

CHAPTER 1

INTRODUCTION

1.0 Introduction

Over the past few years, much attention has been paid to the issue of Clarified International Standard of Auditing (Clarified ISAs) and International Standard of Quality Control (ISQC). The International Auditing and Assurance Standards Board (IAASB) have set high-quality international auditing and assurance standards which is understandable, clear, and capable of consistent application. This Clarity project began in 2004 and was completed in February 2009. As a result, many improvements to the ISAs had been carried out. The improvements go beyond the enhancement of the understandability of the ISAs, which included substantive changes to the content as well. Consequently, final set of clarified standard which comprises of 36 newly updated Clarified ISAs and an International Standard of Quality Control (ISQC) have been issued and adopted by the auditor worldwide. The new Clarified ISAs are made up of the followings;

- 1) A new ISA addressing communication of deficiencies in internal control.
- 2) 16 ISAs containing new and revised requirements (these are referred to as “revised and redrafted ISAs”); and
- 3) 20 ISAs that have been redrafted only to apply the clarity conventions and reflect matters of general clarity only (these are referred to as “redrafted ISAs” and “redrafted ISQC”).

In United Kingdom and Ireland, Auditing Practices Board (APB) has based their auditing standard on new Clarified ISAs and Clarified ISQC which is effective on

audit of financial statement for the year ended on or after 15 December 2010 (The Institute of Chartered Accountants in England and Wales [ICAEW], 2012). In addition, 18 Members of the Europe Union have adopted Clarified ISAs since early May 2011, which include Germany, France, Spain and Italy (Association Chartered Certified Accountant [ACCA], 2012). In the similar context, the Clarity project in United States has served two purposes, first, to make the existing standard easier to be understood, second, to converge the United States General Accepted Auditing Standard (US GAAS) with ISA. Similarly, in Malaysia, Clarified ISAs has to be implemented for the audit engagement beginning or after 1 January 2010. In this regard, the Audit Oversight Board (AOB), Companies Commission of Malaysia (CCM) and Malaysia Institute of Accountant (MIA) plays a significant role in enforcing the Clarified ISAs and ISQC in Malaysia (Nazatul Izma, 2011).

Given the above background, it is necessary for the public practice firm to be well prepared in complying with Clarified ISAs and ISQC. Since the burden arose from complying with Clarified ISAs and ISQC is more significant for Small and Medium Practice (SMP) (Australian Government Auditing and Assurance Standard Board [AGAASB] et.al., 2012), this paper is designed to study the responses of SMP on Clarified ISAs and ISQC in Malaysia by looking at resources preparedness of the firm and the audit report timeliness after the adoption of Clarified ISAs and ISQC.

This chapter provides overview on the adoption of clarified ISAs and ISQC among the SMP in Malaysia. The discussion is organized as follow: Section 1.1 presents the background of the study. Section 1.2 discusses the research problems. Section 1.3 states the research objectives. Section 1.4 discusses on the motivation of study. Section 1.5 presents the significance of study. Finally, Section 1.6 summarizes the organization of study.

1.1 Background

In order to study the responses of SMP on Clarified ISAs and ISQC, there are several areas need to be examined and discussed as shown below in this Section:

1. Development of Clarified International Standard of Auditing (ISAs) and International Standard of Quality Control (ISQC)
2. Adoption of Clarified ISAs and Clarified ISQC among the SMP in Malaysia
3. Resources preparedness of SMP on Clarified ISAs and Clarified ISQC in Malaysia
4. Timeliness of Audit Report

1.1.1 Development of Clarified International Standard of Auditing (ISAs) and International Standard of Quality Control (ISQC)

The harmonisation of auditing standards has been widely discussed among the auditing profession around the world. In the context of auditing, harmonisation is referred as setting international standards that have been as a way to enhance

the comparability and credibility of auditing (Mennicken,2008).On 1 November 1977, establishment of International Federation of Accountant (IFAC) indicated the significant milestone of harmonisation of auditing standard worldwide. Being one of the important committee of IFAC, International Auditing Practice Committee (IAPC) developed International Auditing Guideline (IAGs).This represents the best practice among the audit firm during the period between 1977 and 1990. On November 1991, as effect on the creation of IFAC's Constitution, International Auditing Guideline (IAG) has been renamed as" International Standard Of Auditing" (ISAs) which give it a "benchmark status" for the audit engagement for financial information (Schockaert & Houyoux,2007/8). On July 1994, the IAPC formed the foundations of structure of ISA which consists of basic principles, essential procedures, explanatory and informative guidance. Subsequently in November 2001, IAPC was reformed and became "International Auditing and Assurance Standard Board" (IAASB). Following the development, the community has widened their scope to include the standard for assurance service (Schockaert & Houyoux,2007/8). Clearly, the ISAs encourage complying the wording rather than principles. The increasing of corporate scandals such as Enron, WorldCom Xerox, Parmalat have weakened the investor confidence on capital market. Hence, international regulators have focused on quality of auditing standard. In order to enhance the understandability, quality, uniformity and consistent application of the auditing standard, International Assurance and Auditing Standard Board (IAASB) began a comprehensive programme to enhance the clarity of International Standard of Auditing in 2004. This

programme involved redrafting and revising the ISAs to reflect the new conventions and matter of clarity. Subsequently, the final set of the clarified ISAs and ISQC have been issued which comprises of a new standard addressing the communication deficiency of internal control, 16 revised and redraft ISAs and 20 redraft ISAs which include the redraft ISQC. The motivation of the Clarity project was to ensure the Clarified standard are “principles-based” (Ian,2010).Nevertheless, some argued that the Clarified ISAs make the auditing standard become more rule-based (Weaver, 2008/2009). As a result, the new structures of the Clarified ISAs are organised in the following manner beginning with the introduction, objective, definition, requirement and ending with the application and other explanatory material (Morris & Thomas, 2011). The Clarified ISAs are effective on the audit of the financial statement beginning on or after 15 December 2009 (International Auditing and Assurance Standard Board [IAASB], 2012).In this regard, countries worldwide has adopted the Clarified ISAs and ISQC in varies approach. Malaysia, as a member of IFAC, obliged to use IFAC standard as national standard; therefore, the effect of the Clarity project has effect of the audit practice in Malaysia.

1.1.2. Adoption of Clarified ISAs and Clarified ISQC among the Small and Medium Practice (SMP) in Malaysia

Looking at the recent context of auditing developments in Malaysia, Malaysian Institute of Accountant (MIA) and Malaysian Institute of Certified Public Accountant (MICPA) as member of IFAC are obliged to support the IFAC work by

using the IFAC Standards as National Standard. Since 1982, MIA had adopted IFAC standards as national standards which were IFAC International Audit Guidelines (IAGs). These guidelines had been used until 1998 when the ISAs became operative for audit of financial statements. Following this, Malaysia National Standard comprises of International Standards on Auditing (ISA) approved by MIA and Malaysia Standard of Auditing (MSA) issued by MIA. Generally, before the Clarify Project was carried out by the IAASB on 2004, the latest ISAs comprises of 33 standards start from ISA200 to ISA720 which provide guidance on audit of financial statement. As a result of Clarify Project between 2004 and 2009, two standards have been introduced, namely ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management and International Standard on Quality Control (ISQC), Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements. In Malaysia, Clarified ISAs and ISQC are effective for the audit of financial statement for the period beginning or after January 2010. AOB enforced the adoption of Clarified ISAs among the Public Interest Entities (PIE) whereas the MIA and Companies Commission of Malaysia (CCM) plays a significant role in implementation of Clarified ISAs for Non-Public Interest Entities (Nazatul Izma, 2011). In this regard, below are the list of the significant changes required by the new Clarified ISAs and ISQC.

Table1.1.2 Significant changes of Clarified ISAs and ISQC

No	International Standard of Auditing (ISAs) and International Standard of Quality Control(ISQC)	Significant change
1	ISA200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	The standard deals with the auditor's overall objectives and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It has been revised to incorporate how the objectives, requirements, and guidance in all ISAs are to be understood. It also lists down how the objective of each individual standard is able to link back to the Objective of ISA200.
2	ISA 230, Audit Documentation	The standard deals with the audit documentation requirement. It has been revised to include more stringent requirement. For instance, auditors are required meticulously document his thought and audit process to enable the experienced auditor who does not have connection with the audit engagement to understand nature, timing and extent of the audit procedure
3	ISA330, The Auditor's Responses to Assessed Risks	This standard deals with auditor risk assessment procedure in performing the financial statement audit. It has been revised to incorporate more detail documentation of risk management. For instance, auditor are required to include in their documentation the overall responses to assess risk of material

No	International Standard of Auditing (ISAs) and International Standard of Quality Control(ISQC)	Significant change
		misstatement at financial statement level, link back the risk to the overall audit plan.
4	ISA450: Evaluation of misstatement identified during audit	The standard deals with the auditors' responsibilities to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements on the financial statements. It has been revised to require the auditor to communicate to those charged with governance the uncorrected misstatement, and request the uncorrected misstatement to be corrected. Written representation should be obtained from management if the management believe the effect of misstatement is immaterial.
5	ISA540:Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	The standard deals with the auditing requirement when auditing the accounting estimates. It has been revised to require the auditor to identify the management bias in developing the accounting estimate. Greater professional sceptics are required in auditing accounting estimate.
6	ISA 550, Related Parties	This standard deals with the auditors' responsibilities relating to related party relationships and transactions in an audit of financial statements. It has been revised to require the auditor to specifically investigate the business rationale for significant related

No	International Standard of Auditing (ISAs) and International Standard of Quality Control(ISQC)	Significant change
		party transactions, whether the transaction have been properly authorized, the appropriateness of the transactions recorded or disclosed and consistency between management explanation and transactions recorded.
7	ISA 620, Using the Work of an Auditor's Expert	This standard deals with the auditors' responsibilities relating to the work of an individual or organization in other field of expertise, when work is used to assist the auditor in obtaining audit evidences It has been revised to require the auditor to evaluate the competences, capabilities and objectivity of the external expert, the scope, nature and objective of the expert work. The agreement with the external expert has to be documented down.
8	ISA 260 Communication to those charged to governance	The standard deals with auditors' responsibility to communicate to those charged with governance on the matter of auditing of financial statement. It has been revised to require auditor to communicate specific matter to those charged to governance, such as significant difficulties encountered during audit, qualitative aspect of accounting policies, estimate and significant internal control deficiency.

No	International Standard of Auditing (ISAs) and International Standard of Quality Control(ISQC)	Significant change
9	ISA 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)	The auditing standard applies to group audit and deals with special considerations that apply to group audits, especially those that involve component auditors. It has been revised by requiring group audit to be managed in top down approach instead of bottom up approach. The group engagement partner is responsible for direction, supervision and performance group audit. In addition, before acceptance of the new group audit engagement, assessment must be done to assess whether sufficient evidences could be obtained for group consolidation purpose.
10	International Standard of Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements	This International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements. The standard required the firm to maintain and establish the system of quality control in the audit department such as leadership responsibilities for quality within the firm, ethical requirement and etc.

(Adapted from Nazatul Izma, 2011)

From IAASB pre-implementation monitoring report, the findings revealed there is anxiety about the application of ISAs to the audit of smaller entities, especially

whether there are able to be implemented in the cost effective manner (IAASB,2012).Despite the fact that it is prevalent amongst the accountancy bodies on the term Small and Medium Practice (SMP), this term are less widespread than Small and Medium Enterprise (SME). The definition of SMP has varied widely between countries and professional bodies. International Federation of Accountant (IFAC) defined Small and Medium Practice (SMP) as practices that exhibit the characteristic such as client are mostly Small and Medium Enterprise (SME), require external resource to supplement in-house technical resources, lack of professional staff, crucial in supporting the prosperity of the SME Sectors (International Federation of Accountant [IFAC], 2011). CPA China defined SMP as a firm with annual revenue less than 40 Billion RMB. (Hasnah et al. 2010). Considering the significant impact of Clarified ISAs and ISQC on the SMP, this study attempts to investigate the responses of SMP towards Clarified ISAs and ISQC after the implementation on January 2010.

1.1.3 Resource preparedness of SMP on Clarified ISAs and Clarified ISQC in Malaysia

Although there has been widespread adoption of Clarified ISAs and ISQC throughout the member countries of IFAC, the issue of resource preparedness to adopt Clarified ISAs and ISQC has widely been discussed between the countries and firms. Some literature indicate that implementation of Clarified ISAs and ISQC will lead to the practical issues such as review on audit methodologies, manual and software, amendment on the audit programmes and procedures,

training development for the audit staffs. (Weaver,2008/2009). Some argued the impact of Clarified ISAs and ISQC is minimal as in theory, nothing have changed. (Walsh,2009). Nevertheless, the cost and time for performing the audit are increasing (Walsh, 2009).

Prior researches in academic have focussed mainly on the adoption of International Standard of auditing (ISA) and have identified several factors influencing the adoption of International Standard of Auditing in the countries such as pressure from stakeholders (Dellaportas et al., 2008), Research done by Qasim Ahmad Al-Awaqleh,(2010) in Jordan revealed that law and legislations, size of shareholding companies, foreign investment, cost of issuing the national standards, experiences of policy makers, economize size of countries serve as pre-conditions for the audit firm to implement the ISAs. Some research suggested that, joining of large international audit network and renaming the firm of that network seem complied with the International Standard of Auditing (ISAs) (Mennicken,2008). Mennicken also claimed that joining a network is defined as “working in accordance to the standard”. It requires investment in form of organisational structure and audit methodology, cultivation of public relation, formation and maintenance of balance network within the different local and non-local alliances. (Mennicken, 2008)

There are limited researches so far to explore on the resource preparedness of SMP on Clarified ISA and Clarified ISQC in Malaysia. Nevertheless, there was

research done in Malaysia discussed on the resource preparedness on the SMP on converge with International Financial Reporting Standard (Phua et al.,2011). It basically categorizes the resource into five groups, namely intellectual resources, physical resources, financial resources, organizational resources and human resources.

In practice, feedback given to the IAASB in Phase 1 Clarified ISAs indicated that the use of complex language, long and difficult sentences and use of words give rise to the different interpretation of Clarified ISAs and ISQC. It results in the challenges to the Clarified ISAs implementation. (IAASB,2012) IAASB (2012) suggests that the firms and countries should collaborate to ensure the successful implementation of Clarified ISAs and ISQC. Guidelines given by the IAASB to smooth the adoption of Clarified ISAs are as follows:

- a) Countries: developing and communicating national adoption and implementation strategy, developing training programme.
- b) Firm: developing updated audit methodologies and software, developing training course for audit personnel, communicate to the audit committee about the impact of changes of audit performance.

In summary, the main element of the IAASB suggestions is training. In the other context, the IAASB noted that the factor contributes to the successful implementation of Clarified ISAs is training. (IAASB,2012). Therefore, the firm should be adequately managed and well prepared for Clarified ISAs and ISQC

since 1 January 2010. To ensure the successful implementation of Clarified ISAs, the current capabilities and resources of the SMP are to be assessed.

1.1.4 Timeliness of audit report

While there are several research literatures found on audit quality, there are limited literatures discussed on the audit report timeliness. Ahsan et al. (2011) discussed on the relationship of the audit report lag and industrial specialization of auditor in New Zealand. It was found those industry specialist auditors are capable to complete the audit compare to their non-specialist counterpart and it was expected to be generalized to other developed countries as well which is same institutional setting with New Zealand. In the other research done by Jasim, (2008), company size, level of ownership concentration, type of industry are the antecedents for the audit lags. Surprisingly, the auditor size is not significant determinant of the audit lags. Clearly this is inconsistent with prior literatures: DeAngelo (1981); Ashbaugh & Warfield (2003). Based on the research done by Robert et al. (1987), the audit delay is significant longer for the companies received qualified audit opinion, other industries except financial industry, not publicly traded, have poorer internal control, employed less data processing technology, has financial year end other than December and has greater relative amount of audit work after year end. Looking at the Malaysia context, research findings found that audit report lag is significantly influenced by audit type, audit opinion and firm performance. There is no evidence to be found on the effect of board independence, audit committee size, audit committee meeting and audit

committee qualification on audit report lag. (Siti & Sherliza,2012). They also found that change of regulatory to strengthen the corporate governance and financial reporting transparency increases the audit delay. Detailed empirical researches that examine on the interaction between the timeliness of audit report and International Standard of Auditing (ISA) are rare. Hence, this paper aim to remedy the gap in the literatures of timeliness of audit report by assessing the relationship between the audit delay and the Clarified International Standard of Auditing (ISAs) and ISQC

To study the resource preparedness of SMP, the strategic management concept of resource based-view theory is applied in the study. The resource-based view theory has been the subject of the strategic management literatures in the past decade. This theory explained the performance heterogeneity between the firms is derived from the resource owned by the firm (Barney, 1991, Penrose, 1959). As opposed by market driven perspective of Porter (1980) which stated that companies 'performance is mainly driven by the how well the firm fit into industry structure, the resource based view suggested that growth of the companies is best facilitated by the available resource (Penrose, 1959). According to Barney (1991), the firm resources are made up by four categories: physical resources, human resources, organizational resources and financial resources. In the other strategic management literatures, intellectual resources are added into the typology to make it more comprehensive (Newbert, 2008). This study attempts to examine whether the small and medium practice firms are well prepared in term

of resources to adopt the Clarified Standard of Auditing (ISAs) and ISQC. Combination of the resource framework suggested by Newbert (2008) and Barney(1991) have been used in this study. Apart from the level of resource preparedness based on the resource based view theory, this study also investigates the impact of the adoption of Clarified ISAs and ISQC on the timeliness of the audit report.

1.2 Research Questions

The issue of Clarified ISAs and ISQC adoption has obtained a great momentum with notable increased of adoption of Clarified ISAs and ISQC worldwide. When study the resource preparedness of SMP, several implementation issues have to be considered, for instance, the training provided to the staff, the audit methodology, audit software, network and relationship with the international organization and guidance provided by the professional accounting bodies. The internal resources play a significant role in ensuring the successful implementation. Thus, this study attempts to allow us to understand the issues of Clarified ISAs implementation by adopting the resource-based view theory.

In Malaysia, MIA and MICPA as members of IAASB support the implementation of Clarified ISAs and ISQC among the firm in Malaysia. IAASB has carried out the assessment process to evaluate the successful implementation of Clarified ISAs and ISQC worldwide. This has been carried out in two phase, pre-implementation monitoring and post implementation review. The progress report

of the first phase was released by the IAASB in November 2010. In 2012, after two years of the implementation of Clarified ISAs worldwide, IAASB begin with the post implementation review. MIA and MICPA) have followed and supported IAASB plan by adhering the deadline required by the IAASB.

In Europe, the survey done by Englund & Gidlund (2012) found that there are more audit procedures to be performed after the Clarified ISAs adoption in Sweden while the nature of audit work remain same. Further findings from the research stated more audit documentations are required as a result of the implementation of Clarified ISA and ISQC in Sweden (Englund & Gidlund, 2012) In this regard, the timeliness of issuing the audit report is at stake.

In view of these considerations, this study aims to identify resource preparedness of SMP in responses with the IAASB requirement to adopt the Clarified ISAs and ISQC in Malaysia as well as determines the impact of Clarified ISAs and ISQC on the timeliness of audit report in Malaysia. Thus, the research questions to be addressed in this study are as follows:

- a) Does the SMP's intellectual resources preparedness lead to adoption of the Clarified ISAs and Clarified ISQC in Malaysia?
- b) Does the SMP's human resource preparedness lead to adoption of the Clarified ISAs and Clarified ISQC in Malaysia?
- c) Does the SMP's financial resource preparedness lead to adoption of the Clarified ISAs and Clarified ISQC in Malaysia?

- d) Does the SMP's organizational resource preparedness lead to adoption the Clarified ISAs and ISQC?
- e) How far the extent of adoption of Clarified ISAs and ISQC affects timeliness of the audit report?

1.3 Research Objectives

The general objective of the study is to investigate the resource preparedness of Small and Medium Practice on Clarified International Standard of Auditing (ISAs) and Clarified International Standard of Quality Control (ISQC) in Malaysia. However, there are more specific research objectives that need to be address in this project.

- a) To investigate the internal resource preparedness of SMP on the level of adoption clarified ISAs and ISQC in Malaysia
- b) To investigate the impact of adoption of clarified ISAs and ISQC in the SMP on the timeliness of the audit report.

1.4 Motivation of study

Due to the globalisation, Clarified ISA and ISQC forms part of phase of the harmonisation process in the auditing profession. According to Kohlers (2009), the purpose of the Clarity project is to clarify the obligation imposes to the auditor. Following this, the basic principles and essential procedures of the standards are replaced with requirements, application, other explanatory notes, and objectives. Consequently, it is interesting to understand the impact of the change to the

resource requirement of SMP. The study should be done to assess the change of intellectual asset, computer system, Computer Assisted Audit Technique (CAATs), audit software, internal database, human resources capabilities, recruitment and training policies and procedure, relationship with the big organization, financial resource and budget, and etc. as a result from the Clarified ISAs and ISQC. The study are performed on the timely basis as IAASB is conducting the post-implementation review in year 2012 after adoption of Clarified ISA for the period of 2 years.

In spite of the intrinsic link between the field of accounting and auditing, the research of the convergence of auditing practice gained little attention compare the accounting counterpart.(Needles,1997). There were many researches on the convergence and harmonization in accounting, such as impact of the IFRS convergence on competitive advantage of the audit firm in Malaysia. (Phua et al, 2011), the factor encouraging the IFRS convergence in Romania by looking at the institutional approach and structuration theory perspective.(Albu et al, 2011), the challenge of culture factor in adopting the IFRS convergence (Mukoro .& Ojeka, 2011), analysis of two approach of implementation of IFRS convergence namely “dichotomous” approach and partial compliance unweighted approach (Ioannis & Lisa, 2010), change and plan that carried out in Indian Banking Industry in applying IFRS (Mohamad, 2011), issues on adoption of IFRS among the Small and Medium Enterprise in South African(HA & Rossouw ,2009).In the other perspective, there were few recent research literatures that carried out to

study the impact of the adoption of Clarified ISA on the audit quality (Kohlers,2009; Eglund & Gidlund, 2012). As such, this research is carried out in order to extend the literature of harmonisation in auditing practice. Specifically, this study focuses on Clarified ISA and ISQC which form the latest phase of the harmonisation of auditing practice.

This study analyse the impact of the Clarified ISAs and ISQC in the timeliness of the audit report which is the major component of audit quality. In addition, this study uses resource based view of the firm (RBV) as basis to investigate the preparedness of the firm assessing at four types of resources, namely human resources, financial resources, organizational resources and intellectual resources. This is consistent with the findings from IAASB pre-implementation monitoring report that request audit training, change of audit methodologies follows the adoption of Clarified ISAs and ISQC. The results of these findings may be relevant in identifying resource requirement for the SMP to adapt to the future change of Clarified ISAs or other rules and regulation.

Additionally, previous researches focused more on the impact of Clarified ISA and silent on ISQC which significantly differ with this study. This study attempts to examine the impact of both ISQC and Clarified ISAs on resource requirement and timeliness of audit report. Lastly, the outcomes of the study are expected to create awareness among the SMP on the significant of implementation of Clarified ISAs and ISQC in Malaysia.

1.5 Significance of study

Previous studies have been conducted to survey the impact of Clarified ISAs on the audit process (Englund & Gidlund, 2012), audit quality and quality of financial statement (Kohlers, 2009) which form the basis for this research. These surveys had been largely focused on Europe Union with little document review on the impact of Clarified ISAs outside Europe Union and developing countries. Englund & Gidlund (2012) found that impact of Clarified ISAs is significant in big audit firm rather than SMP at Sweden in term of audit process. Both audit firm either big or small argued that audit documentation requirement has increased, however they response that the actual audit works have not increased. In term of audit methodologies, big audit firm argued that, audit methodologies have changed a little bit whereas the impact to the SMP is neutral. In the other context, Kotler found that the cost increases when the audit methodologies change. The cost comprises of cost of update and change the audit methodologies, cost of audit procedure due to the change of audit methodologies. In addition, he also claimed that the first time cost is higher than recurring cost in responses to the change in audit methodologies. By conducting this study in the Malaysia context, the result is expected to address the above shortage by looking at the Clarified ISAs and ISQC in Malaysia. The findings might be generalized to other developing countries or the countries which is similar with Malaysia context such as Singapore, Thailand, Indonesia and Filipina. The results of the study are expected to be used by the accountancy bodies such as MIA and MICPA, accounting regulators such as Securities Commission (SC), Bursa Malaysia in

formulating the policies, rules and regulation relate to the auditing profession. They can understand the issues of Clarified ISAs and ISQC such as the resource requirement of the adoption, the ways that Clarified ISAs and ISQC affecting the audit report timeliness. Furthermore, barriers and factors enhance or impede the Clarified ISAs and ISQC could be assessed. This study addresses the previous research gap by examining in adequate detail of resource based view theory in SMP and how it links to audit quality. Hence it, provide foundation of future research opportunity. Lastly, the reference could be done by other professional entities such as legal firm, architecture firm and the big 4 audit firm in assessing the impact of new regulation in their profession

1.6 Organization of study

This study comprises of five chapters. The Chapter 1 provides an introduction on the background of Clarified ISAs and ISQC in Malaysia. The research questions and objectives, motivation of study are also briefly discussed in the chapter. The chapter end with significance of the study.

Chapter 2 seeks to provide the thorough discussion of the resource based view theory which is used as basis for the study and literatures review on timeliness of audit report. The discussion further elaborates the link between the resource based view theory, Clarified ISA and ISQC and timeliness audit report.

Chapter 3 is concerned with the methodological approach adopted in this study, encompassing the theoretical framework, data collection and analysis approach. The discussion begins with the research framework, and development of the hypothesis. Subsequently, this chapter deliberates on the measurement of the research variables, constructs development and operationalization, sampling and data collection method. Finally, it explains the detail technique used to analyse the data and administration of questionnaire.

Chapter 4 of research findings and results showed the statistical results and analyses of the data. It presents the explanation of the descriptive statistics obtained from the data collection procedure. The hypotheses were been tested and analysed. The results from this chapter provide general information of the adoption level of Clarified ISAs and ISQC, resource preparedness and timeliness of audit report which formed the key contribution of the study.

Chapter 5 of conclusion and recommendation provides a general overview and summary discussion and findings of the proposed model developed in the study. Further, the implication, limitation and potential area for further researches have been discussed. Finally, the chapter concludes that, this study contributes to the knowledge of Clarified ISAs and ISQC and extends the literature of harmonization of auditing standard.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Clarified ISAs and ISQC are the global standard developed with the aim to increase the comparability, encompassing a cross-national coordination and cooperation. The purpose of this chapter is to unearth and study the previous body of literatures published on this two areas namely resource based view theory and timeliness of audit report. In addition, application of resource based view theory on Clarified ISAs and ISQC as well as the impact on the audit report timeliness is also discussed. Section 2.1 summarizes the extent of literature on the general background on the resource based view of the firms; Section 2.2 discusses on the relevance of resource based view theory of the firm on Clarified ISAs and ISQC. From Section 2.3 until Section 2.6, the sections provide detail discussion on four resources developed by both Barney (1994) and Newbert (2008) and its relevance with the resource preparedness of Clarified ISAs and ISQC. Section 2.7 details the general overview of the audit report timeliness literatures. Section 2.8 provides the discussion on the link between adoption of Clarified ISAs and ISQC and timeliness of audit report. And finally, Section 2.9 summarizes the conclusion achieved by the literature review.

2.1 Background of resource based view theory

Resource based view of the firm has constantly gained interest among the scholar in strategic management study to assess the competitive advantage of

the firms. Historically, resource based view theory had evolved over the time since it was first introduced by Penrose (1959). According to him, firm is described in bundle of resource, and the growth of the firm are due to the management of the available resource owned by the firm (Penrose,1959). Barney (1994) further explained that the resources comprise of assets, capabilities, process, attributes, knowledge and know-how that possessed by the firm which will provide competitive advantage of the firm (as cited in Rivard et al, 2006). Peteraf (1993) illustrated that variation of the performance of the firm within the same industry are due to their internal idiosyncratic capabilities (as cited in Aron & Ranjit,2011). It means that in order for the firm to achieve the competitive advantages, the resources owned by the firm must heterogeneity (Mata et al,1995) and immobility (Barney,1991). From the explanations, heterogeneity refers to the resources owned by the firm are “value” and “rare”. It does not be owned by competitors. Hence, heterogeneity is required for the temporary competitive advantage (Ribard et al, 2006). Immobility refers to “inimitability” and “non-substitutability” characteristic of the resource which contributes to the sustainable competitive advantage. Later, numerous researchers identified several characteristic of the resources that contribute to the competitive advantages: inimitability, durability, appropriability, substitutability and competitive superiority (Collis & Montgomery,1995); complementarily, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors (Amit & Shoemaker,1993).

By achieving the competitive advantages, the firm performance would be improved.

Significant findings have been further developed by Henderson & Cockburn's (1994). Their seminal study of pharmaceutical firms demonstrated that competitive advantage is not significantly related to the specific resource owned by the firm, instead the characteristic of the resource owned by the firm itself. In this regard, the firm performance tends to be better if the resources owned by the firm possess certain characteristics. Later, Newbert (2008) did a study to address the gap to assess the value and rareness of the resource-capability in contributing to the competitive advantage.

Despite the characteristics of the resources, capabilities play a significant element in achieving the competitive advantage of the firm (Penrose, 1959). The firm will only achieve the competitive advantage when the resources can be deployed effectively. Subsequently, further researches elaborate the distinction between competitive advantage and firm performance (Peteraf & Barney, 2003; Coff, 1999; Datta et al, 2005). Competitive advantage is generally referred to as the ability of the firm to reduce costs, exploit market opportunities, and neutralize competitive threats. It is referred to as the economic value created by exploiting the firm's resource-capability combination. In other contexts, firm performance is referred to as the economic value that the firm captures through commercialization (Newbert, 2008). Based on this explanation, the firm may achieve competitive

advantage but it does not promise the good firm performance (Durand, 2002). There are many factors that contribute to the firm performance. Brush et al. (1999) revealed that corporation strategy accounted for 10% of the performance of the business unit. Oppositely, the firm may effectively implements the resource but still yet to achieve the good firm performance.

Looking at the development of the resource based view theory, the resource categories have been identified for empirical research purpose. The earlier typology introduced by the Barney (1997) made up by four categories of resources, : financial, human, organizational, physical resources. In the research undertaken by Newbert (2008), intellectual resources were added to the typology in order to suit to micro and nano-technology industry which was target respondent in the research.

The resource based view theory was further developed and the sub field had been spawned on such as knowledge based view on the firm (Martín-de-Castro et al, 2011). This theory focused on the Intellectual Capital of the firm in developing competitive advantage. Despite of the numerous literatures using the resource based view of firm as a underlying theory for the researches, several limitations have been found by the researcher. For instance, the resource based view theory is unable to identify whether the firm has unique capability independent from each other that contribute to the firm performance (Carter, 2008; Priem & Butler, 2001). The theory of resource based view has also been

criticised that it is only concerned on the roles of the valuable asset and does not have the theory of value from the neo-classical perspective (Bowmana & Tomsb,2010). The value creation process tends to be ignored in the resource based view theory of the firm whereby emphasis on the reconciliation between the value bargaining and value creation is necessary in future. At one view, the roles of human resources are significant in creating the value of the firm through adaptive learning process (Lippman & Rumelt, 2003). In the other view, the value is merely come from the market interaction (MacDonald & Ryall., 2004)

The resource based view theory has been applied in wider business disciplines. It was used in assessing the value of information technology to the firm performance (Rivarda et al. 2006), international business field (John, 2002); political marketing (Aron & Ranjit ,2011); human resource area (Holltbrugge et al,2010); accounting (Yahya Kamyabi & Susela Devi,2011), audit industry. (Maijoor & Witteloostuijn,1996). In Malaysia, resource based theory has also been used to analyse the competitive advantage of the audit firm in adopting international financial reporting standard (IFRS) (Phua et al. 2011; Phang & Nurmazilah Mahzan, 2012)

To summarize, resource based view theory attempts to study the importance of firm-specific capabilities in achieving competitive advantage (Henderson& Mitchell,1997). In this study, the resources have been categorized by adapting the Newbert model which is made up by four categories: Intellectual resources,

human resources, organizational resources and financial resources. The above literatures provide the basis understanding on the resource based view theory in achieving competitive advantage of the firm. The next section demonstrates how each resources (Intellectual, financial, human and organizational resources) can influence the adoption level of Clarified ISA among SMP, and further achieve the timeliness of audit report which form the competitive advantage of the firm.

2.2 Resource based view theory and Clarified ISAs and ISQC

As mentioned in previous section, resource based view theory has been applied in various discipline. Nevertheless, there are limited researches has been done in the audit industry (Maijoor & Witteloostuijn,1996; Phua et al, 2011). Thus, it motivates the researcher to focus on using the resource based view theory in audit industry which forms the underlying principles of this study. This study attempts to determine the various resource preparedness of SMP in adopting the Clarified ISAs and ISQC. It further investigates the link between level of adoption of Clarified ISAs and ISQC and timeliness of audit report. As a result, it extends the resource based view theory literature by investigating the mix of resources of the firm in contributes to better audit performance (audit report timeliness).

In the move toward Clarified ISAs and ISQC among the audit firm in Malaysia, resource preparedness is crucial. According to Ahava (2012), audit transition due to the Clarified ISAs requires the firm to revise it audit guidance and audit methodology to reflect such change. Audit training in term of control procedure

need to be rectified (Ahava, 2012). Furthermore, there is an issue of lack of resources when there is change of audit regulation such as the human resource and time (Gin et.al. 2011). In this regard, further actions are carried out by the firm will increase the cost of compliance, such as regular in-house training, continuous professional education, insurance premium of audit liabilities, retention challenge and audit documentation (Gin et al, 2011). It is further supported by the study in United Kingdom Auditing Practice Board (APB) that indicated that adoption of Clarified ISAs will increase the cost of SME audit by 9.6% per average. Nevertheless, it depends on the extent of methodologies of the audit firm incorporating the new requirement of Clarified ISAs (Nicholas, 2010).The impact of the cost increased will need to be considered by the auditor such as the impact to the client, impact to the practices, audit approach tools, supporting materials and manuals. In addition, the impact of ISQC (and its related ISA 220 Quality Control for an Audit of Financial Statements) on their processes and controls are need to be investigated on the timely manner (Walsh,2009). Besides, the revision of audit methodologies, the auditors will need to modify their work programs, including both general and specific procedure (Lisa, 2011).

Clearly, there is substantial change from audit methodologies, audit processes, audit training, human capabilities, audit approach tools, cost and etc after the change of Clarified ISAs and ISQC. As such, there is crucial for the firm to be well prepared in term of human resource, intellectual resource, organizational

resource, and financial resources. The next section will demonstrate the influences of four resources namely human, financial, intellectual and organizational resources in responses of the Clarified ISAs and ISQC in Malaysia institutional context.

2.3 Intellectual resources and adoption of Clarified ISAs and ISQC

One of the sub branches of resource based view of the firm is intellectual capital based view of the firm (Martín-de-Castro et al. 2011). The concept of intellectual capital has basically emerged recently. This emphasises on the knowledge asset and its application to the economic wealth which is relative new nowadays (Kong, 2010). Basically the term “intellectual capital” was first originally by Teece (Dean & Kretschmer, 2007). Steward (1998) stated that intellectual capital is the sum of the knowledge possessed by the employee in the firm that confer it with competitive advantage. In other definition, intellectual capital is the difference between the market value of the company and the replacement cost of its assets (Bontis, 1996), a set of intangibles, off-balance, allowing the firm to operate, creating value to it (Bueno, 1998 as cited in Florinda et al, 2012). Further, Edvinson & Malone (1997) proposed a model, which divides intellectual capital into two levels: human capital and structural capital (as cited Florinda et al. 2012). Human capital is referred to tacit and explicit knowledge which employee possesses and their ability to generate it and bring advantage to the organization. Structural capital is referred to technological capital and organizational capital. In this context, the former is defined as combination of knowledge linked to the technical system of

the organization whilst the latter is referred to combination of knowledge that forms the organizational activity of the organization. For the purpose of this study, the scope of intellectual capital is limited to the technology capital. The component in the technological capital includes effort in the research and development, technological infrastructure (information and telecommunication system), intellectual and industrial property (Patents, prototypes, trade secrets, design rights, registered trademarks, licenses)(Marti´n-de-Castro et al. 2011).

In regard with the implementation of technology in audit perspective, audit technology basically encompasses full set of tools that available for the auditor in order for them to gather the audit evidence (Fischer et al.1993). It basically made up by two categories, namely technologies automate the existing established audit procedure, and technologies that introduce the new approach for auditing (Fischer et al.1993). Example of audit technologies include groupware (Winograd et al. 2000), computerized decision aids (Bell & Carcello, 2000 as cited in Lovota et al.1988), Generalized Audit Software (GAS) (Lovota et al. 1988),Computer Assisted Audit Technique (CAATs). CAATs is computer tools that extract and analyse data from computer applications (Janvrin et al. 2008). Audit technologies cannot only improve the efficiency of the audit procedure (Fischer et al. 1993; Zhao et al. 2004), but also improve the effectiveness of audit (Braun & Davis, 2003).

The audit technologies will change in responses with the cultural, economic and social environment (Latour,1993). Implementation of Clarified ISAs and ISQC encourages the auditor to be more meticulous on the risk assessment procedure. (Nazatul Izma, 2011). It leads to emergence of the new audit technologies. As technologies development is viewed as competition weapon of the professional service industry, it is not doubt that the audit technologies will changed as a consequence of the implementation of the Clarified ISAs and ISQC. Fischer (1996) suggested that the substitution of procedures by new audit technologies is the attempt by auditor to reduce procedures and costs. In the context of study of the relationship between audit technology and Clarified ISAs and ISQC, development of audit technologies are described as process in the social construction as indicated by three element origin from Berger & Luckmann (1966) namely: externalization (the process through human activity external to the individual), objectivation (the process through human activity attain the character of objectivity) and internalization (the process through which the objectivised social world acts back upon the producer through socialization). Robson et al (2007) in their research revealed that technologies are the product of construction of the audit field. It is able to encourage the re-construction of the audit field when technologies is promoted and enacted by the audit firm. The term co-construction of technologies and audit field is used in this context (Robson et al. 2007). In the simple words, audit technologies could be change in responses with the pressure from the social environment and stakeholders. Such change draws the actions of the auditor which change the audit field in return. In

the context of Clarified ISAs and ISQC, it means that the change in audit technologies plays critical roles in adoption of Clarified ISAs and ISQC. In contrast, it means the adoption of Clarified ISAs and ISQC exert pressure to the change in audit technologies.

There were other prior literatures supported high investment in intellectual capital particularly information technology in audit firm (Banker et al. 2002). They found intellectual capitals enable the audit firm to automate the routine audit work and improve the collaboration with the audit team. In this regard, audit firm that make use of the sophisticated technology will improve its productivity (Shin, 2006). Some qualitative evidences suggested that audit software reduces the time for working paper preparation, facilitates the decision-making process, collaboration and improves decision quality (Shin, 2006). This is coincidence with the new requirement of Clarified ISAs and ISQC to improve the audit documentation. In Slovenian, lack of ISA-compliant software with an integrated audit methodologies caused the impediment to Clarified ISAs and ISQC (Metka, 2011). In this regards, it is presumed that there is positive association between the level of intellectual resource preparedness and adoption of Clarified ISAs and ISQC.

Based on the discussion above, the first hypothesis is as follow:

H1: There is a positive association between level of intellectual resource preparedness and level of adoption of Clarified ISAs and ISQC.

2.4 Human Resources and adoption of Clarified ISAs and ISQC

Other important resources in Newbert resources model is human capital. According to Marti'n-de-Castro et al. (2011), human capital is referred to tacit or explicit knowledge which employees possess and their ability to generate the knowledge, which is useful for the firm. This includes values and attitudes, aptitudes and know-how. Hsu & Fang (2009) further explained that human capital is knowledge embedded in employees and it may be taken away by employees, such as competence, experience, knowledge, skills, attitude, commitment, and wisdom.

Generally, human capital can be examined in several dimensions. Klenow & A Rodriguez-Clare (1997) classified human capital in two categories namely general human capital and specific human capital (Klenow & A Rodriguez-Clare,1997). General human capital is referred to the former university education while specific capital is referred to the work experience. Marti'n-de-Castro et al. (2011) further categorized human capital into three dimensions, namely knowledge, abilities and behaviours. In the context of professional service firm, the human capital has been categorized into experience and abilities, professional development, and worker permanence (as cited in the Marti'n-de-Castro et al.2011). The experience and abilities is defined as personal experience and personal abilities owned by the employee in the firm. These encompass the education level of the employee, employee know- how, employee wisdom. Professional development comprises of company recruitment policy,

promotion plan, and remuneration policy and job satisfaction of the employee. Worker permanence is the ability of the firm to retain talented employee, professional training that provided by the firm to nurture the employee's ability. Brocheler et al. (2004) in their research done on the relationship between human capital and firm survival find that the human capital is main determinant of the audit firm performance.

Prior literatures found that organizational knowledge is a mean of gaining and sustaining competitive advantage for the firm. The professional service firm (PSF) model suggested that knowledge owned by the professional firm is not owned by a professional firm but it is regulated by the institutions of the occupational group (Abbott,1991). In term of accounting and auditing practice in Malaysia, the institution mentioned above is referred to MICPA and MIA, the knowledge base on the audit professional practice is International Standard of Auditing (ISA) formulated by IAASB. Further, this expertise would increase with the seniority. In the professional accounting firm, the junior staffs who have acquired the accounting education will gain the work experience while working in the professional firm. Later, they would be trained in the specialised industry to meet the client need. This industry specialised knowledge is presumed to increase the audit quality of the firm (Ahsan, 2011) and reduce the audit delay (Ahsan & Md.Borhan, 2011). Gilson & Mnookin (1985) stated that personal knowledge increased with increase productivity and satisfaction. While the knowledge could be derived from codified professional standard, the knowledge

of the professional service firm may also derive from the relationship with the client. Standardisation of the process is rare as the professional service firm is deal with client that may work in the turbulent environment with high uncertainty. This leads to the deployment of the interpersonal skill, built up the professional image of the employee (Alvesson, 1993). In summary, it is noted that the knowledge of professional firm is made up by codified auditing standard, knowledge of a client and industry and interaction between the group, knowledge of firm policy and collective tacit knowledge embedded in the routines of groups of people, such as the culture, norm of the organization (Morris & Empson, 1998). In implementing the Clarified ISAs and ISQC, IAASB suggested the national professional accountancy bodies and firm to provide the training to the staff to implement the Clarified ISAs and ISQC (IAASB, 2012). Possibly, this indicates the human capital quality is crucial on successful adoption of Clarified ISAs and ISQC .According to Metka (2011), education level of the employees plays critical role in adoption of ISAs. In Malaysia, MIA has provided several Continual Professional Education (CPE) training program for member to learn the specific aspect of Clarified ISAs such as ISA600, Audit of Group Financial Statement. The World Bank's Report on observance of Standards and Code found the lack of knowledge of the International Standard make the firm difficult in implementing the International Standard. While there is dead of empirical evidences in the prior period between the human capital capabilities with the convergence of International Standard of Auditing, the empirical evidences done on the IFRS convergence can be used as reference. The results of PricewaterhouseCoopers

survey of more than 300 European companies showed that just 10% of respondents are confident they have the right people and skills in place to complete the transitions to IFRSs in the Europe Union on time. It reflected the shortfall of the knowledge impede the IFRS adoption in the countries and firm. (as cited by Wong ,2004). Apart from that, Financial Reporting Framework published in 2008 stated that the skill and personal qualities of audit partners is one of the drivers of the audit quality (Kohlers,2009). In Malaysia, the main challenge for the adoption of Clarified ISAs and ISQC is human capital resource and high turnover of staff (Nazatul Izma,2011). In view on the above comprehensive discussion, it may be presumed the important of human resource in increasing the adoption of Clarified ISAs and ISQC.

Therefore, second hypothesis are proposed, as shown below:

H2: There is a positive association between level of human resource preparedness and level of adoption of Clarified ISAs and ISQC.

2.5 Financial Resources and adoption of Clarified ISAs and ISQC

Kohlers (2009) in his research on the adoption level of Clarified ISAs and ISQC stated that the first time cost of engagement increased after the adoption of clarified ISAs and ISQC in Europe. He further illustrated the increase of costs are associated with the size of the audit client. In this respect, the Clarified ISAs and ISQC is expected to exert pressure to audit firm to build up its financial resource. The financial resource of the audit firm influenced from several factors such as

audit fee and revenue received from the audit firm, firm size, profitability of the firm and type of the audit client.

The lower audit fee or significantly lower audit fee will create a doubt on the ability of Public Accounting Firms in applying the professional audit standards. This is because the audit time budget is reduced due to insufficient audit fee charged by the audit firm (as cited in Ely Suhayati,2012). Due to the limited time budget, the auditor will become depressed and dysfunctional behaviour tends to be increased (Cook & Kelly,1991). It will further affect the audit quality due to failure on review process of quality control (Malone & Robert ,1996). ISQC required the firm to establish the quality control system that included the ethical requirement, leadership responsibilities for the quality, human resources, acceptance of client relationship, engagement performance and monitoring. Clearly, there is need of financial resource in implementing such quality control policies. Gin et al (2011) revealed that the adoption of ISAs required large portion of their budgets in conducting training, sending staff for CPE, paying higher premium insurance on audit liabilities, maintaining the working paper. In Malaysia, SMP was highly constrained with the low audit fee (Nazatul Izma,2011). Simultaneously, it constrained the ability of the SMP to build up in capability in term of change of technology, human capital as a result of change of Clarified ISAs and ISQC.

Other indicator of the financial resource is the size of the firm. The big audit firm tends to enjoy economic of scales which has lower operating cost. Normally, International standard adoption mostly affects the big firm (Phua et al, 2011). In addition, the growth of the firm is highly relying on the audit client they serviced. The listed companies and multinational companies contribute the large portion of the firm revenue as compared to the small companies (Phua et al, 2011). Previous studies in Korea documented that Big Six auditors charged higher audit fees than non-Big Six audit firm. It was further proved that the big audit firm provides higher audit quality than non-big audit firm (Seok & Rhob ,2004). Based on the above discussion, it was found that the big audit firm has stronger financial resources as the firm charged high audit fee and has big client such as listed and multinational companies.

Lastly, the number of the partner of the firm also determines the strength of financial resource of the firm. One of the antecedents of firm size is number of partners in the firm. Mustofa (2009) defined that the big audit firm must have more than 10 partners in 3 years consecutively. The more audit partners are able to generate more revenue to the firm, and therefore the firm are able to use the financial resource to adopt the Clarified ISAs and ISQC which provide quality audit service to the audit client.

Based on the above discussion, the third hypothesis is posited as follow:

H3: There is positive association between the financial resource preparedness and level of adoption of Clarified ISAs and ISQC

2.6 Organizational Resources and adoption Clarified ISA and ISQC

According to Fernánde et al.(2000), organizational resources are referred to the organizational context for the employee to work with and communicate to each other. It should not be static in nature and will change in responses with the environment. They further articulated that organisational resources are norm and guideline, organisational routine, database, corporate culture, its strategic alliances and so on. Norm and guideline comprises of standard administrative procedure of the firm. Normally, it resides in the organisational routines and is not properly written. It might form part of the corporate culture which is people independent. A database constitutes the important information source that contributes to the competitive advantage of the firm. A typical example is the client database, supplier database, price list of the competitor and so on. In the audit industry, it may refer to the knowledge database such as the IFRS and auditing standard. An organisational routine is defined as a normal, predictable pattern of activity which is put in practice when the organisation faces a specific problem or stimulus (Nelson & Winter,1982). In responses to the turbulent environment, the organisation may modify the organisational routine. The revised organisational routine is formed as a result of the organisational learning (Fernánde et al. 2000). The organisational cultures are defined as a way of doing things in the organization. It refines the behaviour pattern of the organisation. It includes the expectation, rituals, work norms, values, principles accepted by the workers in the organisation. The interaction between the members of the firm, collective organisational learning process and experience

sharing among the members form the basic element of the organisational culture. Apart from above, the leader perception of the issue, the problem solving skill, organisational reward and selection, promotion procedure either formal or informal also form the organisational culture (Schein,1985).The last component of the organisational resources as stated in the Ferna´nde et al (2000) framework is cooperation agreement between the firm with the outsider such as customers, suppliers and competitors. The positive effect of forming such relationship is to reduce the risk, sharing of resource and knowledge, flexibility in adapting to the environment. The example of cooperation agreement is the franchisee agreement, licensing agreement (Hall, 1992).The legal enforcement ability of the document avoids duplication and it further forms a competitive advantage of the firm. Likewise, organisational culture is difficult to be imitated as well (Barney, 1986). In overview, the organisational resource, namely organisational culture, human resource policies and cooperation agreement contribute to the competitive advantage of the firm (Galbreath, 2005).

In the process of adoption of Clarified ISAs and ISQC in the audit industry, the change of organisational norm and guideline which referred to audit firm methodologies, process and procedure, quality control policies are required as requested by the ISQC (Englund & Gidlund,2012). When the national worldwide started applying International Standard of Auditing (ISA), the member of the IFAC committed to meet the following guidelines as documented in Nicholas (2010)

- a) Maintain quality control standards in accordance with International Standards on Quality Control issued by the IAASB in addition to the national standard applied by the firm.
- b) Following the policies and methodologies that conform to ISAs and
- c) Have policies and methodologies that complied with the IFAC Code of Ethics for Professional Accountants.

In view of the above, the firm methodologies is significant in adoption of the Clarified ISAs and ISQC, it is noted that the revision of the firm methodologies is crucial in preparing the firm for the adoption of Clarified ISAs and ISQC. According to the research literature from Mennicken (2008), the firm will be recognised to adopted the ISAs when the firm joined the large international audit network (Mennicken,2008). In term of organization culture, Financial Reporting Council (FRC) prescribes that the culture within the audit firm contributes to the audit quality of the firm. Similarly, the effectiveness of the audit procedure adopted by the firm also contributes to the positive audit quality (Australia Financial Reporting Council [AFRC],2010). Liu et al.(2010) articulated that the control orientation type of the organizational culture will increase the level of adoption of the internet based supply chain system. Therefore, firm culture will lead to the high level of adoption. Besides, the survey done in Sweden by Englund & Gidlund (2012) revealed that the change of audit methodologies and audit process are essential in adopting the Clarified ISAs and ISQC

As a consequence of the above discussion and support from the previous literatures, the following hypothesis is proposed:

H4: There is a positive association between the organizational resource preparedness and level of adoption of Clarified ISAs and ISQC

The prior section discusses the impact of the resource preparedness of the SMP on the perceived level of adoption of the Clarified ISA and ISQC. The following two sections will look at the impact of adoption of Clarified ISAs and ISQC on the audit report timeliness. The first section will present the previous literature on the audit report timeliness while the second section will discuss on the link between timeliness of audit report and Clarified ISAs and ISQC.

2.7 Timeliness of audit report

Timeliness is one the important qualitative characteristic of financial information. This has been stressed in Malaysia Financial Reporting Conceptual Framework. Paragraph 29 mentioned that timeliness of the financial information is able to influence the decision of the user of the financial information (Malaysia Accounting Standard Board [MASB], 2007). As the financial statement would not be published without being audited, this is crucial to examine the time lag between the financial statement year ends and date of issue of audit report. The term “audit delay” has been used to explain above time lag (Robert et al. 1987). Davies & Whittred (1980) found that the shorter audit delay, the more benefit the users of financial statement will receive from the financial information.

Several studies had been done to investigate the audit report timeliness in many part of the world. Most studies focus on large developed countries such as the United States, Canada, Australia, Hong Kong, New Zealand, and China (Courtis, 1976; Gilling,1977; Davis & Whiltred,1980; Garsombke,1981; Ashton et al.1987; Ashton et al.1989; Carslaw & Kaplan,1991; Ng & Tai,1994; Simnett et al.1995; Jaggi & Tsui,1999; Wang & Song, 2006 as cited by Al-Ghanem & Hegazy, 2011). Several factors were analysed in previous research on audit report timeliness which included size of the audit firm (Givoly & Palmon,1982), qualification of audit opinion (Davis & Whittred,1980; Whittred,1980), Financial year end (Davis & Whittred,1980;Garsombke,1981),operational complexity(Givoly & Palmon,1982),internal control quality (Givoly & Palmon,1982), company industry(Ashton et al.1987), management discretion (Givoly & Palmon,1982),non-audit service provided by the auditor(Lee et al. 2009), and auditor industry specialization (Ahsan & Md Borhan,2011). Despite the relationship between audits delays and a variable has been examined, there are numerous studies done on the mixed impact of a group of variables on the audit report timeliness. In United States, Ashton et al (1987) investigated multivariate relations between audit delay and 14 variables namely total revenue, industry, public and non-public classification, financial year end, quality of internal control, relative mix of audit work performed in interim and final period, operational, reporting, financial and data processing complexity, number of years the client has been audited by the auditors, current year net income, ratio of net income/ loss to total asset, type of audit opinion. This study started to consider the

impact of the characteristic of the audit firm on the audit report timeliness, namely numbers of years of audit experience with the client and relative mix of audit work. It was found that the impact of the revenue, quality of internal controls, operation complexity, relative of audit work performed at interim and final and public or non-public classification are significant.(as cited by Al-Ghanem,&Hegazy,2011). In New Zealand and Hong Kong, both Carslaw & Kaplan (1991) and Ng & Tai (1994) studies articulated that company size is a significant factor affecting the timeliness of the audit report. Nevertheless, the degree of diversification has found to be positive directly to the audit delay in Hong Kong. In Australia, the audit opinion, timing of the financial year end and profit determine the audit report timeliness (Simnett et al,1995). Meanwhile, in Pakistan, the study showed that number of subsidiaries for multinational companies is significant inverse association with audit delay. (as cited by Al-Ghanem,& Hegazy,2011). Similarly, research done by Al-Ghanem & Hegazy (2011) in Kuwait on 149 and 177 companies listed on the Kuwait stock market in 2006 and 2007 contended that company size, liquidity, company leverage, and type of auditors are negatively correlated with audit delay.

In Malaysian context, research has been performed to examine the relationship between corporate governance and audit report lag (Mohamad et al.,2010). Their study aims to assess the relationship between seven independent variables (Audit committee size, audit committee independent, audit committee meeting, audit committee financial expertise, board size, board independence, CEO

duality) and the audit report lag. Results reflected that audit committee size and audit committee meeting have significant negative association with audit report lag.

In Malaysia, Securities Commission and Companies Commission of Malaysian plays a significant enforcement mechanism to ensure timely reporting of financial result of the company. Section 165 of the Company Act, 1965 requires the company to lodge the annual return which includes the audited report within one month of the Annual General Meeting (AGM). Simultaneously, Section 143 further prescribes that the Annual General Meeting should not been held more than 15 months after the preceding AGM (Companies Commission of Malaysia [CCM], 2008). In addition to that, according to the Income Tax Act, 1967, the companies are required to file the tax return within 7 month after the financial year end. As the tax return need to be assessed based on the audited financial statement, it means that the maximum audit delay is 7 month for the company. (Income tax Act, 1967). For the public listed company, there is more stringent rule because the Chapter 7, Bursa Malaysia Listing Requirement stated that interval between the financial year end and the date of issue of audited account should be within 4 month. (Bursa Malaysia, 2012).

Based on the above discussion, it was found that the timeliness of audit report is vital in ensuring the quality of financial reporting. As timeliness has been renowned as one component of the audit quality, the timeliness of audit report

would be used as an assessment criterion for the auditee to assess the competitive advantage of the SMP. In the next section, the impact of adoption of Clarified ISAs and ISQC on the timeliness of audit report would be examined in detail.

2.8. Timeliness of audit report and Clarified ISAs and ISQC.

In the absence of literature on Clarified ISAs and ISQC, the relationship between the timeliness of audit report and regulatory framework change would be used as supportive bases. For instance, in term of the development of IFRS convergence, the nature of audit works is changed and IFRS convergence definitely affects the audit report timeliness. Prior researches had been done in Malaysia to determine the impact of adoption of FRS 138 on the audit delay based on 2,440 company year observations in Malaysia. The available information based on the main board and second board of Bursa Malaysia supported the hypothesis that there is significant increase of audit delay after the adoption of FRS138, Intangible asset in the financial report (Najihah & Ayoib, 2012). The same author had also performed the study on impact of IFRS convergence in general on audit report timeliness. The findings found that the IFRS convergence significantly increase the length of the audit firm to issue audit report (Najihah, 2011). There is similar research undertaken on the impact of change of other regulatory on audit report timeliness. The typical example is the impact on introduction of Section 404 of Sarbanes-Oxley Act 2002 (SOX) by Ettredge et al. (2006). Such introduction mandate the quarter review of the financial statement increased the burden of

the auditor. Subsequently, result revealed that the new requirement would lengthen quarterly earnings announcement by three days. In addition, the study also found that the present of material weakness in internal control is associated with longer audit delay in the post SOX era. Karim et al. (2006) speculated that the significant negative impact to the timely provision of audit report after the implementation of new regulation in Bangladesh namely the revised Companies Act enactment, stock market crash and Securities of Exchange Rules. It further supported the study done in US on the impact of Sarbanes Oxley Act. In Malaysia, introduction of Malaysia Corporate Code of Governance [MCCG], 2001 also affects the timeliness of audit report. The studies done by the Mohamad et al (2010) articulated that new requirement to increase member of audit committee and frequency of audit committee meeting has negative relationship with the audit delay. Nevertheless, the requirement of independent directors by MCCG 2001 prolongs the audit report lag. To summarize, it indicates that the change in regulation does not necessary result in the increase audit report lag of the organization. On the contrary, it is highly rely on the specific provision of the new regulation.

According to Nazatul Izma (2011), the Clarified ISAs and ISQC impose further requirement on the areas of audit documentation, auditing of accounting estimates, evaluation of misstatements, using the work of expert, audit of related party, communication to those charged with governance and group audits. These add the burden of the auditors, and it is observed that it will cause the audit delay.

Thus, the adoption of Clarified ISAs and ISQC will expect to lengthen the audit delay or negatively associated with the timeliness of the audit report.

As such, the last hypothesis is offered as follow:

H5: There is a negative association between level of adoption of Clarified ISAs and ISQC and the timeliness of audit report.

2.9 Summary

Based in the above discussion, present chapter provides an overview on the resource based view theory, the application of resource based view theory on Clarified ISAs and ISQC by looking at the Newbert resource typology of financial resources, intellectual resources, human resources and organizational resources. The previous studies showed that the resource based view was seldom applied in the auditing industry and in term of Clarified ISAs and ISQC. Similarly, limited researches have done on the impact of Clarified ISAs and ISQC on the audit report timeliness. Hence, a gap has been identified and there create a motivation to study the responses of SMP on Clarified ISAs and ISQC. In the next chapter, the research framework and research methodology would be presented.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers the research methodology which includes the research design, research framework and hypothesis generated in order to assess the responses of SMP on the Clarified ISAs and ISQC in Malaysia. This study was carried out using the questionnaire survey in order to assess level of resources preparedness that affect the adoption of Clarified ISAs and ISQC among SMP in Malaysia through the lens of resource based view. Further, the audit report timeliness will be investigated as an impact of Clarified ISAs and ISQC.

The chapter is organized as follows: Section 3.1 outlines the research design. Section 3.2 presents research framework, section 3.3 discusses on the hypothesis development. It is followed by the section 3.4 which describes the measurement of research variables. Section 3.5 presents on the sampling design and data collection procedures. Section 3.6 prescribes the unit of analysis. Section 3.7 and Section 3.8 discusses on the measurement development and administration of questionnaire respectively. The last two sections discuss on data analysis procedure and present the summary.

3.1 Research design

Donald & Pamela (2008) contended that research design could be defined in many ways: the blueprint for the collection, measurement and analysis of data;

aid given to the researcher in allocation of limited resources by selecting the appropriate methodology; plan and structure of investigation to obtain the answer for the research questions; overall programme of the research, include developing hypothesis and implication of the final analysis; the framework , organization or configuration of relationship among variables of the study; plan to obtain empirical evidence to prove those relationship.

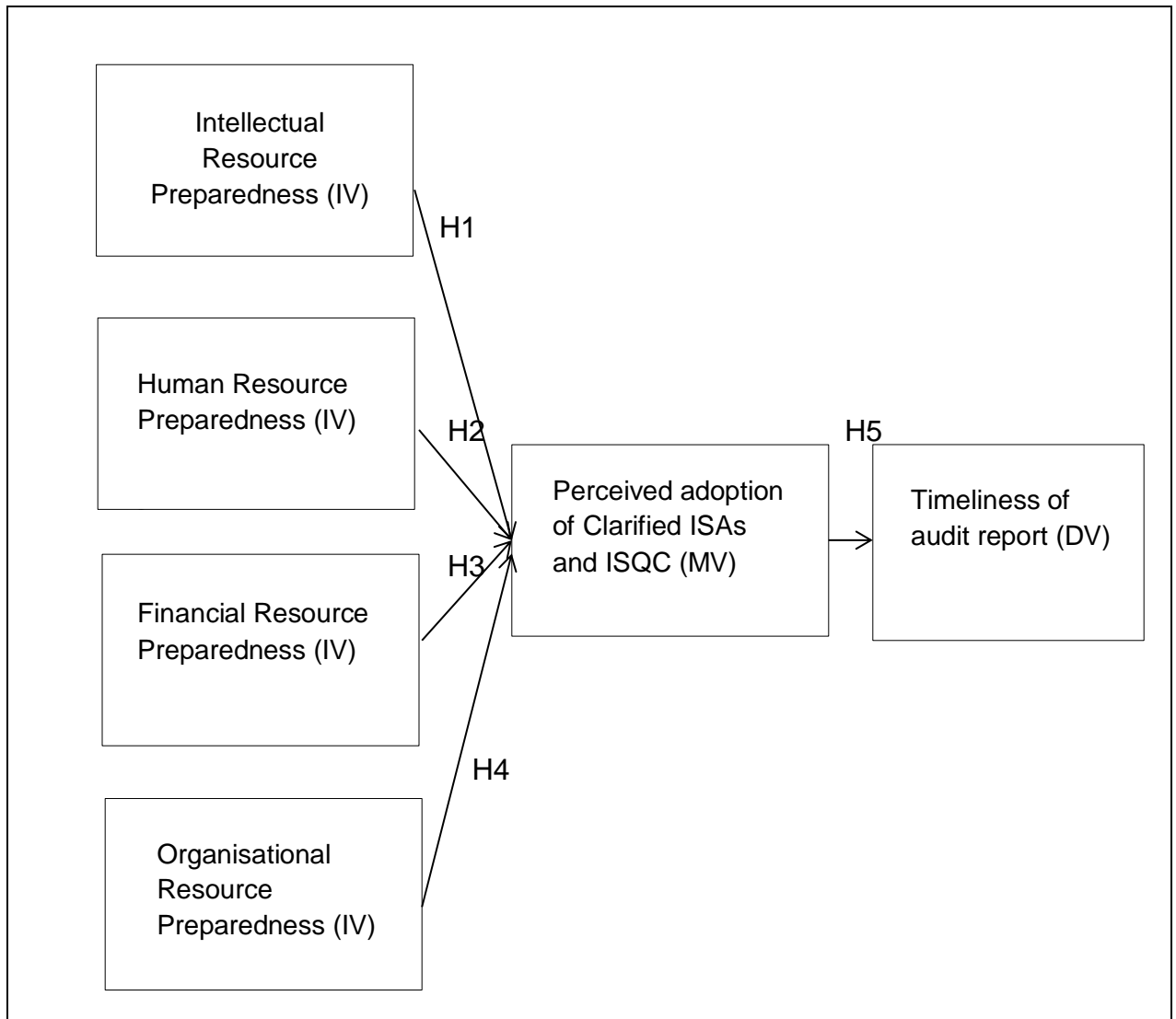
In the present study, the positivist research paradigm had been used. Cavana et al.(2001) prescribes that positivist researcher used linear strategy to formulate the hypothesis, and attempt to disprove these assumed relationship. This type of research always associates with the quantitative data. Thus, it is also called quantitative approach. Positivist research is rooted in natural science concept and uses deductive reasoning which starts with the theoretical framework and seeks for empirical evidence to discover the validity of the theory (Zikmund,2003). This study attempts to use this approach to investigate the implication of various resources on level of adoption of Clarified ISAs and ISQC among SMP in Malaysia. It further examines the impact of adoption of clarified ISAs and ISQC on the timeliness of audit report. In this context, the adoption of Clarified ISAs plays a mediating role in improving the timeliness of audit report.

3.2 Research framework

The research framework is a logically developed and elaborated network relationship between different concept and variable which is related to the

problem situation (Cavana et al. 2001). Based on the literatures from the Chapter 2, the research framework has been developed on the ground on the resource based view theory of the firm to investigate the impact of various resource preparedness of the SMP on the adoption level of Clarified ISAs and ISQC in Malaysia. Apart from that, the timeliness of audit report has been examined further. The research framework has been shown in the figure 3.2 as below

Figure 3.2: Research framework



The research framework comprises of four independent variables derived from Barney (1991) & Newbert (2008) resources' typology, namely human resources, organizational resources, financial resources and intellectual resources. The level of adoption of Clarified ISAs and ISQC is mediating variable. Donald & Pamela (2008) illustrates that mediating variable is the concept mechanism through which the independent variable might affect the dependent variable. Theoretically, it affects the dependent variable, but its effect is inferred from the effect from the independent variables. In present study, the impact of the level of resource preparedness will affect to the timeliness of the audit report by increasing the level of adoption of Clarified ISAs and ISQC. The timeliness of audit report is dependent variable which is measured by the audit delay.

3.3 Hypothesis development

Hypothesis is referred to an unproven proposition or possible solution to a problem that tentatively explains certain phenomena or a proposition that is empirically testable (Zikmund,2003). Development of hypothesis forces the researcher to be able to collect the correct data for analysis. Looking at the research framework above, the following hypotheses are developed:

H1: There is a positive association between level of intellectual resource preparedness and level of adoption of Clarified ISAs and ISQC.

H2: There is a positive association between level of human resource preparedness and level of adoption of Clarified ISAs and ISQC

H3: There is a positive association between the financial resource preparedness and level of adoption of Clarified ISAs and ISQC

H4: There is a positive association between the organizational resource preparedness and level of adoption of Clarified ISAs and ISQC

H5: There is a negative association between level of adoption of Clarified ISAs and ISQC and the timeliness of audit report.

3.4 Measurement of research variable

Exhaustive literatures review done in the in chapter 2 provides the basis to develop appropriate measurement scales of the variables. According to Cavana et al.(2001), each variable would be operationalized to render it to be measurable by looking at various dimensions. Each dimension would be translated to the measureable element by looking at the prior research done on the areas or related areas.

3.4.1 Dependent variable

The dependent variable in this study is timeliness of the audit report. There were numerous literature researches on the timeliness of the audit report, by looking at audit delay or the audit report lag perspective previously. Nevertheless, there was an absence of the prior researches to investigate the relationship between the audit report timeliness and introduction of new requirement on the Clarified ISAs and ISQC. The measurement scales was guided by the survey study done by the IAASB on the pre-implementation monitoring survey (IAASB, 2012). The

constructs were developed by referring to the article of Nazatul Izma, 2011 in Accountant Today. As such, the impact of other factors that contributes on the timeliness of audit report would be minimized. A five point numerical scales was used that range from “1” (low impact on the timeliness of the audit report) to “5” (high impact on the timeliness of the audit report) showed in Section B of the questionnaire survey. The new requirement of the Clarified ISAs and ISQC was used a measurement items. Typical example was “the high level of audit documentation required by Clarified ISA”

3.4.2 Independent variables

The independent variables comprise of four types of resources that influence the adoption of Clarified ISAs and ISQC in SMP in Malaysia. These resources are financial resources, organizational resources, human resources and intellectual resources. The types of resources are referred to the Barney (1991) and Newbert (2008) resources' typology. The constructs for the resources preparedness were developed based on the prior research literature from different studies. The main guide for the development of the constructs was based on the research done on IFRS convergence on audit firm in Malaysia by Phua et al. (2011) using the resource based view theory of the firm. The five likert-point scales had been used to indicate the level of resource preparedness with “1” as strongly disagree and “5” as strongly agree. (Refer to Appendix F & G on table showed the details of constructs, measurement items and questionnaire survey form)

3.4.3, Mediating variable

The mediating variable consists of the perceived level of adoption of Clarified ISAs and ISQC among the SMP in Malaysia. The constructs of perceived level of adoption was based on the list of the Clarified ISAs and ISQC issued by the International Auditing and Assurance Standard Board (IAASB). A four point numerical scales had been used to assess the level of adoption of Clarified Standard of Auditing (ISAs) and International Standard of Quality Control (ISQC), which was “low”, “medium”, “high” and “not applicable”.

3.5 Questionnaire Design and Data Collection

Present study used questionnaire as a mean to collect the data. The term “questionnaire” could be referred to the self-administered and postal questionnaire and also include the interview schedules (Oppenheim, 2004). In this study, the mail questionnaire had been used. The main advantage of the mail questionnaire is that the respondent can be derived from wide geographical area and the respondent can complete the questionnaire at their own path, place and time (Cavana et.al.2001).

The sample size for this questionnaire comprises of all members of Malaysia Institute Certified Public Accountant (MICPA) and Malaysia Institute of Accountants (MIA) in Malaysia exclude the Big 4 as our target respondent is SMP. These made up of 1,127 selected members. The adoption of Clarified ISAs and ISQC is compulsory for all the member of MICPA and MIA. Nevertheless,

the impact of Clarified ISAs and ISQC on the SMP is higher compare to the big audit firm as the SMP faced the issue of lack of resource. The list of the audit firm was obtained from the MICPA and MIA website. They are located in every part of the Malaysia include East Malaysia.

3.6 Unit of Analysis

The level of analysis is referred to the aggregation level of the data collected (Cavana et al. 2001). The level of analysis could be an individual, dyads, organization, firm, objects and even department (Zikmund,2003). In the present study, the Small and Medium Practice audit firm is selected as unit of analysis. This is because the adoption of Clarified ISAs and ISQC has major implication on the Small and Medium Practice due to the resources constraint faced by them. In this regards, the member firms of Malaysian Institute Certified Public Accountant (MICPA) and Malaysia Institute of Accountants (MIA) were used as unit of analysis.

The postal questionnaires were sent to the managing partners, directors, principal or audit Manager of the firm as they are the one involved in the implementing the Clarified ISAs and ISQC in their firm.

3.7 Measurement Development

The section comprises of the questionnaire design and pre-testing of the questionnaire.

3.7.1 Questionnaire Design

In the present study, the questionnaire was designed by incorporating the typology used from the resource based view theory of the firm, namely human resources, financial resources, intellectual resources and organizational resources of the firm. The constructs of the study were derived from the relevant auditing and accounting literatures which determine the link between the resource preparedness of the firm and adoption of the Clarified ISAs and ISQC and further determine the audit report timeliness of the firm (Refer to the table in Appendix F for the details of the measurement items). The questionnaire was normally adapted from the relevant previous research literatures in auditing and accounting, Clarified ISAs and ISQC standard issued by the IAASB and from the article written by practitioner on their view of the issues.

The questionnaire comprises of 10 pages and cover pages with University Malaya letter head which is made up of Section A, B, C, D, E, F. Each Section would be used to measure the variable such as Section A for resources preparedness, Section B for timeliness of audit report, Section C for perceived level of adoption of Clarified ISAs and ISQC. All questionnaires were arranged neatly and pre-coded so that the respondents were able to be traced on their returned. (See Appendix G for example)

3.7.2 Pre-testing

Pilot testing of the questionnaire is crucial for the successful measurement of the variables. In fact, according to Oppenheim (2004), every aspect of the questionnaire should be tested before sending to the respondents in order to make sure it works as intended. This included the questionnaire sequence, scales design, wording, and content.

For the purpose of this study, the pilot questionnaires were distributed through email to the audit practitioners in Pricewaterhousecoopers, account managers in the big organization, tax consultant in the Ernst & Young, Academicians in University Tunku Abdul Rahman and University Malaya. Based on their responses, most of the respondents suggested some improvement on wordings, scaling and sentences being used. It takes about 20 minutes for them to respond the questionnaire. After receiving the responses, the questionnaire was edited to address their feedback accordingly.

3.8 Questionnaire Administration

Before the questionnaires were sent, the respondents' personal details had been identified through the phone. The listing of the MICPA member firms could be obtained from MICPA website and listing of MIA member firm could be obtained from MIA website (excluding the big 4) which comprises of 1,127 selected members. They had been contacted by phone to confirm the accuracy of the address stated in the website. The full name of managing audit partner or

manager had also been requested through the telephone conversation. Throughout the process, it was noted that the contact information stated in the MICPA and MIA website was not complete, such as phone number was not provided, firm address has still yet to be updated even the firm has moved to new place, the change of the firm name and etc. The lack of information had been complemented by using the internet searching tool such as Yellow Pages, Google and firm website. The chance that the respondents open and read the questionnaire is high if the questionnaire are sent to the particular person instead of sending to the firm generally (Oppenheim,2004).

The questionnaires were sent together with the cover letter with the emblem and official letter of University Malaya. Together, a stamped and self-addressed returned envelope was included in the questionnaire's package. This was to ensure the questionnaire look professional and hence it would increase the responses rate. In addition, the respondents' name was stated properly and clearly, so that it ensured the mail was sent to the correct person and encourages them to response. The questionnaires were started to be sent out in August. The respondents were given 3 week to response looking at the respondents were in Hari Raya Holiday during the period. The follow up call was substantiated after Hari Raya and soft copy of the questionnaires were sent to them through email if requested by them. A gentle reminder letter had been sent out in the October together with the questionnaire to the respondent who had not replied the survey.

Overview, we received 115 replies which were made up of 10.21% of the total respondents. The responses rate was low as the audit firm was typically very busy and reluctant to participate in mail survey.

3.9 Data Analysis

Statistical Package for Social Science (SPSS) 20 was used to analyze the data collected from the respondents. The following data analysis had been conducted in this study.

3.9.1 Pre-analysis Data Screening

In order to perform the multiple regression analysis of the data, preliminary analysis of the data should be performed to ensure that the assumptions underpin the use of regression analysis are complied with (Coakes et al. 2010; Pallant, 2007)

The following assumptions must be fulfill:

- a) Ratio of cases to independent variables: the number of cases needed should ideally have 15 times more cases than independent variable. Tabachnick & Fidell (2007) states that the formula to calculate the sample size requirement which is $N > 50 + 8m$. The m refers to the number of independent variable. In this study, ideally, there should at least 82 samples to test relationship between resources preparedness of SMP and the level of adoption of the audit firm

- b) Outliers: extreme cases which have significant impact on the solution of the regression should be deleted or modified in order to reduce their impact.
- c) Multicollinearity and singularity: Multicollinearity is referred to the situation where the independent variables are highly correlated (Tabachnick & Fidell,2007). Singularity means the one independent variable is combination of other independent variable. Both situations above should not exist.
- d) Normality, linearity, homoscedasticity, independence of residuals: Based on the residual scatterplots, the residuals should be normally distributed with the predicted dependent variable scores, the straight-line relationship should be exist between the residuals and the variance of the residuals about predicted dependent variable scores are about the same for all predicted scores.

In view of the above, it was noted that normality is one of the important assumption in multiple regression. Hence, normality testing had been carried out in order to ensure the variables are normally distributed, remove extreme outliers. In this study, the normality testing that was used here are Skewness, Kurtois, and M-estimators (Coakes et al, 2010)

3.9.2 Descriptive Statistic Analysis

The profile of the respondents is crucial in this analysis especially in term the client profile of the audit firm and numbers of partners in the firm. Therefore, descriptive analysis had been performed in order to understand the characteristic of the respondents. In addition, the descriptive analysis could be also done for the research variables by referring to the mean, standard deviation, skewness and kurtosis. These illustrate the brief idea on the impact of the resource preparedness on the adoption of Clarified ISAs and ISQC and the timeliness of audit report.

3.9.3 Factor Analysis

The main purpose of the factor analysis is to reduce the research items to a more manageable number prior to the multiple regression analysis (Coakes et al,2010, Pallant,2007).Exploratory factor analysis had been carried out to gather the information about the interrelationship between variables. There are two main techniques in factor analysis namely Normal Factor Analysis (FA) and Principal Component Analysis (PCA). While both techniques often produce similar result, Steven (1996) suggested that the PCA method should be used (as cited in Coakes et al.2010). Thus, in this study, PCA approach had been used. Bartlett's test of the Spherity (Bartlett 1954 as cited in Pallant,2007) and Kaiser-Meyer-Olkin(KMO) measure had been used to determine the appropriateness of the data scales. It was followed by the extraction of the factor by using the Kaisers'

criterion which retains the factors with eigenvalue of 1.0 or more for further investigation.

3.9.4 Reliability Analysis

Reliability analysis is established to measure the internal consistency and stability of the items in the survey. Normally, Cronbach's alpha had been used to test the reliability of the items. It is used to to determine how well the items are correlated to each other. According to Cavana et al. (2001), generally, an alpha value which is higher than the 0.6 is accepted.

3.9.5 Hypothesis testing

In this study, the main purpose is to explore the relationship between the independent and dependent variables namely, the resources preparedness, level of adoption of Clarified ISAs and ISQC, and the timeliness of audit report. Both correlation and multiple regression analyses had been performed to test the hypothesis. The Pearson Correlation had been used to describe the direction of the variable whether is positive or negative and the strength of the relationship (Pallant, 2007). In regard with the multiple regressions, the Standard Multiple Regression had been used. It explores the predictive ability of the independent variable on the dependent variable (Cavana et al. 2001). In this present study, the multiple regressions is done to investigate the proportion of the variation of the perceived level of adoption of Clarified ISAs and ISQC which is influenced by the level of resources preparedness. Further, the relationship between the

timeliness of audit report and the level of adoption would be further investigated by Pearson Correlation and Multiple Regression.

3.10 Summary

This chapter illustrates the research methodology applied in this study. The discussion has been organized in the following manner: first, the research framework has been discussed together with research design and hypothesis development. The constructs of the variables and how it is going to be measured have been discussed in details. Then it is followed by the summary of the data collection procedures which include questionnaire design, pilot testing and questionnaire administration. At last, the data analysis procedure has been discussed in detail which includes type of multiple regression analysis, factor analysis and etc. After the whole month in data collection procedure, the following chapter presents the findings of the data.

CHAPTER 4

RESEARCH FINDINGS

4.0 Introduction

This chapter discusses the result from data analysis techniques. The SPSS 20 had been used to analyse the data. Descriptive statistic and multiple regressions had been used in this study. The chapter is organized as follows: Section 4.1 begins with the summary of pre-analysis data screening. Section 4.2 consists of result from factor analysis. Section 4.3 presents reliability testing of the study. Section 4.4, 4.5 and 4.6 are the main content of the chapter namely, the descriptive analysis, correlation and hypothesis testing that show the result of multiple regressions.

4.1 Pre- analysis Data Screening

As per discussed in the previous chapter, the normality testing is important assumption in the multiple regression. The following normality test had been conducted which include skewness, kurtosis, M-Estimator, Histogram, Normal Probability Plot, Detrended Normal plots, and Kolmogorov- Smirnov Statistic. The skewness of the variables fall between -2 and +2 where most of the tested variable is negative skewed except the financial resource preparedness and timeliness of audit report. In the context of the kurtosis for the research variable, the kurtosis value of research variables are scatter around negative value indicates that the distribution is rather flat except the timeliness of audit report. The M-estimator values were almost similar to the variable means, 5% trimmed

mean and median. When looked at the Kolmogorov-Smirnov values, all research variable showed the significant value more than 0.01 indicates that the variable are distributed normally at 99% confidence level, except the financial resource preparedness. The diagram such as Normal Probability Plot and Detrend Normality plot indicate that observed value was paired with the expected value in the straight line (Normal Probability Plot) , observed values were assemble around the horizontal line through zero (Detrend Normality Plot) further supported that the research variables are normally distributed. The shape of histogram further enhanced the belief that the variables are normally distributed. Therefore, as the variable is interval in nature and normally distributed, the parametric test was used for further analysis. (Refer to Appendix A for the diagram). In the subsequent section, the reliability test and factor analysis were used to ascertain the goodness of data.

4.2 Factor analysis

Factor analysis was used as data reduction approach. It was used to determine the large number of related variables which was loaded together in similar component. In this study, the factor analysis was performed through three steps. First, the suitability of the data was assessed. In this case, Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's test of sphericity was performed. As suggested by Pallant (2007), the KMO value should be exceeding .6 and the result of the Bartlett' s test should be significant at the level.05.

In the second step, using the principal component analysis, the numbers of factors that related to preparedness of resource of the SMP had been determined and extracted. In this study, the Kaiser's criterion had been used to determine the number of factors to be retained. The last step involved interpreting the factors which identify the pattern of loadings of the factors in various components. The rotation techniques used in this study was Varimax rotation method

When the principal's component analysis was conducted on the resources preparedness of adoption of Clarified ISAs and ISQC, the total of 28 items had been analysed using the SPSS 20. The KMO value was .881 exceeding the recommended value of .6 (Pallant, 2007) and the Bartlett's Test of Sphericity reached significant level of .000 ($P < .05$), supporting the factorability correlation matrix. The correlation matrix revealed that there are many coefficients of .5 and above.

In the second step, PCA was conducted on the resource preparedness of the SMP. The result revealed that there were three components extracted with eigenvalues exceeding 1, explaining 42.44%, 8.26%, 6.29% respectively. It was decided at last to retain three components and delete few items due to the items were not fit well in the component either theoretically or quantitatively. A typical example of item deleted was "the firm maintain a long term relationship with the client." This resulted in only 21 items was being tested. Further investigation by

the Varimax pattern matrix revealed that three components showing a large number of loadings.(Refer to Appendix B on the detail analysis) In order to be coincidence with the resource typology, component 1 was further divided into 2 variables. The component 1 represents organizational resources and human resources. Meanwhile, component 2 essentially represents intellectual resources while component 3 represents financial resources.

While the factor analysis of the independent variable had been performed, the factor analysis was also performed for mediating variable and dependent variable separately, namely the adoption of Clarified ISAs and ISQC and timeliness of audit report. On the analysis of mediating variable, one component with eigenvalue more than 1 had been extracted and explained 41.89% of the variation. The Bartlett's test of Sphericity was significant and the KMO was .897. Refer to Appendix B for the result of PCA for the adoption of Clarified ISAs and ISQC.

Lastly, the PCA was performed to determine the timeliness of audit report. The result implied that the Bartlett test was significant; the KMO was adequate (.922). Therefore 1 component was extracted which explained the 76.21% of the variance. (Refer to the Appendix B for the result of the timeliness of audit report)

4.3 Reliability Test

Reliability is the measure established to test the internal consistency and stability. (Cavana et al,2001). Cronbach's alpha coefficient indicates that how well the items measuring the same construct is positively correlated to each other. Generally, the Cronbach's alpha value that is more than 0.7 is considered reasonable (Cavana et al,2001). In this study, the Cronbach's value was all exceeding 0.7. Therefore, it was concluded that the items in the questionnaire accurately measured the constructs for each variable. Below shows the reliability result for each variable in the study.(Refer to the Appendix C for detail result)

Table 4.3Cronbach Alpha Values for each variable

Variables	Number of items	Cronbach's Alpha
Intellectual Resource Preparedness	5	.853
Human Resource Preparedness	8	.906
Financial Resource Preparedness	2	.816
Organization Resource Preparedness	6	.885
Adoption of Clarified ISAs and ISQC	37	.952
Timeliness of audit report	9	.960

4.4 Descriptive Analysis

Two descriptive analyses had been performed: characteristic of the responding firms and descriptive analysis of the research variables.

4.4.1 Characteristic of the responding firms

In order to obtain the general statistic of the responding firms, frequencies had been used. The summary of the demographic profile of the firm are showed in the table 4.4.1

Based on the table, for variables such as annual turnover, the clientele structure and the number of employee in the firm, it was found that the majority of the firms are come from a category, with annual turnover (less than 5,000,000, 89.6%), Clientele structure (Small and medium Enterprise, 98.3%) and number of employees (less than 50, 81.7%). This was not surprise as the target respondents for the study were Small and Medium Practice (SMP). This was consistent with the International Federation of Accountant (IFAC) definition of SMP which defined that SMP is the entity which most of its client are small and medium enterprise and its lack of audit staff (IFAC, 2011). Likewise, this was also consistent with CPA China definition of SMP which stated that SMP is the firm which earn the annual revenue less than 40 Billion RMB (Hasnah et al. 2010). In term with the ownership structure, majority of the responding firms were sole proprietorship (53%), it was followed by the partnership with 2 to 5 partners (40.9%). Both made up 93.9%. In addition to that, in term of years of operation, most of the responding firms have operated between 21-30 years in the industry (28.7%). The years of operation was normally distributed between “less than 10 years operation” to “ more than 50 years” operation reflected that the

respondents are drawn from the new and old firm which enhance the confidence of the result of the analysis. The following section discusses on the descriptive analysis of the research variables.

Table 4.4.1 Profile of the Responding Firm

Variables	Frequency (n =115)	Percent (%)
<u>Annual Turnover</u>		
Less than RM5,000,000	103	89.6
RM5,000,001-RM10,000,000	6	5.2
RM10,000,001-RM50,000,000	3	2.6
RM50,000,001-RM100,000,000	3	2.6
<u>Number of employee</u>		
Less than 50	94	81.7
50-99	13	11.3
100-249	3	2.6
250-500	2	1.7
Greater than 500	3	2.6
<u>Ownership Structure</u>		
Sole Proprietorship	61	53.0
Partnership(2-5 partners)	47	40.9
Partnership(6-9 partners)	3	2.6
Partnership(more than 9 partners)	4	3.5

Variables	Frequency (n =115)	Percent (%)
<u>Clientele Structure</u>		
Small & Medium Enterprise	113	98.3
Multinational Organization	1	.9
Public Listed Company	1	.9
<u>Year of operation</u>		
Less than 10 years	20	17.4
11-20	32	27.8
21-30	33	28.7
31-50	23	20.0
More than 50 years	7	6.1

4.4.2 Descriptive Analysis of Research Variables

Table 4.4.2 shows the descriptive statistic for research variables used in this research. The table provides summary of descriptive statistic such as mean, standard deviation, and maximum, minimum for each variables.

Table: 4.4.2(a): Summary of Descriptive of Research Variables

Variables	Minimum	Maximum	Mean	Std. Deviation
Intellectual Resource Preparedness	1.00	5.00	2.7948	1.05547
Human Resource	1.25	5.00	3.5130	.78838

Variables	Minimum	Maximum	Mean	Std. Deviation
Preparedness				
Financial Resource Preparedness	1.00	5.00	2.3609	.87747
Organization Resource Preparedness	1.00	5.00	3.4841	.83157
Timeliness of Audit Report	1.00	5.00	2.3420	.81916
Adoption level of Clarified ISAs and ISQC*	1.00	3.00	2.3107	.42812

* 3 point numerical scales

Based on the descriptive analysis above, the moderate high mean scores of the human resources preparedness ($\mu=3.51$) and organizational resources preparedness ($\mu=3.48$) in the 5 point likert scales showed that human resources and organizational resources are the main resources contributing to the high level of adoption of Clarified ISAs and ISQC. In detail analysis, the auditors have commitment and good attitude in performing the audit for the client by complying with the Clarified ISAs and ISQC ($\mu=3.82$) and the requirement of the structured audit programme with the updated auditing standard in the firm ($\mu=3.72$) are the main factor contributing to the highest level of adoption of Clarified ISAs and ISQC. This reflected IAASB updated audit programme is significant indicator for the adoption of Clarified ISAs and ISQC. Besides, most SMP perceived that the employee attitude and commitment are more important than their knowledge in adopting Clarified ISAs and ISQC ($\mu=3.78$). Similarly, requirement for the employee to fulfil the CPE is also significant ($\mu=3.48$). No doubt, this is consistent

with the IAASB suggestion to provide more training programme to auditor to adopt the Clarified ISAs and ISQC) (IAASB, 2012). On the other hand, the SMP does not high quality technical support team in the firm ($\mu=3.19$). Perhaps, this is due to the staff number is low and the SMP does not have the separate technical support department in advising the adoption of Clarified ISAs and ISQC.

On the perspective of financial resource and intellectual resource, the mean score is 2.36 and 2.79 respectively. In the 5 point likert scales, it reflected that the responding firms neither agree nor disagree that the firms have appropriate intellectual resources and financial resources for the firm to adopt the Clarified ISAs and ISQC. Based on the detail analysis in Appendix D, the result implied that the firm does not develop usage of audit technology within the firm which the mean value for the CAATs usage and audit software usage to be 2.62. The online training on the Clarified ISAs and ISQC is relatively low ($\mu=2.52$). Nevertheless, the firm does provide audit training on Clarified ISAs and ISQC to the staff ($\mu=3.55$). In term of financial resource, although the firm does not earn higher than market norm profit ($\mu=2.29$) and charge higher audit fee ($\mu=2.43$), the firms have allocated some budget for the audit training for Clarified ISAs and ISQC ($\mu=3.08$)

The timeliness of audit report after the implementation of Clarified ISAs and ISQC is relatively low ($\mu= 2.34$). Based on the survey result in Appendix D, the high level of audit documentation ($\mu= 2.16$) and requirement for the auditor to

assess the risk critically ($\mu=2.25$) are the main reasons for low timeliness of audit report.

Based on the above table, the mean score of adoption of Clarified ISAs and ISQC is 2.31 in a 3 point numerical scales indicated that the perceived adoption level is high. Further analysis for the perceived adoption level for 37 Clarified ISAs and ISQC indicated that in overview, the average adoption level for the Clarified ISAs and ISQC is above 2.0 with the highest adoption level for ISA 210, Agreeing the Terms of Audit Engagements ($\mu=2.67$) and exception for ISA 402, Audit Considerations Relating to an Entity Using a Service Organization($\mu=1.89$), ISA 610, Using the Work of Internal Auditors($\mu=1.55$), ISA 620, Using the Work of an Auditor's Expert($\mu=1.62$),ISA 800, Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks($\mu=1.56$), ISA 805, Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement($\mu=1.62$) and ISA 810, Engagements to Report on Summary Financial Statements($\mu=1.63$). (Refer to the Appendix D for the detail analysis). This was not surprise since most of the audit clients are small and medium enterprises which the nature of business is not so complicate. Hence, the assistance of the internal auditors, other experts are considered minimal. In addition to that, the mean score for the ISA402 is low. Possibly, small and medium enterprise seldom outsources their operation to outside service organisation, resulting the low adoption of the ISA 402: Audit Considerations relating to an Entity Using a

Service Organization. The ISA 800, ISA805 and ISA810 are relative new ISA recommended recently and it would explain why the adoption level is low for the standards. In addition, the SMPs hardly involved in engagement to report summary of financial statement and audit of financial statement prepared on special purpose framework. Perhaps, the SMP does not have sufficient knowledge to accept the engagement.

Further analysis had been done on the adoption of Clarified ISAs and ISQC based on the ownership structure.

Table 4.4.2(b): Summary of descriptive for the adoption of Clarified ISAs and ISQC according to the ownership structure of the firm

Ownership structure	Minimum	Maximum	Mean	Std. Deviation
Sole Proprietorship	1.00	3.00	2.2477	.45502
Partnership(2-5 partners)	1.54	3.00	2.3422	.39393
Partnership(6-9 partners)	2.35	2.65	2.5045	.14885
Partnership(more than 9 partners)	2.59	3.00	2.7568	.17516

From the table4.4.2 (b), it was cleared that the firm with more partners ($\mu=2.76$) will achieve a higher mean value of the adoption of Clarified ISAs and ISQC compare to the sole proprietorship ($\mu=2.25$). When analyse in detail, the resources owned by the firm across various ownership structure in Appendix D, it was cleared that the firm with nine partners have higher intellectual resource preparedness ($\mu=4.5$), human resource preparedness ($\mu=4.56$) , financial

resource preparedness ($\mu= 3.13$) and organizational resource preparedness(($\mu= 4.71$) than the sole proprietorship (intellectual resource preparedness, $\mu=2.61$, human resource preparedness, $\mu=3.32$, financial resource preparedness, $\mu=2.25$, organizational resource preparedness, $\mu=3.19$.) These revealed that the preparedness of the firm resource influences the successful adoption of Clarified ISAs and ISQC.

4.5 Pearson- Moment Correlation

Correlation analysis is used to describe the strength and direction of the linear relationship between the two variables (Pallant, 2007). The relationship between timeliness of audit report, adoption of Clarified ISAs and ISQC and various resource preparedness were investigated using Pearson product-moment correlation coefficient.

Table 4.5 Correlation Coefficients of Variables

Variables	1	2	3	4	5	6
1 Intellectual Resource	1					
2 Human Resource	.669**	1				
3 Financial Resource	.393**	.375**	1			
4 Organization Resource	.599**	.796**	.422**	1		
5 Adoption of Clarified ISAs	.527**	.564**	.322**	.577**	1	
6 Timeliness of Audit Report	-.310**	-.457**	-.156	-.534**	-.357**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Based on the table 4.5 above, adoption of Clarified ISAs and ISQC show significant strong positive correlation with intellectual resource preparedness

($r=.527, p<.01$), human resource preparedness($r=.564, p<.01$), organizational resource preparedness($r=.577, p<.01$) and significant moderate correlation with financial resource preparedness($r=.322, p<.01$). As expected, there is negative moderate correlation between timeliness of audit report and adoption of Clarified ISAs and ISQC($r= -.357, p<.01$) with high level of adoption of Clarified ISAs and ISQC associates with the lower level of timeliness of audit report. Apart from this, the result also showed that some variables of resource preparedness are significant correlate between each other. This suggested that the multicollinearity may exist between variables. Nevertheless, none of the correlation coefficient is strong which is exceeding .90.

Despite the correlation between the timeliness of audit report and resource preparedness are not the major concern of this study, it is worth to examine the relationship between the variables. As expected, the resource preparedness are negative correlated with the timeliness of audit report with the strong correlation exist for the organizational resource($r=-.534, p<.01$), moderate correlation for human resource($r=-.457, p<.01$), and intellectual resource($r=-.310, p<.01$) and weak correlation for the financial resource($r=-.156, p<.01$),

This section discussed on the correlation between resource preparedness, adoption of Clarified ISAs and ISQC, and timeliness of audit report. Nevertheless, the casual relationship was not being tested between the resource preparedness of the firm and the adoption of Clarified ISAs and ISQC. For the purpose to

identify the casual relationship, multiple regression testing had been performed which would be discussed in next section

4.6 Hypothesis Testing

In order to answer the research question of this study to examine whether the SMP resource preparedness influence the adoption of Clarified ISAs and ISQC in the firm and whether the high adoption of Clarified ISAs and ISQC affect the timeliness of audit report issued by the SMP, the multiple regression analysis had been performed.

Prior conducting the multiple regression analysis, assumption testing had been performed to ensure the data complied with the basic assumption for multiple regression analysis.(Refer to Section 3.9.1 for the assumption for multiple regressions.) It was found that the assumption 1: ratio of cases to independent variable was not violated as there were 115 samples being used which exceeding the minimum ratio of observations to independent variable of 15: 1. Normality test performed in Section 4.1 indicated that the assumption 2: normality, linearity and homoscedasticity are supported. It was furthered enhanced by the analysis of residual scatterplot, Normal P-P plot and histogram. The residual scatterplot proves that the residuals is rectangular distributed, with most of scores are concentrated in centre point. The Normal P-P plot indicated that scores lie reasonably along the straight line. The histogram further showed

that the scores are normally distributed. (Refer to the Appendix E for the Diagram).

According to Pallant,2007, multicollinearity is likely to exist when the independent variable is highly correlated ($r=.9$ and above). As per analysis of the correlation coefficient in the previous section, none of the correlation coefficient between the independent variable of the resource preparedness is highly correlated. In addition, based on the table 4.6 on Collinearity Testing below, the Tolerance and Variance Inflation Factor (VIF) value is adequate. In accordance to Pallant, 2007, if the Tolerance Value is less than .10 or the VIF value is more than 10, it implies that multicollinearity is likely to exist.

Table 4.6(a): Collinearity Testing

Variables	Collinearity Statistics	
	Tolerance	VIF
Intellectual Resource Preparedness	.523	1.912
Human Resource Preparedness	.308	3.242
Financial Resource Preparedness	.791	1.264
Organization Resource Preparedness	.345	2.902

a. Dependent Variable: Adoption level of Clarified ISAs and ISQC

Based on the table above, it was concluded that multicollinearity was not exist.

In examining the fourth assumption on the existence of outliers, the Mahalanobis Distance Statistical Test result as showed in the table 4.6(b) below reflected that the maximum value is 11.83.

Table 4.6(b): Mahalanobis Distance Test for Multivariate Outlier

Model	Minimum	Maximum	Mean	Std. Deviation
Mahalanobis Distance	.334	11.825	3.965	2.621

a. Dependent Variable: Adoption level of Clarified ISAs and ISQC

Based on the alpha value of 0.001 and four independent variables, the critical value from Chi Square Table on Tabachnick, B.G., & Fidell, L.S. (2007) is 18.47 which is higher than maximum value of 11.83, Thus, this mean no violation of multivariate outliers assumption. In the nutshell, it means that all assumption for multiple regressions was compiled herewith and therefore, further analysis should be presented.

Standard Multiple Regression had been used to assess the ability of the various type of resource preparedness to predict the level of adoption of Clarified ISAs and ISQC. Adoption of Clarified ISAs and ISQC is considered as dependent variable. All resource is considered as independent variable and enters into the multiple regressions and the results were showed in Appendix E in detail. After all the variables were entered into the regression, the total variance of the adoption of Clarified ISAs and ISQC explained by the model as a whole was

39.4% , $F(4,110)= 17.90$, $p<.05$. The results of multiple regressions had been presented in table 4.6(c) below:

Table4.6(c): The result of multiple regressions

Variables	Beta (β)	Sig(p)
Intellectual Resource Preparedness	.223	.032
Human Resource Preparedness	.162	.227
Financial Resource Preparedness	.050	.548
Organization Resource Preparedness	.293	.022

a. Dependent Variable: Adoption level of Clarified ISAs and ISQC

Based on the table above, it was noted that there are significant positive relationship between organizational resource preparedness and adoption of Clarified ISAs and ISQC ($\beta =.293$, $p<.05$)and between intellectual resource preparedness and adoption of clarified ISAs and ISQC ($\beta=.223$, $p<.05$) at the significant level of .05. Surprisingly, there are no significant positive betas between human resource preparedness and adoption of Clarified ISAs and ISQC ($\beta=.162$, $p>.05$) and between financial resource preparedness and adoption of Clarified ISAs and ISQC ($\beta=.050$, $p>.05$).Hence, result reflected that hypothesis1 and 4 are supported, whereas hypothesis 2 and 3 are not supported. These result established that when the organization and intellectual resource preparedness is high, the adoption of Clarified ISAs and ISQC is high as well.

Looking at the relationship between the adoption of Clarified ISAs and ISQC and timeliness of audit report, the assumption for multiple regression analysis had been performed again in order to ascertain any violation for assumption for the multiple regression analysis. The following showed the result for the assumption testing.

For assumption 1, there were 115 samples which exceeding 15 samples as required for the multiple regressions with only an independent variable. Based on residual scatterplot, residual normal P-P plot and histogram in Appendix E, it was found that the scores are normally distributed along the regression line. The assumption 3 is not violated as there is only 1 independent variable in this regression line. It was further proved in the Tolerance and VIF value which is 1.000. With regard to assumption 4, with alpha value 0.001 and an independent variable, the critical value based on the Chi Square Table is 10.83. As the maximum value based on the Mahalanobis Distance testing is 9.373 which is lower than the 10.83.it might concluded that there is no multivariate outlier in this regressions, therefore, all assumption to proceed with the multiple regression is not violated

Based on the result presented in Appendix E, the total variance explained by the whole model is 12.9%, $F(1,113)=16.48$, $p<0.05$. This reflected that the adoption of Clarified ISAs and ISQC only explained 12.9% of the variation of audit report timeliness. In this model, there is significant negative relationship between the

adoption of Clarified ISAs and ISQC and timeliness of audit report with beta value of $-.357$ ($\beta = -.357, p < .05$). This indicated that the hypothesis 5 was also supported. In the other words, when the level of adoption of Clarified of ISAs and ISQC is high, the timeliness of audit report is low, it mean that the auditor ability to deliver the audit report on timely basis is low. In nutshell, the table 4.6(d) summarizes the hypothesis testing result

Table 4.6(d): Summary of Hypotheses Testing Results

Hypothesis	Descriptions	Results
H1	There is a positive association between level of intellectual resource preparedness and level of adoption of Clarified ISAs and ISQC.	$\beta = .223$ ($p < .05$). Supported H1
H 2	There is a positive association between level of human resource preparedness and level of adoption of Clarified ISAs and ISQC	$\beta = .162$ ($p > .05$). Not supported H2
H3	There is a positive association between the financial resource preparedness and level of adoption of Clarified ISAs and ISQC	$\beta = .050$ ($p > .05$). Not supported H 3
H4	There is a positive association between the organizational resource preparedness and level of adoption of Clarified ISAs and ISQC	$\beta = .293$ ($p < .05$). Supported H 4
H5	There is a negative association between level of adoption of Clarified ISAs and ISQC and the timeliness of audit report.	$\beta = -.357$ ($p < .05$). Supported H 5

In conclusion, only organizational resources and intellectual resources lead to the adoption of Clarified ISAs and ISQC and further reduce the timeliness of the audit report.

4.7 Summary

The results from multiple regressions showed the mixed outcome from the hypothesis developed. Based on the results, it was found that there are significant positive association between organizational resource preparedness, intellectual resource preparedness and adoption of Clarified ISAs and ISQC. Similarly, there is significant negative association between the adoption of Clarified ISAs and ISQC and timeliness of audit report. Nevertheless, there are no significant positive relationship between human resource preparedness and financial resource preparedness on the adoption of Clarified ISAs and ISQC.

Overall, the results provide sufficient evidence to answer the research question developed in the study and fulfilled our research objective to examine the internal resource preparedness of SMP on the level of adoption clarified ISAs and ISQC in Malaysia and the impact of adoption of Clarified ISAs and ISQC in the SMP on the timeliness of the audit report. In addition, its findings provide some implication of the study either in practice or in academic which would be discussed in detail in the following chapter.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter presents the conclusion and implication of the study in academic and practice as well as limitation of the study. It presents the discussion on the findings and limitation of the study that result in the mixed outcome. The chapter is organized in the following sequence: Section 5.1 discusses on the findings of the research, Section 5.2 presents theoretical implication of the study and Section 5.3 covers the practical implication of the study. Lastly, Section 5.4 highlights the limitation of the study and suggestion for future research and Section 5.5 draws a conclusion of the research.

5.1. Discussion of results

It was found that three hypotheses are supported and other two hypotheses are not supported. The intellectual resource preparedness has significant positive relationship with the adoption of Clarified ISAs and ISQC among SMP in Malaysia. It answers the research question that the intellectual resource will lead to the adoption of Clarified ISAs and ISQC. The sophisticated IT infrastructure, and computerized assisted audit technique (CAATs) provides some basis for the SMP to adopt the Clarified ISAs and ISQC. For instance, ISA 230, Audit Documentation require the SMP to increase the audit documentation and improve the audit working paper. The high usage of generalized audit software and computerized assisted audit technique (CAATs) ease the documentation of

audit work that has been done. Thus, it improves the adoption of Clarified ISAs and ISQC. The findings is coincidence with the Metka (2011) study stated that the ISA-compliant audit software is important antecedent for the adoption of Clarified ISAs and ISQC. The audit software is able to reduce the time for working paper preparation, facilitates the decision-making process, collaboration and improves decision quality. Result from the survey done in Sweden further proved the validity of the findings of the study. According to the survey have done by Eglund & Gidlund (2012),it was found that audit documentation has increased in Sweden after transition from their national auditing standard to Clarified ISAs. The increased complexity in formulating the audit report requires sophisticated audit technologies to ease the implementation of audit procedure. Nevertheless, it is significant to ensure that the audit software has incorporated the latest Clarified ISAs and ISQC. Only with that, high level of audit technologies and IT infrastructure lead to the high adoption of Clarified ISAs and ISQC since some of the audit firm perceived that they are able to comply with the Clarified ISAs and ISQC with the sophisticated technology.

With regard to the human resource perspective, surprisingly, human resource preparedness does not lead to the high adoption of Clarified ISAs and ISQC which was inconsistent with IAASB suggestion to provide the training to the staff to implement the Clarified ISAs and ISQC (IAASB, 2012). Possibly, the Clarified ISAs and ISQC do not bring much change in nature of the audit work or increase in the audit procedure as proven in the study done in Sweden by Eglund &

Gidlund (2012). Therefore, the SMP is not required to improve the knowledge of the audit staff in order to comply with Clarified ISAs and ISQC. Moreover, such change in the Clarified ISAs and ISQC is not so complicate until requires the auditor to spend substantial amount of their time to comprehend the Clarified ISAs. In accordance to the survey in Sweden, ISA600, Special Considerations- Audits of Group Financial Statements (Including the Work of Component Auditors) and ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment have be revised substantially after the Clarity project (Eglund & Gidlund, 2012). Nevertheless, ISA600 is not applicable in SMP as most of their clients are SME. Therefore, good human resource qualities that have ability to comprehend the complex ISA 600 are not required. In addition, some might argued that structured audit methodologies is crucial in ensuring the successful adoption of Clarified ISAs and ISQC and able to offset the inferior capability of the audit staffs. In SMP, this is common for the audit partners to update the audit methodologies to reflect the Clarified ISAs and ISQC. In contrast, the audit staffs are only required to follow the audit methodologies as designed. In the simple words, the responsibility to redesign and restructure the audit methodologies and firm policies is not fall under the role of the audit staffs. Hence, the capabilities of the audit staff do not influence the level of adoption since the partner will design the audit methodologies and train audit staffs. The audit staffs just need to follow strictly the firm policies and audit methodologies. This further explained that why the auditor commitment and attitude is rather important than auditor knowledge in

adopting the Clarified ISAs and ISQC with high mean value for auditor attitude and commitment. In short, it may conclude that the human resource preparedness does not lead to the adoption of Clarified ISAs and ISQC. In spite of the positive relationship is not significant between the human resource preparedness and adoption of Clarified ISAs and ISQC respectively, the beta value for human resource is positive indicated that the firm with better human resource qualities are associated with the high level of adoption of Clarified ISAs and ISQC.

Likewise, financial resource preparedness does not lead to adoption of clarified ISAs and ISQC. It explains that the financially strong audit firm might not necessary has high adoption level of Clarified of ISAs and ISQC. Based on Sweden survey result, the cost of adoption does not being passed over by the SMP to the client (Eglund & Gidlund, 2012). As the adoption of Clarified ISAs and ISQC is mandatory requirement for MICPA and MIA audit firm, the financially weak SMPs are forced to adopt the Clarified ISAs and ISQC by bearing the increase of the cost itself. Presently, most of the SMP in Malaysia perceived that they have high level of adoption of Clarified ISAs and ISQC even though they does not earn higher profit and charge higher audit fee than other competitor in the industry. However, the firm are willing to allocate extra budget to provide the staff for training on Clarified ISAs and ISQC. Based on above, it is suggested further investigation to be done to determine the relationship between the financial resource on adoption of Clarified ISAs and ISQC.

Furthermore, the results of study showed that organizational resources preparedness will lead to the adoption of Clarified ISAs and ISQC. Organizational resource preparedness such as the organizational culture, networking with the international affiliate, updated audit methodology eases the adoption of Clarified ISAs and ISQC. Further, change in audit methodologies, firm policies and audit programme achieve a highest mean value among the other dimensions of the organizational resources showed that they are main factors contribute to the adoption of Clarified ISAs and ISQC. This is consistent with survey done in Sweden by Eglund & Gidlund (2012) which the respondents explicitly express that the change of audit methodologies is necessary in Sweden once the auditing standard transit to Clarified ISAs and ISQC. The culture element also records a high mean value in the study. This is not surprise that the audit staffs and the audit partner's attitude emphasis on the audit quality will shape the culture of the organization, and subsequently leads to adoption of ISQC.

Lastly, the results showed that the high adoption of Clarified ISAs and ISQC will significantly affects the timeliness of audit report. This is consistent with previous related timeliness literatures such as the adoption of IFRS and audit report timeliness (Najihah & Ayoib, 2012), Sarbanes Oxley Act and audit report timeliness (Ettredge et al.2006), Code of Corporate Governance and Audit report timeliness(Mohamad et al. 2010) and the survey result done in Sweden (Eglund & Gidlund, 2012). Further, detail analysis revealed that the requirements to improve the audit documentation, audit quality control procedure and evaluate

critically the accounting estimate are the main factors contribute to the audit delay. This implies that in overall, adoption of clarified ISAs and ISQC affect the timeliness of audit report.

In the nutshell, the SMP's intellectual resource preparedness and organizational resources preparedness are significant factors lead to the adoption of Clarified ISAs and ISQC. Nevertheless, the high adoption of Clarified ISAs and ISQC caused the audit delay. The following section discussed the implication of the result findings toward academicians and practice.

5.2 Theoretical Implication

The findings of this study mark a starting point on the auditing literatures on the Clarified ISAs and ISQC. This study may be of interest to the resource based view scholar or auditing scholar focuses on the application of resource based view theory on adoption of Clarified ISAs and ISQC which is different from previous literature that focused on the impact of IFRS convergence on audit firm using the resource based view theory (Phua et al. 2011). This study attempts to explore the resources preparedness of the audit firm based on resource based view theory in implementing the Clarified ISAs and ISQC. Apart from it, quantitative approach which uses general statistical method had been used to measure the resource variables in predicting the level of adoption of Clarified ISAs and ISQC. This differs with previous study that focused on the qualitative method such as interview, and case study. Besides, prior literatures also focused

on the general convergence in auditing rather than Clarified ISA and ISQC. This research is also the first research using the survey method in assessing the resource preparedness of the SMP on adoption of Clarified ISAs and ISQC.

Additionally, the results showed that the adoption of Clarified ISAs and ISQC affects the timeliness of audit report in Malaysia institutional context contribute to audit timeliness literatures on the impact of International Standard of Auditing (Clarified ISA and ISQC). Similarly, the results indicated that the organizational resource and intellectual resources preparedness are main contributors as compared to human resources, and financial resources explain the influence of Infrastructure of the organization is more important in achieving the high level of Clarified ISAs and ISQC.

In summary, the study provides broader implications for researchers seeking to understand the combined effects of various types of resource on adoption of Clarified ISAs and ISQC

5.3 Practical implication

From a practical standpoint, this study provides implication to accounting professional bodies (MICPA, MIA), accounting regulators, auditing standard setter (IAASB), audit firm and auditee. The findings of the research highlight pertinent issues on the adoption of Clarified ISAs and ISQC among the SMP in Malaysia. Additionally, it provides timely feedback to the IAASB on the post

implementation review of Clarified ISAs and ISQC after 2 years adoption of the Clarified ISAs and ISQC. These feedbacks provided will assist them in setting or amending the Clarified ISAs and ISQC in future to suit the need of SMP.

The results revealed that the organizational resources play a vital role in adopting the Clarified ISAs and ISQC in Malaysia compared to the human resource. It suggested to the audit partner to re-examine their firm policies, audit programme and audit methodologies in order to comply with the Clarified ISAs and ISQC. For the professional accounting bodies such as MICPA and MIA, the training programme should be redesign to include management training such as shaping quality control culture, forming network and relationship which are crucial for the success implementation of the Clarified ISAs and ISQC despite focus on technical knowledge training which was undertaken previously.

Given the negative relationship between the audit report timeliness and adoption of Clarified ISAs and ISQC, accounting regulators such as Bursa Malaysia, Securities Commission and Companies Commission in Malaysia may issue some guidance to the audit firm on the way to expedite the audit process. Similar role should be played by the audit firm. The auditee in the other hand is encouraged to cooperate with the audit firm on the adoption of Clarified ISAs and ISQC and provide feedback to improve the audit process. Technical pronouncement and guidance on the top down approach in group audit should be provided to the audit firm to ease the change of audit methodologies.

As there is significant influence on the intellectual resources on the Clarified ISAs and ISQC, these results deserve the audit firm to collaborate with external IT outsourcing provider in redesign the audit software to incorporate the Clarified ISAs and ISQC. It is also imperative for the accounting professional bodies to establish the link between human resource and adoption of Clarified ISAs and ISQC and provide suitable training to the members.

In the nutshell, this study is noteworthy and likely to be interest of other nations that plan to adopt the Clarified ISAs and ISQC.

5.4 Limitation of study and Suggestion for future research

The study is quite preliminary in nature. It should be interpreted together with other research design evaluated in light of several research limitations as shown below:

First and foremost, the data is collected based on the small sample size which is based on 115 samples out of the 1,127 selected MIA and MICAPA member. The responses rate of 10.2% is low. Therefore, the results are facing the difficulty to be generalized to reflect the situation in Malaysia. The low responses rate lead to the instability in the results of factor analysis and multiple regressions.

Second, using questionnaire survey method and rely on the respondent self – report may lead to the respondent bias. The perceived level of adoption of

Clarified ISAs and ISQC are tend to be high based on the member firm self-responses in order for the firm to be recognised as accountable to the public. Nevertheless, the actual adoption is only could be verified by further on-site investigation such as read the SMP's audit methodologies, working papers and observe the audit work performed by the auditors. Based on the above explanation, it was suggested in the future research should be done by using various method such as interview, case study, and experiment study.

In summary, future research could be done in detail by looking at specific Clarified ISAs and ISQC. Based on the previous literatures, ISA600,Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors) has substantially change after the Clarity project, therefore, more detail research should be done on the standard. Similarly, the study could be done in other countries or big 4. Institutional theory could also been used by assessing external environment factors.

5.5 Conclusions

The study provides some empirical evidences on impact of various resources preparedness of Small and Medium Practice on adoption of Clarified ISAs and ISQC by looking at resource based view theory. Further, the study also investigates the impact of Clarified ISAs and ISQC on timeliness of audit report. The outcome of the study revealed that the organizational resources and intellectual resources are crucial to assist the Small and Medium Practice to

adopt the Clarified ISAs and ISQC compare to human resources and financial resources. In addition, the findings also demonstrate the adoption of Clarified ISAs and ISQC affect the timeliness of the audit report. It is hope that the result will provide valuable insights to the accounting regulators, auditing standard setters, audit firm, auditee and accounting professional bodies on Clarified ISAs and ISQC.