Malaysia Financial Reporting Practices and Audit Quality Promote Financial Success: The Case of Malaysian Construction sector

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ABSTRACT

Prior research findings on the effect of financial reporting and audit quality on firm performance were mixed. The current study therefore, sought to examine the impact of audit quality and FRS practices of firms on their financial success. Samples firms listed on Malaysian stock market were selected from the construction sector for the period of 2010 to 2013. Data was collected from the published annual reports and their notes to the financial statements. To assess the level of compliance with the provisions of the Financial Reporting Standard (FRS) in Malaysia, content analysis was carried out. Firm's engagement with established audit firm is used as a proxy for audit quality, and return on assets is used as a measure of firm performance. Panel data analysis was employed in analysing the data and testing the stated hypotheses. The use of panel data reveals that practices of FRS by firms is significantly and positively related to their financial performance. The results also indicate that audit quality has a significant positive impact on business financial success. The study therefore recommends that the management of listed construction firms improve their practices of FRS and employ the service of established audit firms in support of financial success. Regular training may be organised to provide construction companies with practical guide for better compliance with the FRS in Malaysia.

Keywords: Financial Reporting, Audit quality, Financial Performance; Malaysia

1. INTRODUCTION

1.1 Financial Reporting and its Impact

Financial reporting plays a key role in communicating financial information about a business enterprise that is useful to a wide range of users in making informed decisions. In view of the fact that large listed companies are increasingly called to report on different dimensions of their performance (economic, social and environmental), financial reporting has becoming a key tool in developing corporate legitimacy and managing relationships with its stakeholders. As outlined in the IASB conceptual framework (CF), financial reporting should aim to provide "financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity."[1] Therefore, quality reporting practice that meets the objective of financial reporting is crucial for investors and the other stakeholders. Despite the important role financial reporting play in achieving

[1] Tom Clendon FCCA (2015), IASB's Conceptual Framework for Financial Reporting, available at http://www.accaglobal.com. Accessed on November 27, 2015.

