International Journal of Auditing and Accounting Studies
Volume 3; Number 2; 2021 : pp. 227-247

ARF INDIA
Academic Open Access Publishing
www.arfjournals.com

Companies Delisted in Malaysia and Auditor's Going Concern Opinion Prior to Delisting

Loh Chun T'ing[1], Krishna Moorthy[2*], Chin Yoon Mei[3] and Foo Pik Yin[4]

[1]*Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Malaysia. E-mail: ctloh@utar.edu.my*
[2*]*School of Economics and Management, Xiamen University Malaysia, Malaysia.*
E-mail: krishna.manicka@xmu.edu.my
[3]*Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Malaysia. E-mail: ymchin@utar.edu.my*
[4]*Faculty of Business and Finance, Universiti Tunku Abdul Rahman, Malaysia. E-mail: foopy@utar.edu.my*

ARTICLEINFO

Received: 11 June 2021

Revised: 11-14 July 2021

Accepted: 25 July 2021

Online: 13 September 2021

Keywords:
Delisted, Going Concern Opinion, Financial Distress Indicators, Malaysia

ABSTRACT

The main objectives of this research are to study the reasons for delisting in Malaysia, delisted companies' financial conditions and auditor's going concern opinions (GCO) received prior to delisting. The dataset is companies delisted from the Main Market of the Bursa Malaysia between 2015 and 2019.The results show that 97% of voluntarily delisted companies received clean auditor's opinion as compared to only 1% of the involuntarily delisted companies. T-test results show that delisted companies that received GCO have significantly worse financial distress indicators of negative working capital, net operating loss, retained earnings deficit, net liability position and total liabilities/total as compared to delisted companies that received clean auditor's opinion. Thus, it was concluded that the financial distress position for companies delisted involuntarily are much more severe as compared to companies delisted voluntarily.

INTRODUCTION

Delisting is defined as the "removal of a listed company from trading on a stock exchange" (Martinez & Serve, 2017, pp 736). According to Sallehuddin *et al.* (2019), in the period between 2007 and October 2018, there was a drastic increase in the number companies delisted, with 21,280 companies delisted from stock markets all over the world, which was considerably larger than the number of IPO (16,299) in the same period. The reason for companies to be delisted is either voluntarily or involuntarily. Voluntary delisting was found to be caused by many complex reasons which includes high compliance costs (Thomsen & Vinten, 2014; Chaplinsky & Ramchand, 2012); financial visibility and investor's interest (Bharath & Dittmar, 2010), buyouts (Lehn & Poulsen, 1989), to alleviate agency costs (Martinez & Serve, 2017), when the costs of maintaining as a listed entity exceeds its benefits

(Kenton, 2018), etc. However, the dominant driving factors for the decision to go private was found to be financial difficulties and poor performance (Martinez & Serve, 2011).

Companies are forced to exit the stock exchange or involuntarily delisted when they failed to meet the listing requirement (Kashefi & Lasfer, 2013), due to bankruptcy, restructuring or liquidation (Macey *et al.*, 2008). Companies suffering from financial distress could lead to bankruptcy (Norita, 2016). In Malaysia a listed company is required to maintain a minimum share price and market cap (Raza *et al.*, 2019); as well as to publish the annual report within the stipulated timeframe.

Since the common factor for voluntary and involuntary delisting encompasses companies suffering from financial distress, financial condition of the companies could be a good predictor for delisting. Martinez and Serve (2011) suggested future research could make comparison of voluntary and involuntary delisting from the perspective of financial distress. According to Balios *et al.* (2015), companies have a higher propensity to be delisted, either voluntarily or involuntarily, when they suffer from poor liquidity, high leverage, sharp decline in market price and low trading activity. The likelihood of involuntary delisting increase when performance of a company on these variables deteriorates. As past studies suggested that the main cause for delisting is financial difficulties, the auditors play an important role to assess the appropriateness of the going concern basis of accounting used by the management to prepare the financial statements (Raza *et al.*, 2019).

The research conducted by Vilalai (2021) aimed to study the chances of financial failure of companies listed on the Stock Exchange of Thailand before being delisted. The results showed that most of the sample groups do not have the possibility of financial failure.

Desai, Kim, and Srivastava (2017) found that the survival rates for the first time GCO is lower than the previous studies which used bankruptcies as measurement instead of delisting and posited that delisting might serve as a broader substitute measure for evaluating the GCOs' quality as compared to bankruptcies.

The research questions for this study are as follows:

1. What are the reasons for delisting of companies from the Main board in Malaysia?
2. Do both voluntarily and involuntarily delisted companies suffer from financial distress prior to their delisting? If so, is there a significant difference of financial distress conditions between voluntarily and involuntarily delisted companies prior to their delisting?

3. Do the companies delisted from the Main board received auditor's going concern opinion prior to their delisting?
4. Is there a significant difference of financial conditions between delisted companies that received GCOs and clean auditor's opinion?

This research contributed to enriching the insights of financial distress indicators affecting auditor's GCO and ultimately leading to the delisting of the companies. Previous studies concerning auditor's opinions on GC and the financial distress conditions of delisted companies were mostly not conducted in the Malaysia context.The surveys conducted in Malaysia were mainly using the financial indicators to predict bankruptcy for public listed companies without relating to the auditor's opinion (Odibi *et al.*, 2015; Thai et. Al., 2014). On top of that, most of the prior researches concluded that audit failure on GC were based on the definition that auditors failed to issue GCO for companies which declared bankruptcy within one year of receiving the auditor's report (Tagesson & Öhman, 2015; Foroghi & Shanshahani, 2012, Bruynseels *et al.*, 2011), but few used delisting to measure audit failure. Thus, this research contributes to close the research gap by analysing the reasons for delisting in Malaysia, connecting the financial distress conditions of the delisted companies (rather that companies that declared bankruptcy) to their auditor's opinion to determine audit failure.Furthermore, this research also response to the research gap suggested by Martinez and Serve (2011) by comparing the level of financial distress suffered by companies delisted voluntarily and involuntarily.

LITERATURE REVIEW

Macey *et al.* (2008) suggested that the reasons for delisting could be separated into involuntary and voluntary.A company could be delisted involuntarilydue tobreach of regulations of the stock exchange, bankruptcy or liquidation of the company. Even though they wish to remain listed, the authorities suspend them for breaching of listing regulations (Balios, *et al.*, 2015); and force them to exit the stock exchange(Martinez & Serve, 2017).Thus, involuntary delisting is beyond the control of the management.On the other hand, a company could undertake to delist voluntarily such as to go private, a cross-delisting or a deregistration (Macey *et al.*,2008). According to Djama *et al.* (2012), voluntary delisting could be explained by the agency theory and the trade-off theory.

AGENCY THEORY

Jensen and Meckling (1976) explained the principal-agent relationship of a company using the agency theory. The principals (owners) delegate power

to the agents (managers) to run their company but they are unable to access to the company's information directly, resulting in information asymmetries. Furthermore, managers may have their own interest which are contradicting to the interest of the owners.

The main incentive for a voluntary delisting with going private through a leveraged buyout (LBO) is related to agency theory (Martinez& Serve, 2011). The agency problem in listed companies distorts investment choices (Asker *et al.*, 2010); and so a vital factor for delisting decision is to realign the incentives of the managers with those of the shareholders (Kaplan, 1989); to lessen the conflicts of interest between managers and shareholders (Djama *et al.*, 2012); and to avoid cost of separating ownership and control (Thomsen & Vinten, 2014).

Colak *et al.* (2020) found that Chinese companies that were delisted from the U.S. stock exchangehave a tendency to suffer from more serious owners-related agency problems. According to Ekadjaja *et al.* (2020), the application of good corporate governance measures is aimed to reduce the agency problems to the lowest level. Good corporate governance can reduce agency conflicts,which can lead toenhanced company's firm performance (Hussain *et al.*, 2018); thus, it might have an effect on voluntary delisting (Sallehuddin, *et al.*, 2019).It was found that delisted companies have relatively weaker corporate governance structures compared to the listed companies; and there is a significant negative relationship between the probability of company delisting and the percentage of independent directors, the board size, and the quality of audit (Chiraz & Anis, 2013).

TRADE-OFF THEORY

Voluntary delisting by going private can also be explained by the trade-off theory (Bharath & Dittmar, 2010). Martinez and Serve (2011) posited that staying listed or delisted is primarily a trade-off decision by the majority owner by weighing the costs and benefits. The decision to go private is made when the listing costs exceed the benefits of staying public. It is costly to stay listed as costs are incurred tomeet the listing regulations, such as for disclosures, investors meetings, corporate governance requirement and etc. (Thomsen & Vinten, 2014).As a consequence, the first incentive to go private is often to eliminate certain costs that are incurred by the listed firm (Djama *et al.*, 2012).

FINANCIAL CONDITIONS OF DELISTED COMPANIES

The delisted companies' financial performance is generally poorer compared to the listed companies (Martinez & Serve, 2011). Norita (2016)

opined that delisted companies are usually companies whose shares are not attractive to investors due to their poor performance, which threaten their ability to survive.Companies were delisted due to facing financial problems and the companies are being mismanaged financially, such as inefficient, incompetent and have inappropriate distribution of responsibility (Roslan, 2010). According to Raza *et al.* (2019),poor financial condition is a main reason of delisting of companies in Malaysia.Thus, we hypothesis that:

H1: All delisted companies suffer from financial distress prior to their delisting.

In Malaysia, a public company listed in main board of Bursa Malaysia will have to be classified as PN17 issuer when it triggers any one of the criteria in relation to the financial condition under Practice Note 17. A PN17 issuer need to submit a regularisation plan to the satisfaction of the Security Commission in order to be lifted from the PN17 issuer status. If the financial difficulties persist, the PN17 issuers would be suspended or delisted (Bursa Malaysia, Main Market Listing Requirements, 2020). According to Mohammed and Ng (2012), PN17 issuers are considered as companies with financial problems. Although it is believed that both voluntarily and involuntarily delisted companies suffer from financial problems, the level of financial distress could be different. Balios *et al.* (2015) noted that a company could be delisted involuntarily when they are bankrupt, or almost bankrupt. Thus, it is hypothesized that:

H2: Involuntarily delisted companies suffer more severe financial distress conditions as compared to voluntarily delisted companies prior to their delisting.

Financial distress indicators are used to measure the financial conditions of the delisted companies.

FINANCIAL DISTRESS INDICATORS

In the research by Desai *et al.* (2017), 3 parameters were used for financial distress, namely negative cash flows, recurring losses and negative working capital. It was found that when the companies had all the three financial distress indicators, the proportion that received GCOs remained stable at the rate of 75% over the period of 1996 to 2015. Furthermore, there is higher propensity for the auditors to issue GCO when the companies have negative cash flows or negative working capital.

In the research of Desai *et al.* (2020), 2,372 GCOs samples from the US were analysed using Audit Analytics for the reasons given by auditors for

their GCOs. The samples were then rank by frequencies noted and categorised into: profitability: (net/operating loss including recurring losses)(81.2%), liquidity (working capital deficit/current ratio inadequacy and liquidity concern)(56.0%), solvency (accumulated/retained earnings deficit/stockholder equity or partner capital deficiency or decrease) (28.8%), and cash flows (negative cashflows from operations) (26.5%).

Among the financial indicators, Bava and Trana (2019) found net liability or net current liability position rank the most significant from the point of view of Italian auditors. Garza-Gomez *et al.* (2020) conducted a research in Japan using the database of Corporate Governance Evaluation System (CGES) to identify all 3139 GCOs relating to 508 firms between 2003 and 2009. The most frequently noted problems were serial loss (net loss continued for several years) and material loss (operating loss or net loss is material for the firm) followed by excess of debt.

Besides the above parameters, various financial ratios have been used to measure the financial condition of a company. Guidelines are given in the ISA 570 (Revised) on the financial indicators that may give signals of this "substantial doubt" and auditors can use them for their judgement on the level of financial distress faced by an audited company. In the Guidelines, key adverse financial ratios are suggested, but no specific ratios are recommended.

According to Mutchler (1984), the top 5 financial ratios used by auditors to assess the financial viability of a company are: cash flow from operations/ total debts, current assets/current liabilities; net worth/total debt; total debt/ total assets; and total long term liabilities/total assets; which LaSalle and Anandarajan (1996) suggested net worth/total liabilities; cash flows from operations/total liabilities; current assets/current liabilities; total liabilities/ total assets; and change in net worth/total liabilities.

In, Balios *et al.*, (2015), several ratios were used to measure the financial conditions of companies: assets (total assets); liquidity (current ratios); leverage (total debts to total assets); profitability (net income to sales); consecutive losses (years of consecutive losses); and free cash flow (free cash flows to assets).

AUDITOR'S GOING CONCERN OPINION (GCO)

Auditor's GCO could be a means to understand the financial condition of a company (Norita, 2016). The financial performance of the companies will affect their going concern ability. Raza, *et al.* (2019) posited that GCO is a significant pointer with regard to delisting. "Based on the audit evidence

obtained, the auditor shall conclude whether, in the auditor's judgement, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern" (ISA 570 Revised, para 18 p. 6). Thus, whether or not an auditor will issue a GCO is dependent on the audit evidence gathered, their understanding of the entity's business, evaluation of the relevant condition and their professional judgement.

Once the auditors decide that a GCO need to be issued, they also have to determine which type of GCO to issue. According to ISA 570 and ISA 570 revised, auditor's GCO were classified into four types depending on the severity of the financial condition as shown in Table 1 below:

Table 1
Auditor's GCO

Auditor's GCO	*GCR Assessment*
Adverse opinion:	Auditors conclude that the going concern (GC) assumption is inappropriate but the financial statements are prepared with the GC assumption (ISA 570 Revised, para 21, p. 7).
Disclaimer of opinion:	Auditors are unable to obtain sufficient appropriate evidence to form an opinion whether the GC assumption is appropriate which involve "multiple uncertaintiesthat are significant to the financial statements as a whole" (ISA 570 Revised, para A33, p. 16).
Qualified opinion:	GC assumption is appropriate, a material uncertainty exists but is not sufficiently disclosed (ISA 570 Revised, para 23, p. 8).
Unqualified, "Emphasis of Matter" (EOM), or" Material Uncertainty Related to Going Concern" (MURGC)	GC assumption is appropriate, a material uncertainty exists but is sufficiently disclosed in and Emphasis of Matter paragraph. (ISA 570, para 19, p.8)GC assumption is appropriate, a material uncertainty exists but is sufficiently disclosed under a separate heading MURGC (ISA 570 Revised para 22, p.7)

Source: ISA 570 (Revised) and ISA 570

According to Mo, Rui, and Wu (2015), in the case of GCO, an unqualified EOM is deemed less severe as compared to qualified opinion and even less severe than a disclaimer of opinion. This is concurred by Lam and Mensah (2006) that financial distress is ranked as less serious by EOM, more serious by an exception for qualification and highest by disclaimers. In Carey *et al.* (2008), the study of Australian companies in financial distress also found that EOM was less severe than disclaimers.

Since delisted companies are believed to have suffered negative financial conditions and the auditor's going concern opinion is issued based on the financial distress level of the company, it is hyphothesized that:

H3: Companies delisted from the Main board received auditor's going concern opinion prior to their delisting.

H4: There is a significant difference of financial conditions between delisted companies that received GCOs and clean auditor's opinion.

RESEARCH METHODOLOGY

The dataset of this research comprised of all Malaysia incorporated companies which were delisted from the Main Market of the Bursa Malaysia (Malaysian Stock Exchange) between 2015 and 2019. The auditor's GCO and financial data of these companies are extracted from the annual report published; and the reasons of delisting were extracted from the general announcement from Bursa Malaysia website.

In this research companies are bankrupt, almost bankrupt, liquidated, suspended or ordered to exit the stock market by Bursa Malaysia due to failure to meet the listing requirements are classified as involuntary delisted companies. Descriptive analyses are used to analyse number of companies listed in the Main Board of Bursa Malaysia, the reasons for delisting and the auditor's GCOs for the delisted companies. Then, t-tests are used to compare the mean of GCOs as well as the financial distress indicators between voluntarily delisted and involuntarily delisted companies. In this research, 5 financial parameters and 3 key financial ratios are used to measure whether the delisted companies faced with financial distress.

Financial Distress Parameters

- Negative operating cash flows (Desai *et al.*, 2020)
- Negative working capital (Desai *et al.*, 2017)
- Net operating losses (Garza-Gomez *et al.*, 2020)
- Retained earnings deficit (Desai *et al.*, 2020)
- Net liability position (Bava & Trana, 2019)

In this research, a company will be coded 1 for the financial parameter if it fulfils the financial situation of the parameter. If it does not fulfil, it will be coded 0.

Financial Ratios

Liquidity: Current assets/Current liabilities (Balios *et al.*, 2015; Mutchler, 1984)

Cash flow from operations/Total liabilities (LaSalle & Anandarajan, 1996)

Leverage: Total liabilities/Total assets (Balios *et al.*, 2015; Mutchler, 1984)

Lastly, the means of financial distress indicators are compared between the delisted companies that received clean auditor's opinion and GCO.

DATA ANALYSIS

Listing and delisting in the Main Board

According to the data purchased from Bursa Malaysia and extracted from Bursa Malaysia website, the number of companies listed in the Main Board of Bursa Malaysia between 2015 and 2019 shows continuous reducing trend from 794 (2015) to 774 (2019) companies. A more detailed analysis of companies listed in the Main Board of Bursa Malaysia shows that the number of newly listed or transfer from other market has reduced from 9 (2015) to 5 (2019) while the number of companies delisted were always higher, fluctuating between 14 (2015 & 2019) and 9 (2016), resulting in the reduction number of companies listed.

These delisted companies were further analysed as to the reasons for delisting. Table 2 shows that out of the total 59 companies delisted between 2015 and 2019, 36 (61.02%) delisted voluntarily whereas 23 (38.98%) delisted involuntarily.

Table 2
Reasons for Delisting from Main Board

Year	*Voluntary Delisting*	*Involuntary Delisting*	*Total*
2015	8	6	14
2016	6	3	9
2017	8	3	11
2018	6	5	11
2019	8	6	14
Total	36	23	59

Source: Companies' announcement from Bursa Malaysia website.

From the companies' announcement in the Bursa Malaysia website, it is noted that out of the 36 voluntary delisted companied in this period, 20 companies (56%) were delisted due to take-over and mergers, 13 companies (36%) delisted due to capital reduction exercise, 2 companies (5%) delisted due to privatisation and 1 company (3%) delisted due to undertaking the Real Estate Investment Trust (REIT) establishment and listing. As for the 23 non-voluntary delisted companies, 17 companies (74%) were delisted because they are unable to regularise the financial condition from the PN17status, 4 (17%) were wound up, 2 (9%) violated the listing rule 8.03 as

cash companies, being more than 70% of the companies' asset as cash and short term investments.

AUDITOR'S GOING CONCERN OPINION (GCO) FOR DELISTED COMPANIES

The latest auditor's opinions published in the annual report for the delisted companies were analysed in Table 3 below. Two of the 59 companies were excluded as their annual reports were not submitted to Bursa Malaysia. It can be seen that on 1 (3%) of the voluntary delisted company received an EOM/MUGRC/qualified auditor's opinion, while the rest, 35 (97%) received clean auditor's opinion. However, the situation was reversed for involuntarily delisted companies. Only 1 (5%) of them received a clean auditor's opinion, 10 (47.5%) received EOM/MURCC/qualified opinion and 10 (47.5%) received disclaimer of opinion.

Table 3
Types of Auditor's GCO for Delisted Companies

Auditor's GCO	*Voluntary Delisted*	*Involuntary Delisted*	*Total*
Clean	35	1	36
EOM/MURCC/Qualified	1	10	11
Disclaimer	0	10	10
Total	**36**	**21**	**57**

In this research, clean auditor's opinion is coded 1, EOM/MURCC/ qualified opinion is coded 2 and disclaimer of opinion is coded 3. Table 4 shows that the mean of auditor's opinion for voluntary delisting is 1.03 which signifies most of the companies received clean auditor's report; while the mean for involuntarily delisted companies is 2.43 which suggests that most companies received EOM/MURCC/qualified opinion or disclaimer of opinion.

Table 4
Descriptive Analysis for Types of Auditor's Opinion and Delisting

	Voluntary delisted or not	*N*	*Mean*	*Std. Deviation*	*Std. Error Mean*
Auditor's opinion	Voluntary Delisting	36	1.030	.167	.028
	Involuntary Delisting	21	2.430	.598	.130

A t-test is carried out to compare the mean. Table 5 shows that the p-value for Levene's Test is < 0.05, thus, equal variances not assumed. The p-

value for the t-test is also < 0.05 which suggests that there is significant difference between the mean of auditor's opinion for voluntarily and involuntarily delisted companies.

Table 5
T-test for Types of Auditor's Opinion and Delisting

Independent Samples Test

		Levene's Test for Equality of Variances		*t-test for Equality of Means*						
									95% Confidence Interval of the Difference	
	Equal variances	*F*	*Sig.*	*t*	*df*	*Sig. (2-tailed)*	*Mean Diff.*	*Std. Error Diff.*	*Lower*	*Upper*
Auditor's opinion	- assumed	97.906	.000	-13.281	55	.000	-1.401	.105	-1.612	-1.189
	- notassumed			-10.506	21.830	.000	-1.401	.133	-1.677	-1.124

Financial Distress Indicators Differences between Voluntarily Delisted and non-Voluntarily Delisted companies

After excluding 4 outliers, the financial indicators of the dataset are shown in Table 6.

The higher means for all parameters show that involuntarily delisted companies suffer more serious financial problem than the voluntarily delisted companies:

- More involuntarily delisted companies suffer from negative operating cash flows with a mean of 0.390, which is higher than 0.260 for voluntarily delisted companies
- More involuntarily delisted companies were at negative working capital position with a mean of 0.830, which is substantially higher than 0.060 for voluntarily delisted companies
- All involuntarily delisted companies suffer from net operating loss (mean = 1), which is higher than 0.290 for voluntarily delisted companies
- More involuntarily delisted companies have retained earnings

Table 6
Financial Distress Indicators for Voluntarily Delisted and Involuntarily Delisted Companies

	Voluntarily delisted or not	*N*	*Mean*	*Std. Deviation*	*Std. Error Mean*
Negative operating cash flows	Voluntarily delisted	35	.260	.443	.075
	Involuntarily delisted	18	.390	.502	.118
Negative working capital	Voluntarily delisted	35	.060	.236	.040
	Involuntarily delisted	18	.830	.383	.090
Net operating loss	Voluntarily delisted	35	.290	.458	.077
	Involuntarily delisted	18	1.000	.000	.000
Retained earnings deficit	Voluntarily delisted	35	.170	.382	.065
	Involuntarily delisted	18	.940	.236	.056
Net liability position	Voluntarily delisted	35	.000	.000	.000
	Involuntarily delisted	18	.670	.485	.114
Current assets/current liabilities	Voluntarily delisted	35	3.453	2.746	.464
	Involuntarily delisted	18	1.007	2.490	.587
Operating cash flows/ total liabilities	Voluntarily delisted	35	.129	.290	.049
	Involuntarily delisted	18	.0150	.275	.065
Total liabilities/total assets	Voluntarily delisted	35	.372	.247	.042
	Involuntarily delisted	18	1.525	1.134	.267

deficits with a mean of 0.940, which is substantially higher than 0.170 for voluntarily delisted companies

- The involuntarily delisted companies with net liability position have a mean of 0.670 while none of the voluntarily delisted companies have net liability position (mean = 0)

The analysis in Table 6 also shows that voluntarily delisted companies had much better current assets/current liabilities ratio with a mean of 3.453 as compared to the involuntarily delisted companies with a mean of 1.007. Similarly, the mean of operating cashflows/total liabilities for voluntarily delisted companies was 0.129 which is much higher than the involuntarily delisted companies (0.015). These suggests that voluntarily delisted companies have much better liquidity position as compared to involuntarily delisted companies.

From the leverage perspective, the mean of total liabilities/total assets for involuntarily delisted companies was 1.525 which was much higher compared to the voluntarily delisted companies (mean = 0.372). Thus, the involuntarily delisted companies were more highly geared.

Table 7 below shows the t-test results on differences in financial indicators for voluntarily delisted and involuntarily delisted companies. In the Levene's test for equality of variances, the p-values for financial

parameter: negative working capital, net operating loss, retained earnings deficit and net liability position and financial ratio of total liabilities/total assets were less than 0.05, thus equal variances for the above were not assumed. As for negative operating cash flows, current assets/current liabilities and operating cash flows/total liabilities, as the p-values are >0.05 for the Levene's Test for Equality of Variances, equal variances are assumed.

The t-tests results for those financial indicators where equal variances were not assumed were analysed. The financial parameters of negative working capital, net operating loss, retained earnings deficits and net liability position, and financial ratio the total liabilities/ total assets have p-values <0.05 (sig. 2-tailed). Thus, it is concluded that for these financial indicators, there is a significant difference between the voluntarily and involuntarily delisted companies.

Financial Distress Indicators Differences between Clean Auditor's Opinion and GCO

This time, the same financial parameters and ratios are anaylsed against the types of auditors' opinion. Those auditor's opinion which highlighted going concern problem in EOM/MURGC, qualified or disclaimer of opinion on grounds of going concern are categorised as GCO.

Table 8 shows that means for the financial parameters and ratios as follow:

- The mean for negative operating cash flows for companies that received GCO is higher at 0.420 as compared to 0.240 for companies that received clean auditor's report. It suggested that companies that received clean auditor's reports have less tendency to suffer from negative operating cash flows position.
- There is a vast difference between the mean of negative working capital for companies that received GCO at 0.790 as compared to 0.060 for companies that received GCO. It implied that more of companies that received GCOs suffer from negative working capital position.
- All the companies that received GCO suffered net operating loss (mean = 1) while less companies that received clean auditor's report suffered net operating loss (0.260).
- Almost all the companies that received GCO had retained earning deficit with a mean of 0.950 while few companies that received clean auditor's report had retained earning deficit with a mean of 0.150.

- Majority of companies that received GCO had net liability position with a mean of 0.630 while none of the companies with clean auditor's opinion had net liability position as the mean is 0.

Table 7
T-test Results on Differences in Financial Distress Indicators for Voluntarily Delisted and Involuntarily Delisted Companies

Independent Samples Test

		Levene's Test for Equality of Variances		*t-test for Equality of Means*						
									95% Confidence Interval of the Difference	
Financial Distress Indicators	*Equal variances:*	*F*	*Sig.*	*t*	*df*	*Sig. (2-tailed)*	*Mean Diff*	*Std. Error Diff*	*Lower*	*Upper*
Negative operating Cash Flows	- assumed	2.949	**.092**	-.980	51	**.332**	-.132	.134	-.402	.138
	- not assumed			-.941	30.913	.354	-.132	.140	-.417	.154
Negative working capital	- assumed	6.765	**.012**	-9.126	51	.000	-.776	.085	-.947	-.605
	- not assumed			-7.859	23.787	**.000**	-.776	.099	-.980	-.572
Net operating loss	- assumed	76.981	**.000**	-6.580	51	.000	-.714	.109	-.932	-.496
	- not assumed			-9.220	34.000	**.000**	-.714	.077	-.872	-.557
Retained earnings deficits	- assumed	6.725	**.012**	-7.825	51	.000	-.773	.099	-.971	-.575
	- not assumed			-9.070	49.146	**.000**	-.773	.085	-.944	-.602
Net liability position	- assumed	269.434	**.000**	-8.207	51	.000	-.667	.081	-.830	-.504
	- not assumed			-5.831	17.000	**.000**	-.667	.114	-.908	-.425
Current assets/current liabilities	- assumed	3.111	**.084**	3.167	51	**.003**	2.446	.772	.895	3.997
	- not assumed			3.269	37.563	.002	2.446	.748	.931	3.962
Operating cash flows/total liabilities	- assumed	1.775	**.189**	1.374	51	**.176**	.114	.083	-.052	.280
	- not assumed			1.398	36.100	.171	.114	.081	-.0512	.278
Total liabilities/total assets	- assumed	22.997	**.000**	-5.801	51	.000	-1.153	.199	-1.552	-.754
	- not assumed			-4.261	17.837	**.000**	-1.153	.271	-1.722	-.584

As for financial ratios, Table 8 shows that companies that received GCO had a mean of 1.020 for current assets/current liabilities while the mean is much higher at 3.518 for companies that received clean auditor's opinion. Similarly, the mean for operating cash flows/total liabilities for is much higher at 0.134 for companies that received clean auditors' report as compared to 0.012 for companies that received GCO. This indicated that

Table 8
Financial Distress Indicators for Delisted Companies that Received GCO and Clean Auditor's opinion

	Auditor's Opinion	*N*	*Mean*	*Std. Deviation*	*Std. Error Mean*
Negative operating cash flows	GCO	19	.420	.507	.116
	Clean	34	.240	.431	.074
Negative working capital	GCO	19	.790	.419	.096
	Clean	34	.060	.239	.041
Net operating loss	GCO	19	1.000	.000	.000
	Clean	34	.260	.448	.077
Retained earnings deficits	GCO	19	.950	.229	.053
	Clean	34	.150	.359	.062
Net liability position	GCO	19	.630	.496	.114
	Clean	34	.000	.000	.000
Current assets/current liabilities	GCO	19	1.020	2.421	.555
	Clean	34	3.518	2.760	.473
Operating cash flows/ total liabilities	GCO	19	.0121	.267	.061
	Clean	34	.134	.293	.050
Total liabilities/total assets	GCO	19	1.513	1.104	.253
	Clean	34	.3444	.190	.033

the companies that received GCOs had worse liquidity position than the companies that received clean auditor's report.

Lastly, the mean for total liabilities/total assets for companies that received GCO is much higher at 1.513 as compared to companies that received clean auditor's report with mean of 0.344. It signified that companies that received GCO is more highly geared as compared to companies that received clean auditor's opinion.

Table 9 below shows the t-test results on differences in financial indicators for delisted companies that received GCO and clean auditor's report. In the Levene's test for equality of variances, the p-values for negative working capital, net operating loss, retained earnings deficits, net liability position and total liabilities/total assets were less than 0.05, thus equal variances for the above were not assumed. As for negative operating cash flows, current assets/current liabilities and operating cash flows/total liabilities, since the p-values are >0.05 for the Levene's Test for Equality of Variances, equal variances are assumed.

The t-tests results for those financial indicators where equal variances were not assumed were analysed. The financial parameters of negative working capital, net operating loss, retained earnings deficit and net liability

position as well as financial ratio of total liabilities/total assets have p-values <0.05 (sig. 2-tailed). Thus, it is concluded that for these financial indicators, there is a significant difference between the delisted companies that received GCO and clean auditor's report.

Table 9
T-test Results on Differences in Financial Indicators for Delisted Companies that Received GCO and Clean Auditor's opinion

Independent Samples Test

		Levene's Test for Equality of Variances		*t-test for Equality of Means*						
									95% Confidence Interval of the Difference	
Financial Distress Indicators	*Equal variances:*	*F*	*Sig.*	*t*	*df*	*Sig. (2-tailed)*	*Mean Diff*	*Std. Error Diff*	*Lower*	*Upper*
Negative operating Cash flows	- assumed	5.537	**.023**	1.413	51	.164	.186	.131	-.078	.450
	- not assumed			1.348	32.535	**.187**	.186	.138	-.095	.466
Negative working capital	- assumed	12.103	**.001**	8.114	51	.000	.731	.090	.550	.911
	- not assumed			6.995	24.691	**.000**	.731	.104	.515	.946
Net operating loss	- assumed	64.276	**.000**	7.126	51	.000	.735	.103	.528	.942
	- not assumed			9.574	33.000	**.000**	.735	.077	.579	.892
Retained earnings deficit	- assumed	4.925	**.031**	8.740	51	.000	.800	.092	.616	.984
	- not assumed			9.873	49.970	**.000**	.800	.081	.637	.963
Net liability position	- assumed	439.716	**.000**	7.489	51	.000	.632	.084	.462	.801
	- not assumed			5.555	18.000	**.000**	.632	.114	.393	.870
Current assets/current liabilities	- assumed	3.649	**.062**	-3.297	51	.002	-2.498	.758	-4.019	-.977
	- not assumed			-3.424	41.657	.001	-2.498	.730	-3.971	-1.025
Operating cash flows/total liabilities	- assumed	2.112	**.152**	-1.492	51	.142	-.121	.0814	-.285	.042
	- not assumed			-1.531	40.312	.133	-.121	.0793	-.282	.039
Total liabilities/total assets	- assumed	22.999	**.000**	6.060	51	.000	1.169	.193	.782	1.556
	- not assumed			4.578	18.600	**.000**	1.169	.255	.634	1.704

DISCUSSION

Between 2015 and 2019, it was found that most of the companies (61%) delisted from the Bursa Malaysia Main board delisted their companies voluntarily, while only 39% were delisted involuntarily. For the companies delisted voluntarily, more than half of them (56%) were resulted from takeover and mergers and 13% were resulted from capital reduction. This could be due the poor financial performance (Martinez & Serve, 2011) or

poor corporate governance (Chiraz & Anis, 2013). Five percent of them that privatized their companies could be a result of the wishing to reduce agency cost as suggested by the agency theory (Thomsen & Vinten, 2014) or to reduce listing cost based on the trade-off theory (Djama *et al.*, 2012). For companies delisted involuntarily, they practically forced to exit (Martinez & Serve, 2017) mostly because they are unable to regularise the financial condition required in the listing regulation (Kashefi & Lasfer, 2013), were wound up(Macey *et al.*, 2008),or violated other listing requirements (Balios, *et al.* (2015).

From the analysis, it was found that the voluntarily delisted companies suffered from 4 out of the 5 financial distress parameters. The highest percentage is net operating loss (29%), followed by negative operating cash flows (26%), retained earnings deficit (17%) and negative working capital (6%) while no voluntarily delisted companies suffer from a net liability position. As for involuntarily delisted companies, they suffer from all 5 of the financial distress parameters. The highest percentage is net operating loss (100%), followed by retained earnings deficit (94%), negative working capital (83%), net liability position (64%) and negative operating cash flows (39%). Thus, H1 is supported and it is concluded that all delisted companies suffer from financial distress prior to their delisting. This is consistent with the findings of (Raza *et al.*, 2019; Norita, 2016; Martinez & Serve, 2011).

As the mean for all the five financial distress indicators for companies delisted involuntarily were higher than the companies delisted voluntarily, it suggested that they were facing a more serious financial problem. When the financial ratios are compared between the companies delisted voluntarily with those delisted involuntarily, it was found that all the ratios of companies delisted involuntary reflected a worse financial position. The current assets/current liabilities ratio is much lower, signifying a tighter liquidity position; the operating cash flows/total liabilities ratio is much lower, signifying a stringent cashflow position; and total liabilities/total assets ratio is four times higher, signifying a high risk of over reliance on loan or external funding.Furthermore, the t-test results shows that there is a significant difference between the voluntarily and involuntarily delisted companies for financial parameters of negative working capital, net operating loss, retained earnings deficits and net liability position as well as the financial ratio for total liabilities/total assets. Thus, H2 was supported and it is concluded that involuntarily delisted companies suffer more severe financial distress conditions as compared to voluntarily delisted companies prior to their delisting. This is in line with the finding s of Balios *et al.* (2015) which noted that a company could be delisted involuntarily when they are bankrupt, or almost bankrupt. Companies voluntarily delisted

may also suffer from financial problem but onlymore severe financial distress that triggers the PN17 issuer status by the Bursa Malaysia listing requirement would lead to involuntary delisted (Bursa Malaysia, Main Market Listing Requirements, 2020) or in other words forced to exit the market due to breaching the listing requirement (Kashefi & Lasfer, 2013).

From the analysis, it was noted that 97% of the voluntarily delisted companies did not receive a prior GCO while the reverse was found for the involuntarily delisted companies, with 99% received prior GCO.The t-test results also indicated that there is significant difference between the mean of auditor's opinion for voluntarily and involuntarily delisted companies. This suggested that although companies delisted voluntarily may also suffer a certain level of financial distress, the level of severity is not sufficient to trigger the issuance of GCO by the auditors. Thus, H3, the Companies delisted from the Main board received auditor's going concern opinion prior to their delisting, was not supported. This is contradicting with suggestion of Raza, *et al.* (2019) that GCO is a significant pointer with regard to delisting. Delisting also may not be used as a substitute for bankruptcy on the analysis of audit failure concerning GCO as recommended by Desai *et al.* (2017) as GCO is only a significant indicator pertaining to involuntary delisting rather that delisting in general.

Lastly, the t-tests results showed that delisted companies that received GCO have financial parameters of negative operating cash flows, negative working capital, net operating loss, retained earnings deficit and net liability position as well as financial ratio for total liabilities/total assets significantly worse than delisted companies that received clean auditor's report. Thus, it is concluded that there is a significant difference of financial conditions between delisted companies that received GCOs and clean auditor's opinion andthus H4 is supported. This is in agreement with the findings of Mo *et al.* (2015) that GCO is issued when an auditor clearly expresses his/her concern about the audited entity's ability to continue operation in the foreseeable future due to financial distress. Furthermore,Ittonen *et al.* (2017) also found that auditors are frequently criticized for issuing too few GCOs due to having high substantial doubt thresholds for financial distress. Thus, we can conclude that delisted companies that received GCOs suffered more severe financial distress.

CONCLUSION

The results of this study suggested that the financial distress position for companies delisted involuntarily are much more severe than the companies delisted voluntarily. As the audit opinion and financial indicators for

companies delisted voluntarily indicated that they do not suffer the same level of financial distress, it is suggested that future researchers could perform a more in-depth study on the reasons for voluntary delisting. Although this study tries to understand the reason for delisting in Malaysia, there is a limitation as this study does not perform a detail analysis to identify whether the takeover and mergers are friendly or hostile in nature. It is suggested that future research can focus in this area.

Furthermore, although Desai *et al.* (2017) suggested that delisting might serve as a broader substitute measure for evaluating the GCOs' quality as compared to bankruptcies, caution need to be exercised for future research to only include involuntarily delisted companies to testaudit failure. This is because this research noted that voluntarily delisted companies may not suffer the same level of financial distress and thus, may not receive GCOs.

Acknowledgement

The authors acknowledge with thanks for the thought provoking comments of the two anonymous reviewers. These comments help us in improving the quality of this paper.

References

Asker, J., Farre-Mensa, J., & Ljungqvist, A., (2010). Does the stock market harm investment incentives? *ECGI – Finance Working paper*. Retrieved on 13 July 2021 from: http://ssrn.com/abstract=1603484.

Balios, D., Eriotis, N., Missiakoulis, S., & Vasiliou, D., (2015). Delisted versus voluntary delisted versus remain listed: an ordered analysis. *Applied Economics Letters, 22*(1), pp. 66–70.

Bava, F., & Trana, M.G., (2019). ISA 570: Italian auditors' and academics' Perceptions of the going concern opinion. *Australian Accounting Review 88, 29*(1), pp. 112-123.

Bharath, S. T., & Dittmar, A. K., (2010). Why do firms use private equity to opt out of public markets? *The Review of Financial Studies, 23(5)*, pp. 1771–818..

Bruynseels, L., Knechel, W.R., & Willekens, M., (2011). Auditor differentiation, mitigating management actions, and audit-reporting accuracy for distressed firms. *Auditing: A Journal of Practice & Theory, 30* (1), pp. 1-20.

Bursa Malaysia, Main Market Listing Requirements (2020). Practice Note 17 – Criteria and Obligations of PN17 Issuers (13 August 2020) . Retrieved on 9 July 2021 from: *https://www.bursamalaysia.com/regulation/listing_requirements/main_market/practice_notes.*

Carey, P., Geiger, M.A., & O'Connell, B.T., (2008). Costs associated with going-concern-modified audit opinions: an analysis of the Australian audit market. *Abacus*, *44* (1), pp. 61-81.

Chaplinsky, S., & Ramchand, L., (2012). What drives Delisting's of foreign firms from US exchanges. *Journal of International Financial Markets, Institutions & Money, 22 (5)*, pp.1126–1148.

Chiraz, D. & Anis, J. (2013. Corporate Governance and Delisting Risk of French IPO Firms. *International Review of Management and Business, 2*(1), pp. 117-127.

Colak, G., Fu, M., Hasan, I. (2020). Why are some Chinese firms failing in the US capital markets? A machine learning approach. *Pacific-Basin Finance Journal, 61* (C), 101331

Desai, V., Desai, R., Kim, J. W., & Raghunandan, K. (2020). Are going-concern issues disclosed in audit reports associated with subsequent bankruptcy? Evidence from the United States International Journal of Auditing, *24 (2)*, pp. 131–144.

Desai, V., Kim, J.W., & Srivastava, R. P. (2017). A study of the relationship between a going concern opinion and its financial distress metrics. *Journal of Emerging Technologies in Accounting, 14*(2), pp. 17-28.

Djama, C., Martinez, I., & Serve, S. (2012). What do we know about delistings? A survey of the literature. *Working Paper*, pp.1–22. Retrieved on 13 July 2021 from: *http://halshs.archives-ouvertes.fr/hal-00937899/.*

Ekadjaja, A., Chuandra, A., Ekadjaja, M. (2020). The Impact of Board Independence, Profitability, Leverage, And Firm Size on Income Smoothing in Control of Agency Conflict. *Dinasti International Journal of Education Management and Social Science, 1*(3), pp. 388-399.

Foroghi, D., & Shahshahani, A. M., (2012). Audit firm size and going-concern reporting accuracy. *Interdisciplinary Journal of Contemporary Research in Business*, *3* (9), pp. 1093–1098.

Garza-Gomez, X., Okumura, M., & Salazar, R. J. (2020). Announcements of going-concern problems among Japanese firms. *Journal of Accounting and Finance, 20*(1), pp. 39-52.

Hussain, N., Rigoni, U., & Orij, R. P., (2018). Corporate governance and sustainability performance: Analysis of Triple Bottom Line Performance. *Journal of Business Ethics, 149*(2), pp.411–432.

Ittonen, K., Tronnes, P.C., & Wong, L., (2017). Substantial doubt and the entropy of auditors' going concern modifications. *Journal of Contemporary Accounting & Economics*, *13(2),* pp. 134–147.

Jensen, M. C., & Meckling, W. H., (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), pp.305–360.

Kaplan, S., (1989). The effects of management buyouts on operations and value. *Journal of Financial Economics, 24 (2)*, pp. 217–254.

Kashefi, P. E., & Lasfer, M., (2013). Why do companies delist voluntarily from the stock market? *Journal of Banking and Finance 37 (12)*, pp. 4850–4860.

Kenton, W., (2018) What is delisting? Retrieved on 13 July 2021 from *http://www.investopedia.com/terms/d/delisting.asp.*

Lam, C.K., & Mensah, Y.M., (2006). Auditors' decision making under going-concern uncertainties in low litigation risk environments: evidence from Hong Kong. *Journal of Accounting and Public Policy*, *25* (6), pp.706-739.

LaSalle, R., & Anandarajan, A,. (1996). Auditors' views on the type of audit report issued to entities with going concern uncertainties. *Accounting Horizons, 10*(2), pp. 51–72.

Lehn, K., & Poulsen, A., (1989). Free cash flow and stockholder gains in going private transactions. *The Journal of Finance, 44* (3), pp.771–87.

Macey, J., O'Hara, M., & Pompilio, D., (2008). Down and out in the stock market: the law and economics of the delisting process. *Journal of Law and Economics, 51*(4), pp.683–713.

Martinez, I., & Serve, S., (2011). The delisting decision: the case of buyout offer with squeeze-out (BOSO). *International Review of Law and Economics 31*(4), pp. 229–239.

Martinez, I., & Serve, S., (2017). Reasons for Delisting and consequences: A literature review and research agenda. *Journal of Economic Surveys,31*(3),pp. 733–770.

Mo, P.L.L., Rui, O.M., & Wu, X., (2015). Auditors, going concern reporting in the pre- and post-Bankruptcy Law eras: Chinese affiliates of big 4 versus local auditors. *The International Journal of Accounting*, *50* (1), pp. 1–30.

Mohammed, A.A.E., & Ng, K.-S., (2012). Using Altman's model and current ratio to assess the financial status of companies quoted in the Malaysian Stock Exchange, *International Journal of Scientific and Research Publications*, *2* (7), pp.2-4.

Mutchler, J.F., (1984). Auditors' perceptions of the going concern opinion decision. *Auditing: A Journal of Practice & Theory, 3* (Spring), pp. 17–29.

Norita (2016). The analysis of Delisting decision of Garment companies observed from the aspect of bankruptcy prediction, compatibility with income statement and auditor's opinion. *The International Journal of Organizational Innovation 9*(2), pp. 61-75.

Odibi, S., Basit, A., & Hassan, Z., (2015). Bankruptcy prediction using Altman Z-Score model: a case of public listed manufacturing companies in Malaysia. *International Journal of Accounting, Business and Management*, *3* (2), pp.1-10.

Raza, A., Wan Hussin, W. N., & Abdul Majid, J., (2019). Delisting of firms in Malaysia; What the financial conditions and auditor reports reveal? *Advances in Social Sciences Research Journal*, 6*(5, pp.)* 90-97.

Roslan, N. H., (2010). Determinants of financial distress among manufacturing companies in Malaysia (Unpublished Master's thesis, Universiti Utara Malaysia). Retrieved on 13 July 2021 from: http://etd.uum.edu.my/4924/2/s816217_abstract.pdf.

Sallehuddin, M. R., Zhang X. M., & Saad, R.M. (2019). Determinants of voluntary Delisting in China: A conceptual study. *International Journal of Business Marketing and Management, 4*(10), pp.17-25.

Tagesson, T., & Öhman, P,. (2015). To be or not to be – auditors' ability to signal going concern problems. *Journal of Accounting & Organizational Change*, *11* (2), pp.175 – 192.

Thai, S.B., Goh, H.H., Teh, B.H., Wong, J.C., & Ong T.S., (2014). A revisited of Altman Z-Score model for companies listed in Bursa Malaysia. *International Journal of Business and Social Science*, *5* (12), pp.197-207.

Thomsen, S., & Vinten, F., (2014), Delistings and the costs of governance: a study of European stock exchanges 1996–2004. *Journal of Management and Governance 18* (3),pp. 793–833.

Vilalai, P., (2021). Bankruptcy risk: Case study Delisted companies in The Stock Exchange of Thailand . *Journal of Management Science Nakhon Pathom Rajabhat University*, *8*(1), pp. 162-173.