	15
R-squared	-	0.652	-
F-statistic	—	172.22***	—
Wald chi2	—	—	562.14***
Arellano-Bond AR(1)	—	—	-4.26***
Arellano-Bond AR(2)	—	—	-0.53
Sargan test of overidentifying restrictions, χ^2 (p-value)	—	—	14.50 (0.146)

Hansen test of overidentifying restrictions, χ^2 (p-value)	—	—	7.46 (0.313)
Difference-in-Hansen test: GMM instruments for levels, χ^2 (p-value)	—	—	7.05 (0.212)

Notes: Endogenous variables include Earnings Management and Auditor Opinion. The estimation procedures are based on characteristics inherent in the measurement of total accruals (TA). Parentheses report standard errors. Significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively. Models 1, 2, and 3 represent Median Quantile Regression, Pooled OLS, and Two-Step System GMM, respectively.

Table 1. summarizes the means, medians, and other descriptive statistics for the five core research variables based on the survey data of 665 firm-years. EMDA (earnings management by disclosure adjustments) of the firms differs largely among the samples. It is quite clear that the proportion of modified audit opinions is very small. This is revealed by the average audit opinion (AO) of 0.152. There are several other characteristics that vary across the sample, such as firm size liquidity financial loss, big N auditors, and financial crisis. Overall, descriptive statistics suggest that investigated variables are diverse enough to call for further empirical research.

In Table 2, the explanatory and control factors and Pearsons's correlation matrix for earnings management are presented. The results indicate a positive and statistically significant relationship between audit opinion (AO) and earnings management (EMDA), with a correlation coefficient of 0.095 ($p < 0.05$). Generally speaking, the correlations of the other variables seem moderate, which suggests that multicollinearity is not a major issue. More precisely, the correlation coefficients are below the conventional threshold of 0.80, so it is very likely that multicollinearity will not interfere or be reflected in our regression results. Variance Inflation Factor (VIF) data presented in tables provide additional evidence that there is no appreciable multicollinearity among the explanatory variables.

The results of the linear regression presented in Table 3 reveal a negative and statistically significant association between auditor opinion and earnings management ($\beta = -0.315$, $p < 0.01$). This finding suggests that generally audit opinions have a strong relationship with earnings management among companies listed in the exchange in Malaysia. The results revealed statistically business size (SIZE) Quite a bit positively correlated with

earnings management at a statistically significant level. But, liquidity (LIQ) and Big-N auditor (BIGN) positively correlated with EMDA at the same level. On the contrary, NEARN showed a very strong negative relationship with earnings management. In brief, after taking the important firm-related factors into account, the regression results showed a good relationship between audit opinion and earnings management.

Robustness Checks

To further address potential endogeneity and dynamic relationships between Auditor Opinion and Earnings Management, the study employs the two-step System Generalized Method of Moments (System GMM) estimator as a robustness technique. Panel data with potential dynamic interactions, unaccounted firm-level effects, and endogeneity issues would benefit greatly from system GMM. The method works effectively by using instruments that are built from the right lagging variables and blending together the first difference and level equations forms.

The variables earnings Management and auditor Opinion are being considered as endogenous in the System GMM because the correlation between audit reports and earnings manipulations might have a bidirectional influence or simultaneous occurrence. Internal instrumental variables, which are lagged values of the same endogenous variables, are then included to tackle this potential simultaneity issue. That is, the model uses

A set of suitable lagged endogenous variables have been considered as instruments and the explanatory variables have been split into two categories corresponding to their presumed exogeneity. In this study, the System GMM estimator was used with robust standard errors to account for heteroskedasticity and panel within dependence. About the selection of suitable instruments, we check the validity of instruments through the Hansen test and the Sargan test. To assess the appropriateness of specification for the differenced residuals, we employ Arellano, Bond tests for first- and second-order serial correlation, [AR(1) and AR(2)] results are presented in Tables A7-A10. Results show that the instruments are valid and there is little evidence of second order serial correlation this way suggesting the appropriateness of the System GMM specification.

Table 4 presents additional robustness analyses using three alternative estimation techniques: Median Quantile Regression (Model 1), Pooled OLS (Model 2), and Two-Step System GMM (Model 3). The purpose of these additional estimations is to examine whether the main finding regarding the relationship between Auditor Opinion and Earnings Management remains consistent under alternative model specifications.

The results reported in Table 4 indicate that the coefficient of Auditor Opinion (AO) is negative and statistically significant across all three alternative estimation methods. The AO coefficient stands at -0.471 for the Median Quantile Regression model, it goes down to -0.416 at the Pooled OLS model, and -0.379 at the Two-Step System GMM model, all the coefficients being statistically significant at 1% level. Even though the coefficient size differs given the method of estimation, the sign of the coefficient and the statistical significance are still the same. This similarity indicates that the negative link between Auditor Opinion and Earnings Management remains valid even when different estimation techniques are used.

The control variables display differences in the three different estimation methods. For liquor (LIQ) there is a significant relationship in all the models although the sign and size of the coefficient varies across the different models. For firm size (SIZE) the statistical significance is found only for Median Quantile Regression whereas for Pooled OLS and Two-Step System GMM the relationship is not significant. Loss status (LLOSS), audit firm size (BIGN), and Net Earnings (NEARN) are other variables that show variation in their levels of statistical significance and coefficient size or direction. Such variations are to be expected yet since the three methods differ in their underlying mathematical estimation techniques and assumptions.

For the Pooled OLS model, the R-squared value of 0.652 indicates that approximately 65.2% of the variation in Earnings Management is explained jointly by the variables included in the model. The F-statistic of 172.22 is statistically significant at the 1% level, indicating that the explanatory variables are jointly significant in the model.

The Two-Step System GMM results are further supported by the reported diagnostic tests. The Arellano-Bond AR(1) test is statistically significant ($z = -4.26$, $p < 0.01$), while the AR(2) test is statistically insignificant ($z = -0.53$), providing no evidence of

second-order serial correlation. The Sargan test ($\chi^2 = 14.50$, $p = 0.146$) and Hansen test ($\chi^2 = 7.46$, $p = 0.313$) are statistically insignificant, indicating that the null hypothesis of instrument validity cannot be rejected. The Difference-in-Hansen test for the GMM instruments for levels is also statistically insignificant ($\chi^2 = 7.05$, $p = 0.212$), providing additional support for the validity of the relevant instrument subset. Overall, the results of the robustness analyses are consistent with the main findings. Mainly, the negative and statistically significant link between Auditor Opinion and Earnings Management is still apparent under Median Quantile Regression, Pooled OLS, and also for Two-Step System GMM. Yet, since the study is observational and because of a high likelihood of reverse causality, one should take these results as indications of a strong and statistically valid relationship.

Discussion:

The negative and statistically significant association between Auditor Opinion and Earnings Management is broadly consistent with prior evidence suggesting that audit reporting is related to the quality of financial reporting. Even so, the strength and importance of such a relationship could differ from one paper to another due to Truth is institutional settings, the time period selected for samples, the method of measurement of variables and even the choice of estimation methods may vary. In Malaysia, for example, variations in regulatory standards and corporate disclosure norms can also result in the relationship being different. That the negative coefficient is pretty much the same across all the methods used to derive the results like Median Quantile Regression, Pooled OLS, and Two-Step System GMM, is indicative of the results being somewhat consistent irrespective of the model being used. Regardless, since we are dealing with an observational study that does not involve any manipulation or randomization of treatments one might say to rule out the causal pathway, the conclusion of a negative association rather than of causation is only a conservative interpretation that fits with the data that this study has presented so far.

The coefficient of Auditor Opinion (AO) is negative and statistically significant, indicating a significant negative association between Auditor Opinion and Earnings Management among firms listed on Bursa Malaysia. Our research shows that when an

audit opinion is modified, this often happens to companies with different earnings management strategies than companies with an unmodified opinion. We found that the AO coefficient statistically supports H1 and H1 is the hypothesis that the relationship between Auditor Opinion and Earnings Management is significant. On top of that, negative coefficient coincides with the direction of H2; because of this, H2 is also supported. Such results demonstrate the importance of Auditor Opinion as one of the auditing results that reflect reporting decisions of auditors and give useful indication on the quality of financial reporting. But, this connection only can be viewed as association not causation.

The findings lend support to the concept that an auditor's report not only presents an accurate picture of the companies' situation through financial disclosures, but also works as a gauge for assessing the overall trustworthiness and credibility of financial accounts. An auditor's report being modified from an unqualified to an adverse, or a qualified, audit opinion is the signal that externally users would understand that the auditor's findings reveal that the accounting records may not be reliable or the application of accounting principles could be so that financial facts are not fairly presented. Audit opinions, as a result, are no longer solely an output of the audit process but also a form of information disclosure and an assistance to various users, such as the shareholders, of the financial data.

These discoveries also confirm previous results indicating that variables about audits have an impact on the quality of the financial information and earnings management. Naturally, the direction and strength of this relationship may vary depending on factors such as the institutional environment, the legal and regulatory system, and the way variables are measured. In this way, the data from Bursa Marketplace is a further understanding of the link between audit opinions and earnings management and an additional contribution from an emerging market.

The findings are consistent with Agency Theory theoretically, per which management opportunism may stem from information asymmetry and conflicts of interest between the managers and the shareholders. External audits and audit opinions provide the management with a third party who can verify the accuracy of the reported financial

figures This way helping reduce information asymmetry. In turn, the findings show how audit scrutiny makes a difference in reinforcing the monitoring role of external auditing.

The findings, a part from these, are also of particular importance for business managers investors auditors and policymakers. For example, the auditors of financial reports should be very cautious in case the reported financial figures seem to be manipulated. For instance, a company's investors may rely upon auditor's reports when judging the reliability of the financial results. Policymakers can take into account the opinions issued by an auditor as one of the indicators to assess the level of financial reporting quality. Finally, by strengthening the reporting systems internally and putting in place good governance practices companies can improve both transparency and make it harder for any company to manipulate revenues.

Like many research projects, this paper also has its shortcomings. One thing is that the findings can't be directly transferred to other areas and time frames as the researchers concentrated their examination upon firms listed at Bursa Malaysia and considered merely the year 2017 to 2021. Another issue is that varied measurement procedures could produce different results since the authors relied on some aspects of audit reports' expressions and how firms manipulate profits. Researches done in the future might take it on themselves to conduct wider surveys covering different countries, lengthier periods of time and new ways of measuring audit quality and managerial income manipulators.

Conclusions:

This study examines the relationship between Auditor Opinion and Earnings Management among selected Malaysian listed firms over the period 2017–2021. The findings indicate that Auditor Opinion is negatively and significantly associated with Earnings Management, supporting the existence of a meaningful relationship between auditor reporting and financial reporting quality. However, this association should not be interpreted as evidence of a causal relationship. These findings highlight that audit opinions represent an important outcome of the audit process, reflecting auditors' professional judgments regarding the fairness and reliability of financial statement presentation.

The study further emphasizes the importance of independent auditing and auditor reporting in strengthening financial reporting transparency and accountability and in addressing potential managerial opportunism. By providing empirical evidence from the Malaysian capital market, this study contributes to the existing literature on audit opinions and earnings management while offering practical implications for investors, regulators, auditors, and corporate managers. The findings underscore the relevance of audit opinions in evaluating financial reporting practices and suggest that greater attention should be given to auditor reporting in the context of financial reporting quality and earnings management.

Authors' declaration:

I certify that all of the tables in this publication are derived from the data and analyses carried out in the present investigation. There are no figures or pictures in the study that were copied from other sources.

Conflict of Interest:

The author declares that there is no conflict of interest.

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Authors' contributions:

Hazhar Pira Sharif contributed to the study conception and design, literature search, data acquisition, data analysis and interpretation, manuscript preparation, and manuscript editing and review.

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آراء المدققين وإدارة الأرباح: أدلة من الشركات المدرجة في بورصة ماليزيا

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المستخلص:

الخلفية:

يمكن أن تتعرض التقارير المالية للتحريف نتيجة ممارسات إدارة الأرباح، مما يؤدي إلى انخفاض مستوى شفافيتها وموثوقيتها. ولذلك، لا تزال إدارة الأرباح تمثل قضية رئيسية في مجال التقارير المالية. وتسهم عمليات التدقيق في تعزيز دقة التقارير المالية من خلال تقديم تقييم مستقل للقوائم المالية، في حين تعزز آراء المدققين مسؤولية الإدارة عن جودة التقارير المالية.

الأهداف:

يهدف هذا البحث إلى استقصاء العلاقة بين آراء المدققين وممارسات إدارة الأرباح لدى الشركات العامة المدرجة في بورصة كوالالمبور وعلى وجه الخصوص، يبحث البحث فيما إذا كانت الشركات العامة التي تحصل على آراء تدقيق معدلة تختلف في ممارسات إدارة الأرباح عن الشركات التي تحصل على آراء تدقيق غير معدلة، أي الآراء النظيفة.

المنهجية:

تستخدم هذه الدراسة منهجاً كمياً يستند إلى بيانات لوحية جُمعت من التقارير السنوية للشركات المدرجة في بورصة كوالالمبور وقواعد البيانات المتاحة عبر الإنترنت. وتتكون العينة من 665 مشاهدة على مستوى الشركة-السنة خلال الفترة 2017-2021 وتحليل العلاقة بين آراء المدققين وإدارة الأرباح، أجريت مجموعة من الاختبارات الإحصائية المختلفة.

النتائج:

تشير النتائج إلى وجود علاقة سلبية وذات دلالة إحصائية بين رأي المدقق وإدارة الأرباح. وتشير هذه النتيجة إلى أن الشركات التي تتلقى آراء تدقيق أكثر صرامة وتحفظاً ترتبط بمستويات أقل من إدارة الأرباح.

الاستنتاج:

تشير النتائج إلى وجود علاقة سلبية وذات دلالة إحصائية بين رأي المدقق وإدارة الأرباح، مما يشير إلى أن الشركات التي تتلقى آراء تدقيق أكثر صرامة وتحفظاً ترتبط بمستويات أقل من إدارة الأرباح. وتوفر هذه العلاقة السلبية دليلاً على وجود علاقة ذات دلالة بين آراء المدققين وجودة التقارير المالية. وقد تكون هذه النتائج مفيدة للمستثمرين والجهات التنظيمية

والمدققين وغيرهم من أصحاب المصلحة في تقييم ممارسات إعداد التقارير المالية للشركات، وفعالية الحوكمة، والشفافية المالية.

الكلمات المفتاحية: رأي المدقق؛ إدارة الأرباح؛ جودة التقارير المالية؛ جودة التدقيق؛ بورصة كوالالمبور.