The Role of External Audit in Improving Firm’s Value: Case of Indonesia

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ABSTRACT

This paper investigates the effect of three characteristics of external audit on the value of company. Audit characteristics comprise of audit tenure, audit firm size, and audit opinion while firm’s value is measured by P/E, P/B, and Tobin’s Q. Using 2,240 company-year observations, this paper finds that higher value of company is achieved by shorter audit tenure, brand name audit firms, and unqualified audit opinion. This finding is consistent in all three measures of firm’s value and after controlling company’s asset size and age. These research findings suggest that (1) mandatory rotation may become solution to ensure that professional relationship between auditor and client can be maintained, (2) brand name auditors seem to offer better quality of audit and increase the value of the company, and (3) financial service authority in Indonesia should encourage more companies to prepare financial statements in accordance with accounting standards to receive unqualified opinion from independent auditor.

Keywords: audit tenure, audit firm size, audit opinion, firm’s value

1. INTRODUCTION

Auditor is a unique as well as challenging profession, which differs from other profession, such as lawyer. A lawyer must be always in client’s side because client pays lawyer to do so. In contrast, auditors must maintain their independence from client even though they are paid by client.

The independence of external auditor profession is questionable following the liquidation of a brand name audit firm of Arthur Andersen due to its involvement in Enron’s collapse. Before the collapse of Enron, Arthur Andersen was one of big five audit firms and consequently Enron’s stakeholders had high expectation on its quality of audit. However, long audit tenure between Arthur Andersen and Enron was suspected to become the root cause of the failure of Arthur Andersen in maintaining its independence from its paying client, the Enron. Enron’s stock price initially went up but it suddenly dropped following negative market sentiment on Enron's fraud and audit failure. Since then, Sarbanes-Oxley Act 2001 recommended audit rotation and auditors are not allowed to receive non-attestation services at the same time as audit service provided to a client.

Long audit tenure is expected to negatively affect quality of audit because it tends to result in family-like relationship between auditor and client and may end up with audit failure or auditor ignorance to material misstatements. However, many academics and audit practitioners disagree with audit rotation as a solution of maintaining auditor independence and improve audit quality. Revitalization of internal auditors and effective communication between internal and external auditors are suggested to become more effective tools for auditor independence and the quality of audit. In addition, audit rotation is arguably resulting in audit inefficiency because the first audit period is the period of understanding client's business environment hence limitation to audit tenure would cause auditors harder to adjust and understand new business environment of future new clients. Indeed, auditor's self-adjustment in first period of audit is often not cheap.

After the liquidation of Arthur Andersen, there are four big audit firms. They are Deloitte Touche Tohmatsu, Pricewaterhouse Coopers (PwC), Ernst and Young, dan Klynveld Peat Marwick Goerdeler (KPMG). A number of researchers disclose that big audit firms offer higher quality of audit because they have greater monitoring strength to result in higher quality and credibility of financial information (DeAngelo, 1981; Dopuch and Simunic, 1982; Titman and Trueman, 1986; and Beatty, 1986). However, Chang, Cheng, and Reichelt (2010) find that market responds more positively to auditor switch from big audit firms to non-big audit firms.

Clients expect to receive unqualified audit opinion and stakeholders appreciate unqualified audit opinion because this audit opinion suggests that financial statements are free from material misstatements and presented in accordance with accounting standards. Market responds more positively to companies receiving unqualified opinion than other opinion. Market response on announcements or corporate actions are reflected in stock price changes. Stock market prices continuously change, which indicates dynamic market reaction until they reach new equilibrium. Multiples such as price to earnings ratio (P/E) and price to book ratio (P/B) may become alternative measures of firm's value other than Tobin's Q.

Previous research found that firm's characteristics such as company or firm size and company or firm age affect firm's value. Boubaker, Mensi, and Nguyen (2008) show that firm size (natural logarithm of total asset) positively affects firm value while Loderer and Waelchli (2009) show that firm age negatively affects firm's value. This research aims to investigate the effect of external audit characteristics (proxied by audit tenure, audit firm size, and audit opinion) on firm's value (proxied by P/E, P/B, and Tobin's Q). This research uses two control variables, firm size and age.

II. LITERATURE REVIEW

2.1 Agency Theory

Agency theory explains the relationship between principal (stockholders) and agent (management). At least there are two main problems in the relationship, managerial compensation and asymmetry information (Jensen and Meckling, 1976). The first problem appears because management desires higher managerial compensation in the form of bonus while stockholders wants higher dividend. Second agency problem about asymmetry information appears because management is an insider while stockholders are outsiders that only know about company's financial condition from the financial reports prepared by management.

The first agency problem is possible to be solved by negotiation about managerial compensation and executive stock ownership program. Meanwhile, the second agency problem is expected to be solved by the role of independent (external) auditor. Independent (external) auditor should provide assurance services to stockholders that financial reports prepared by management are free from bias and material misstatement and in accordance with accounting standards.

2.2 Audit Tenure

Audit tenure refers to audit period in which external auditor have spent to provide audit service to a client. A number of academics and practitioners argue that the longer the external auditor provides audit service to a client, the greater the independence threats (for instance Geiger and Raghunandan, 2002). In contrast, opponents argue that shorter audit tenure requires greater costs to apply complex audit procedures in a very limited time therefore audit fee would be higher (Palmrose, 1986).

Chen et al. (2008) reveals that regulators (the government and standard setting body) are very concerned about long-term audit tenure because external auditor tends to compromise with accounting policy in longer tenure. Long-term audit tenure may result in close relationship between auditor and management (so called *familiarity threat*). Therefore, long-term audit tenure potentially reduces auditor independence leading to a decline in quality of audit and client's value. In contrast, Johnson, Khurana, and Reynolds (2002) find that shorter audit tenure tends to result in worse financial report quality than longer audit tenure.

2.3 Audit Firm Size

A number of studies in audit quality and auditor reputation (proxied by auditor size or auditor brand name) show that brand name auditors tend to have higher monitoring strength that enables them to produce higher information quality and credibility (Davidson and Neu, 1993; DeAngelo, 1981; Dopuch and Simunic, 1982; Titman and Trueman, 1986; and Beatty, 1986). However, Chang, Cheng, and Reichelt (2010) found that investors positively respond company's decision to change its auditor from big to small audit firm.

Khurana and Raman (2004) argue that ability to detect material misstatements in financial reports is the function of auditor competence while the tendency to disclose material misstatements is the function of auditor independence. Competency level of auditors tends to vary for every audit firm. Several audit firms spend more money and time for training and formal education for their auditors hence its auditors have greater capacity and capability. Meanwhile, independency level also varies across audit firms. DeAngelo (1981) supports this view and argues that nonbig audit firms have greater incentives not to disclose material misstatements in order to retain clients and maintain good relationship to them. Big audit firms have less incentive because reputation is too expensive to be sacrificed. Big audit firms tend not to really depend on specific client.

Becker et al. (1998) tested hypothesis about big audit firm reputation. They tested whether or not ex-clients of big audit firms involved in less earnings management practices. Earnings management is measured by cross-sectional Jones model (1991). Using 10,379 samples of ex-client of big audit firms and 2,179 samples of ex-client of nonbig audit firms in the Unites States, they found that the average of discretionary accruals is 1.5 to 2.1 per cent lower for ex-client of big audit firms. The finding indicates that big audit firms are more conservative. Francis and Krishnan (1999) support Becker et al. (1998) that an increase in accrual revenue tend to lead to legal problems so that big audit firms tend to choose clients with lower accrual revenue to avoid legal problems and bad reputation.

2.4 Audit Opinion

Audit opinion refers to (external) auditor opinion about fairness of financial statements prepared by management. Unqualified opinion is the most expected opinion by all clients because this opinion confirms and assures that financial statements prepared by management do not contain material misstatements and are in the line with accounting standards. In contrast, no opinion is stated by auditor when auditor judges that they are not independent in the audit task, there is conflict of interest between auditor and client, there is significant limitation in audit scope, there is significant uncertainty, and/or there is significant doubt about client's business continuity or going concern.

Wang (2005) discovers that market negatively responds the stock price of companies with unqualified audit opinion with explanatory language and opinion other than unqualified audit opinion. In contrast, market responds positively the stock price of those with unqualified opinion (Choi and Jeter, 1992; Chow and Rice, 1982). Czerney, Schmidt, and Thompson (2013) shows that companies with unqualified audit opinion with explanatory language more often restate their financial statements.

2.5 Firm's Value

In agency relationship, principal establishes company and appoints agent with a hope that agent works in the line with principal's interest. Agent should be capable of increasing principal's wealth. For public companies, stock market price reflects firm's value. If market responds positively on company's performance, stock market price will increase and firm's value increase, thus principal's wealth also increases.

Prior research found that company's characteristics such as company size and age consistently affect firm's value. Boubaker, Mensi, and Nguyen (2008) show that company size positively affects firm's value. Loderer and Waelchli (2009) show that firm age negatively affects firm's value. Firm's value can be measured by price to earnings ratio (P/E), price to book value (P/B) and Tobin's Q (Brahmana and Hooy, 2011).

III. RESEARCH METHOD

This research uses 2,240 company-year observations which were consistently listed on the Indonesian Stock Exchange from 2007 to 2013. Table 3.1 shows that the number of company-year observations consistently listed were 2,240 observations, which are about 75,12 per cent of total company-year observations from 2007 to 2013 (2,982 observations). This research uses multiple linear regression[1] to investigate the effect of (external) audit characteristics on firm's value. Audit characteristics are measured by audit tenure, audit firm size, and audit opinion while firm's value is measured by P/E, P/B, and Tobin's Q. In addition to independent and dependent variables, this research introduces two control variables, which is firm size and firm age.

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[1] Regression model of VALUE = $\beta_0 + \beta_1$ TENURE + β_2 DAUDITOR + β_3 DOPINION + β_4 CONTROLS + ε

Table 3.1
Number of Samples

	2007	2008	2009	2010	2011	2012	2013	Total
Number of listed companies	383	396	398	420	440	462	483	2,982
Number of companies with incomplete data	63	76	78	100	120	142	163	742
Number of (sample) companies consistently listed from 2007 to 2013	320	320	320	320	320	320	320	2,240

Source: Indonesian Financial Service Authority (2013)

Audit tenure (TENURE) is the period of audit provided by (external) auditor to a client (company). Technically speaking, TENURE equals one for Company A in 2007 if its auditor in 2007 is not the same as in 2006. However, TENURE for Company A in 2007 equals two, three, or greater if its auditor in 2007 is the same as in previous consecutive years.

Dummy variable of audit firm size (DAUDITOR) is a measurement of audit firm size. DAUDITOR equals one if the company is audited by an audit firm which is affiliated with a *big four* audit firm and equals zero if the company is not audited by an audit firm which is affiliated with a *big four* audit firm. The list of Indonesian audit firms which have affiliation with big four audit firms is presented on Table 3.2

Dummy variable of audit opinion (DOPINION) is the type of opinion stated by auditor following the financial statement audit task to a client (company). DOPINION equals one if company receives unqualified opinion from auditor and it equals zero if the opinion is other than unqualified opinion.

IV. HYPOTHESES DEVELOPMENT

Myers et al. (2005) found that clients tend to report material misstatement leading to higher reported earnings in longer audit tenure. Chen et al. (2008) shows that regulators (the government and accounting standard body) are concerned about long-term audit tenure mbecause auditors tend to compromise with accounting methods and policies as a result of 'too close relationship' between auditor and management. Therefore, many argue that longer audit tenure may threat auditor independence leading to lower audit quality. The longer the audit tenure, the lower the tendency of auditor to be independent. Market tends to react negatively to this condition because market expects that auditor can provide independent assurance services to the users of financial statements. The hypothesis can then be formulated as follows:

H_1: Longer audit tenure negatively affects firm's value

Table 3.2
The Big Four – Affiliated Audit Firms in Indonesia

Big Four Audit Firms	Indonesian Audit Firms	Address
PricewaterhouseCoopers (PwC)	KAP Tanudiredja, Wibisana & Rekan	Plaza 89 Jl. H.R. Rasuna Said Kav. X-7 No. 6 Jakarta 12940 – Indonesia P.O. Box 2473 JKP 10001 Phone: +62 21 5212901 Fax: +62 21 52905555 / 52905050
Deloitte	KAP Osman Bing Satrio	The Plaza Office Tower 32nd Floor Jl. M.H. Thamrin Kav 28-30 Jakarta Indonesia. Phone number: +62 21 2992 3100.
Ernst & Young	KAP Purwantono, Suherman & Surja	Indonesia Stock Exchange Building Tower 2, 7th Floor Jl. Jend. Sudirman Kav. 52-53 Jakarta 12190 Indonesia Phone: +62 21 5289 5000
Klynveld, Peat, Marwick, Goerdeler (KPMG)	KAP Sidharta dan Widjaja	33rd Floor Wisma GKBI 28, Jl Jend. Sudirman Jakarta 10210 INDONESIA Tel: +62 21 574 2333

Source: Indonesian Institute of Certified Public Accountants (2013)

Brand name auditors tend to have greater monitoring strengththat can result in greater information quality and credibility (DeAngelo, 1981; Dopuch and Simunic, 1982; Titman and Trueman, 1986; and Beatty, 1986). Market is expected to respond positively to the greater information quality and credibility, therefore the hypothesis of the effect of audit firm size on firm's value can be formulated as follows:

H_2: Companies whose financial statements are audited by big audit firms would have greater value

Wang (2005) discovers that market negatively responds the stock price of companies with unqualified audit opinion with explanatory language and opinion other than unqualified audit opinion. In contrast, market responds positively the stock price of those with unqualified opinion. Czerney, Schmidt, and Thompson (2013) shows that companies with unqualified audit opinion with explanatory language more often restate their financial statements. Market is expected to respond more positively to unqualified opinion and therefore the hypothesis of the effect of audit opinion on firm's value can be formulated as follows:

H_3: Companies whose financial statements are given unqualified audit opinion have greater value

V. RESULT AND ANALYSIS

5.1 Descriptive Statistics

Descriptive statistics of all variables operated in this research is presented in Table 5.1. First of all, audit tenure (TENURE) has arithmetic mean of 2.85. This means that, on average, auditors provided audit service to a client for about three consecutive periods between 2007 and 2013. The longest and shortest audit tenures were six consecutive periods and one period, respectively.

Move on to audit firm size (DAUDITOR), there are 1,356 observations out of 2,240 observations of companies which were audited by brand name auditors (audit firms in Indonesia that are affiliated with big four audit firms) and there are 884 observations out of 2,240 observations of companies which were audited by nonbrand name auditors (audit firms in Indonesia that are not affiliated with big four audit firms). Meanwhile, there are 1,587 observations out of 2,240 observations of companies which received unqualified audit opinion between 2007 and 2013 and the rest received opinion other than unqualified opinion.

Client size and age are operated as control variables. Client size is measured by natural logarithm of client's total assets. The arithmetic mean of this variable is 12.03 (approximately 168 billion rupiahs). Meanwhile, client age has arithmetic mean of 32.42. This means, on average, companies have established their business for about 32 years.

Table 5.1
Descriptive Statistics of All Variables

Statistics	TENURE[b]	DAUDITOR[a]	DOPINION[a]	SIZE[c]
No. of Observations	2,240	2,240	2,240	2,240
No. of Observations D=1[a]	-	1,356	1,587	-
No. of Observations D=0[a]	-	884	653	-
Arithmetic Mean	2.85	0.61	0.71	12.03
Standard Deviation	1.51	0.49	0.45	1.08
Median	3.00	1.00	1.00	12.09
Maximum Value	6.00	1.00	1.00	14.80
Minimum Value	1.00	0.00	0.00	7.90
Statistics	P/E[e]	P/B[f]	TOBINSQ[g]	AGE[d]
No. of Observations	2,240	2,240	2,240	2,240
No. of Observations D=1[a]	-	-	-	-
No. of Observations D=0[a]	-	-	-	-
Arithmetic Mean	17.80	15.39	0.77	32.42
Standard Deviation	105.73	98.78	0.14	17.23
Median	9.14	9.92	0.58	29.74
Maximum Value	2,132.72	1,263.73	1.21	107.99
Minimum Value	-482.37	-313.21	0.22	4.63

Source: Descriptive Statistics Output from SPSS

Notes:

a) For DAUDITOR, D=1 if the company was audited by big audit firm while D=0 if the company was not audited by big audit firm. For DOPINION, D=1 if audit opinion of company's financial statements is unqualified opinion while D=0 if audit opinion of company's financial statements is other than unqualified opinion
b) TENURE is the number period of audit provided by auditor to a client or company
c) SIZE is the natural logarithm of company's total assets
d) AGE is the company age from it was established to the date of observations (31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011, 31 December 2012, and 31 December 2013)
e) P/E is price to earnings ratio. The ratio was already calculated by the Indonesian Stock Exchange and freely downloadable.
f) P/B is price to book value. The ratio was already calculated by the Indonesian Stock Exchange and freely downloadable.
g) TOBINSQ is determined by the following formula:
$TOBINSQ_{i,t} = (MVE_{i,t} + MVPS_{i,t} + DEBT_{i,t}) / TA_{i,t}$ (Chung, K.H., and Pruitt, S.W., 1994)
where:
MVE = Market value of equity in year *t* for firm *i* (the product of a firm's share price and the number of common stock shares outstanding)
MVPS = Liquidating (market) value of preferred stock in year *t* for firm *i*
DEBT = The value of the firm's short-term liabilities net of its short-term assets + book value of the firm's long-term debts) in year *t* for firm *i*
TA = The book value of total assets in year *t* for firm *i*

5.2 Audit Tenure and Firm's Value

The first hypothesis shows that audit tenure negatively affects firm's value. Table 5.2 reveals that TENURE negatively affects P/E, P/B, and Tobin's Q at different levels of significance. The effect of audit tenure on P/E is significant at one per cent while on P/B and Tobin's Q is significant at five per cent. Goodness of fit (R^2 and Adjusted R^2) shows significant improvement after controlling client size and age. The effect of client size (SIZE) on P/E and P/B is consistently significant at five per cent while its effect on Tobin's Q is only significant at ten per cent. Meanwhile, the effect of client age (AGE) on P/E, P/B, and Tobin's Q is consistently significant at ten per cent. Both control variables show positive effect on firm's value indicating that the firm's value tends to be greater for companies which have greater assets and have established for many years.

Statistical analysis shows that the longer the external auditor provides audit services to a client or company, the lower the company's value as reflected by negative market response. Long-term audit tenure potentially changes the relationship between auditor and client from professional relationship to family-like relationship. The later would severely threat auditor independence. Even though statistical analysis reveals that the longer the audit tenure the lower the client's value, it does not necessarily follow that auditor can only provide audit service to a client at once. Regulation in Indonesia explicitly allows audit firms to provide audit service to client for maximum of six consecutive years. This mandatory rotation may become solution to ensure that professional relationship between auditor and client can be maintained. Law enforcement is the key success to enable this regulation works properly.

5.3 Auditor Size and Firm's Value

The second hypothesis shows that companies whose financial statements are audited by big audit firms would have greater value. Table 5.2 reveals that DAUDITOR positively affects P/E, P/B, and Tobin's Q at constant levels of significance. The effect of audit tenure on P/E, P/B, and Tobin's Q is significant at one per cent. Goodness of fit (R^2 and Adjusted R^2) shows significant improvement after controlling client size and age.

Companies audited by big audit firms tend to show greater value. Market views big audit firms to have greater capacity and capability in increasing information reliability of client's financial statements and consequently market responds this positively thus it increases company's value as proxied by P/E, P/B, and Tobin's Q. Even though statistical analysis shows that companies audited by big audit firms tend to show greater value because big audit firms tend to have greater capacity and capability in increasing information reliability, it does not necessarily follow that nonbig audit firms are unable to produce reliable information at all. However, it is a big challenge for nonbig audit firms to improve their image as well as capacity and capabilities in order to increase their competitive advantages so that they can compete with brand name audit firms.

5.4 Audit Opinion and Firm's Value

The last hypothesis shows that companies whose financial statements are given unqualified audit opinion have greater value. Table 5.2 reveals that DOPINION positively affects P/E, P/B, and Tobin's Q at different levels of significance. The effect of audit opinion on P/E is significant at one per cent while on P/B and Tobin's Q is significant at five per cent. Goodness of fit (R^2 and Adjusted R^2) shows significant improvement after controlling client size and age.

Companies whose audited financial statements are with unqualified audit opinion tend to have greater value. This is because unqualified audit opinion is the most positive and strongest level of audit opinion that increases market response and confidence so that company's value is also positive. Up to this moment, it is possible for listed companies to receive audit opinion other than unqualified opinion. This means that there is tolerance for quality of financial statements prepared by managements of listed companies. In the future it is expected that there is strict and enforced regulation about audit opinion criteria for being continuously listed on the stock exchange. In other words, there is no tolerance at all for companies with audit opinion other than unqualified opinion to be able to publicly trade their stocks in the market. The main purpose of this proposed regulation is to promote good governance that managements must prepare financial statements in accordance with accounting standards.

Tabel 5.2
Summary of Regression Output

Independent Variables and Control Variables	Dependent Variables: P/E, P/B, and Tobin's Q					
	Model 1		Model 2		Model 3	
	Before Control Variables	After Control Variables	Before Control Variables	After Control Variables	Before Control Variables	After Control Variables
Intercept	19.58** (8.50)	93.07** (4.35)	19.71** (5.09)	77,93** (4.91)	16,87** (7.35)	99,34** (4.99)
TENURE	-9.63*** (2.64)	-9.67*** (2.66)	-21.22** (4.12)	-22.42** (4.01)	-20.92** (4.18)	-21.04** (4.44)
DAUDITOR	9.03*** (8.11)	9.27*** (8.31)	9.43*** (8.08)	9.77*** (8.35)	9.44*** (8.99)	9.77*** (8.13)
DOPINION	9.22*** (2.61)	9.17*** (2.26)	21.92** (4.92)	22.72** (4.81)	20.82** (4.88)	21.74** (4.34)
SIZE	-	91.68** (3.73)	-	71.61** (3.78)	-	109.55* (13.72)
AGE	-	101.35* (13.96)	-	103.33* (13.71)	-	107.79* (13.45)
F-Statistic	19.726	21.271	16.390	23.494	10.023	22.216
Prob (F-Statistic)	0.000	0.000	0.000	0.000	0.000	0.000
R^2	0.4490	0.6728	0.4837	0.5836	0.4371	0.5557
N	2,240	2,240	2,240	2,240	2,240	2,240

Source: Multiple Linear Regression Output from SPSS

Notes:

a) Model 1 is multiple linear regression model of PE = $\beta_0 + \beta_1$ TENURE + β_2 DAUDITOR + β_3 DOPINION + β_4 CONTROLS + ε
   Model 2 is multiple linear regression model of PB = $\beta_0 + \beta_1$ TENURE + β_2 DAUDITOR + β_3 DOPINION + β_4 CONTROLS + ε
   Model 3 is multiple linear regression model of TOBINSQ = $\beta_0 + \beta_1$ TENURE + β_2 DAUDITOR + β_3 DOPINION + β_4 CONTROLS + ε

b) Numbers in parentheses are standard errors.

c) *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

VI. CONCLUSION

Audit tenure negatively affect firm's value as proxied by P/E, P/B, and Tobin's Q. This indicates that the longer the external auditor provides audit services to a client or company, the lower the company's value as reflected by negative market response. Long-term audit tenure potentially changes the relationship between auditor and client from professional relationship to family-like relationship. The later would severely threat auditor independence. Even though statistical analysis reveals that the longer the audit tenure the lower the client's value, it does not necessarily follow that auditor can only provide audit service to a client at once. Regulation in Indonesia explicitly allows audit firms to provide audit service to client for maximum of six consecutive years. This mandatory rotation may become solution to ensure that professional relationship between auditor and client can be maintained. Law enforcement is the key success to enable this regulation works properly.

Companies audited by big audit firms tend to show greater value. Market views big audit firms to have greater capacity and capability in increasing information reliability of client's financial statements and consequently market responds this positively thus it increases company's value as proxied by P/E, P/B, and Tobin's Q. Even though statistical analysis shows that companies audited by big audit firms tend to show greater value because big audit firms tend to have greater capacity and capability in increasing information reliability, it does not necessarily follow that nonbig audit firms are unable to produce reliable information at all. However, it is a big challenge for nonbig audit firms to improve their image as well as capacity and capabilities in order to increase their competitive advantages so that they can compete with brand name audit firms.

Companies whose audited financial statements are with unqualified audit opinion tend to have greater value. This is because unqualified audit opinion is the most positive and strongest level of audit opinion that increases market response and confidence so that company's value is also positive. Up to this moment, it is possible for listed companies to receive audit opinion other than unqualified opinion. This means that there is tolerance for quality of financial statements prepared by managements of listed companies. In the future it is expected that there is strict and enforced regulation about audit opinion criteria for being continuously listed on the stock exchange. In other words, there is no tolerance at all for companies with audit opinion other than unqualified opinion to be able to publicly trade their stocks in the market. The main purpose of this proposed regulation is to promote good governance that managements must prepare financial statements in accordance with accounting standards.

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