

ผลกระทบส่วนเพิ่มจากดุลยพินิจของผู้สอบบัญชีเหนือปัจจัยระดับองค์กร
ที่มีผลกระทบต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว
ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย



นางจรรยาภรณ์ เตชะมนตรีกุล

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาบัญชีดุษฎีบัณฑิต

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INCREMENTAL EXPLANATORY POWER OF INDIVIDUAL AUDITOR'S JUDGMENT
OVER AUDIT FIRM LEVEL FACTORS ON QUALITY OF AUDITED FINANCIAL
STATEMENTS OF COMPANIES LISTED IN THE STOCK EXCHANGE OF THAILAND



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สถาบันวิทยบริการ
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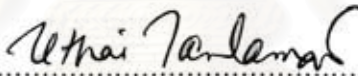
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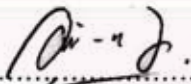
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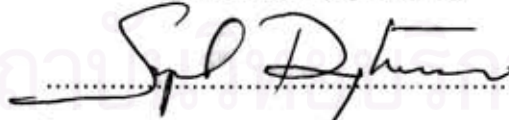
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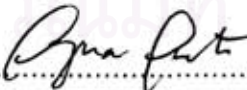

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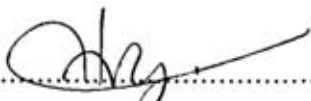
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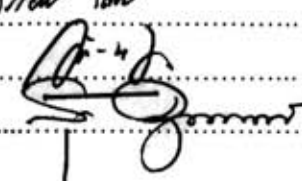

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จรรยาบรรณ เศรษฐมนตรีกุล : ผลกระทบส่วนเพิ่มจากดุลยพินิจของผู้สอบบัญชีเหนือปัจจัยระดับองค์กร ที่มีผลกระทบต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย. (INCREMENTAL EXPLANATORY POWER OF INDIVIDUAL AUDITOR'S JUDGMENT OVER AUDIT FIRM LEVEL FACTORS ON QUALITY OF AUDITED FINANCIAL STATEMENTS OF COMPANIES LISTED IN THE STOCK EXCHANGE OF THAILAND) อ. ที่ปรึกษา : อ.ดร.เอมอร ใจเก่งกิจ, อ.ที่ปรึกษาร่วม : รศ.ดร.สุพล คุรงค์วัฒนา, 107 หน้า.

การศึกษานี้มีวัตถุประสงค์ในการตรวจสอบผลกระทบส่วนเพิ่มจากดุลยพินิจของผู้สอบบัญชีเหนือปัจจัยระดับองค์กรที่มีผลกระทบต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย โดยใช้งบการเงินประจำปี 2544-2547 เป็นกลุ่มตัวอย่างในการศึกษานี้ ปัจจัยระดับองค์กรรวมถึง ขนาดของสำนักงานสอบบัญชี ความสำคัญของลูกค้า จำนวนลูกค้าที่ผู้สอบบัญชีรับผิดชอบ และธรรมาภิบาลที่ดีของบริษัทจดทะเบียน ปัจจัยที่เกี่ยวกับดุลยพินิจของผู้สอบบัญชีได้แก่ ความชำนาญทางธุรกิจ และระดับคุณธรรมของผู้สอบบัญชี ซึ่งวัดด้วยค่า DIT (Defining Issues Test) การตรวจสอบใช้การวิเคราะห์สมการถดถอย (Regression Model) โดยตัวแปรตามคือคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว คุณภาพของงบการเงินวัดโดย absolute value of discretionary accruals ส่วนค่าตัวแปรอิสระคือ ปัจจัยระดับองค์กร และดุลยพินิจของผู้สอบบัญชีซึ่งเป็นผู้สอบบัญชีในระดับหุ้นส่วนบริษัทและเป็นบุคคลที่แสดงความเห็นในรายงานผู้สอบบัญชีที่มีต่องบการเงินของบริษัทที่เป็นกลุ่มตัวอย่างในการศึกษานี้ โดยการเก็บข้อมูลในส่วนของผู้สอบบัญชีได้ใช้การสัมภาษณ์กลุ่มตัวอย่างผู้สอบบัญชี การทำแบบสอบถาม และให้กลุ่มตัวอย่างทำกรณีศึกษาแบบตัวต่อตัว

ผลการศึกษาพบว่า (1) ปัจจัยระดับองค์กรที่มีผลกระทบต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว ได้แก่ ขนาดของสำนักงานสอบบัญชี ความสำคัญของลูกค้า และจำนวนลูกค้าที่ผู้สอบบัญชีรับผิดชอบ (2) ดุลยพินิจของผู้สอบบัญชีมีผลกระทบส่วนเพิ่มเหนือปัจจัยระดับองค์กรต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว และ (3) เมื่อพิจารณาถึงปัจจัยที่เกี่ยวกับดุลยพินิจของผู้สอบบัญชีพบว่า คุณธรรมของผู้สอบบัญชีมีอิทธิพลร่วมกับความสำคัญของลูกค้า ที่มีต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว ถ้าหากผู้สอบบัญชีมีคุณธรรมสูง แม้ว่าลูกค้าจะมีความสำคัญมาก ก็จะไม่ผลกระทบต่อคุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้ว แต่ถ้าผู้สอบบัญชีมีคุณธรรมต่ำ ถ้าหากลูกค้ามีความสำคัญมากจะมีผลทำให้คุณภาพของงบการเงินที่ผ่านการตรวจสอบแล้วลดลงด้วย

ภาควิชา.....การบัญชี.....ลายมือชื่อนิสิต.....
 สาขาวิชา.....การบัญชี.....ลายมือชื่ออาจารย์ที่ปรึกษา.....
 ปีการศึกษา.....2549.....ลายมือชื่ออาจารย์ที่ปรึกษาร่วม.....

๑๖/๐๓/๑๐๗


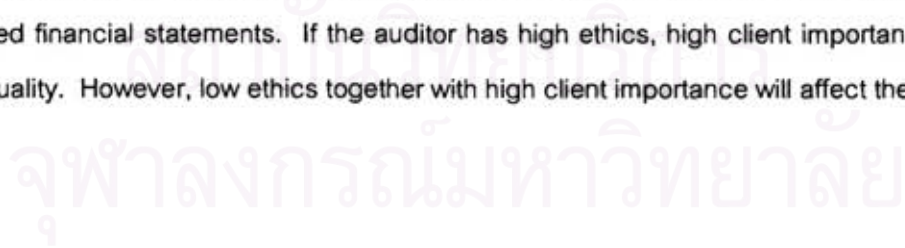
458 33521 26 : MAJOR ACCOUNTING

KEY WORD: QUALITY OF AUDITED FINANCIAL STATEMENTS/ INDIVIDUAL JUDGEMENT/ INDIVIDUAL FACTORS/ FIRM FACTORS

JUNYAPORN TECHAMONTRIKUL : INCREMENTAL EXPLANATORY POWER OF INDIVIDUAL AUDITOR'S JUDGMENT OVER AUDIT FIRM LEVEL FACTORS ON QUALITY OF AUDITED FINANCIAL STATEMENTS OF COMPANIES LISTED IN THE STOCK EXCHANGE OF THAILAND. THESIS ADVISOR : AIM-ORN JAIKENGKIT, Ph.D., THESIS CO-ADVISOR : ASSOC. PROF. SUPOL DURONGWATANA, Ph.D., 107 pp.

The objective of this study is to investigate the incremental explanatory power of individual auditor's judgment over audit firm level factors on quality of audited financial statements. The auditors in this study are Thai SEC approved auditors. The audited financial statements used as the sample in this study are from year 2001-2004. Firm level factors include size, client importance, number of listed companies responsibilities and corporate governance. Individual level factors are technical knowledge, and ethical level which is represented by DIT (Defining Issues Test). Multiple regression is used with dependent variable, quality of audited financial statements, represented by absolute value of discretionary accruals. Other methods such as interview, designed case, and questionnaires are also applied to gather important data.

The results show that (1) Firm level factors that are associated with quality of audited financial statement are size, client importance and number of listed companies' responsibilities. (2) The results also support the hypothesis that individual auditor's judgment has an incremental explanatory power over audit firm level factors on quality of audited financial statements. (3) In term of individual auditor's judgment, high ethics as well as client importance create high quality of audited financial statements. If the auditor has high ethics, high client importance will not affect the quality. However, low ethics together with high client importance will affect the audit's quality.



Department.....Accountancy.....Student's signature.....
Field of study.....Accountancy.....Advisor's signature.....
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CHAPTER I

INTRODUCTION

1.1 Motivation of Research

In 1997, Thailand faced a financial crisis in the devaluation of the Thai currency. Many companies and 56 financial institutions collapsed. As a result of criticism on lack of good governance, transparency, accountability, accounting standards and practices, international accounting standards were adopted in 1998. During 1998-2000, many accounting and auditing standards were issued to follow those used in international practices. Moreover, the accounting scandals at Enron and others had raised questions about the quality of the auditing profession. The Office of the Securities and Exchange Commission (SEC) in Thailand issued new regulations and tried to find ways to control the quality of listed company auditors in order to enhance transparency and credibility of audited financial statements.

Nowadays, the principal vehicle by which an organization's financial accounting information is communicated to investors and other external parties is the financial statement. The auditing firm provides an independent audit and issues a report after examining the reporting firm's financial statements, related disclosures and underlying systems and records to assess whether the financial statements are presented fairly and in accordance with "generally accepted accounting principles (GAAP)". The audit process involves many judgments and decisions. The audit process entails judgments about the amount and type of evidence to be collected, the extent to which such evidence is reliable, and the actions that should be taken in response to the evidence that has been collected and evaluated. The output process entails judgments on the conclusion of the audit process and the kind of opinions that should be issued for the reporting firm.

Thai auditing standards follow International Standard on Auditing by International Federation of Accountants (IFAC). According to the Proclamation no. 41,

1998 of the Department of Business Development, there are four types of audit report, namely (1) Unqualified opinion, (2) Qualified opinion, (3) Adverse opinion, and (4) Disclaimer opinion. In Thailand, the SEC does not accept financial statements of listed companies when auditors issue either an adverse opinion or qualified opinion regarding non conformity with GAAP, and qualified opinion regarding scope limitation by management. Hence, the auditor's opinion is important to the client. There are uncertainties for auditors to avoid issuing those types of opinions to retain clients. Moreover, discussion with expert auditors indicates that there would be different auditing opinions in similar circumstances. (Thailand SEC quarterly meeting with SEC approved auditors, 2003-2005).

In theory, it should be expected that the auditor has gathered the best evidence in order to conclude that the financial statements are free of material misstatements and, if they are, the audit opinion would objectively address such misstatements. Consequently, users of such audited financial statements could rely on the works of auditors. However, after Enron and other high-profile scandals around the globe, and also in Thailand recently, the reliability of auditors' reports has become in doubt.

At the end of audit process, the auditor is required to use his/her judgment to select the appropriate type of report for the circumstance of the audited clients. High quality audit of the auditor ensures that the auditor can make correct decision in selecting the report for ambiguous situations. If he/she selects the correct opinion for the situation, he/she has performed high quality audit work. The quality of audit work could lead to quality of audited financial statements. The audited financial statement is the outcome of a negotiation process between the auditor and the client (e.g. Antle and Nalebuff, 1991). As summarized by Nelson and Tan (2005) that auditor-client interactions fundamental to preserving audit quality, as these interactions include negotiations over changes in the financial statements necessary for the auditor to provide an unqualified opinion.

Several researchers in earning management use discretionary accruals as a proxy for quality of audited financial statement (i.e. Healy, 1985; Bowen et al., 1987; Jones, 1991; Healy and Palepu, 1993; Dechow, 1994; Dechow et al., 1995; Dye and Verrechia, 1995; Sloan et al., 1995; Dechow, Sloan, and Sweeney, 1996; Becker et al., 1998; Collins and Hribar, 1991; Johnson et al., 2002; Reynolds, Dies, and Francis, 2004). Discretionary accruals is estimated from Modified Jones Model. Dechow, Sloan, and Sweeney (1995) concluded that a Modified Jones Model exhibits the highest power in detecting earning management. Higher quality of audited financial statements should present lower discretionary accruals.

Quality of audit judgment can come primarily from individual factors. Auditor who has more expertise, logical thinking, and conformity with the ethics seems to develop better quality of judgment. When come to the real situation, besides individual judgment, the firm factors also play important role in the decision to express an audit opinion on the financial statements. (i.e. Watts and Zimmerman, 1981; DeAngelo, 1981b; Stice, 1991; Lys and Watts, 1994; Solomon et al., 1999; Frankel et al., 2002; Libby and Kinney, 2002; Chung and Kallapur, 2003; Ng and Tan, 2003; Krishnan, 2003; Ashbaugh et al., 2003; Nelson and Tan, 2005).

The previous studies had examined single relationship between (1) individual factors and quality of auditor judgment or (2) between firm level factors and quality of audited financial statements. This study examines the association, both individual level factors and firm level factors, with quality of audited financial statements. In experiment used by previous studies, the subjects mostly were in manager level in audit firms or students who represented experienced and inexperienced auditors, whereas this study uses the engagement partners who really perform the audit and are responsible for the auditor's report of listed companies on the Stock Exchange of Thailand. Individual level factors are ethics, total listed companies' responsibilities of each auditor, and technical knowledge. The firm level factors are size, client importance, number of listed companies' responsibilities, and corporate governance of clients.

1.2 Research Objective

This paper aims at studying the incremental explanatory power of individual auditor's judgment over audit firm level factors on quality of audited financial statements.

1.3 Research Question

In order to examine the incremental explanatory power of individual auditor's judgment over audit firm level factors on quality of audited financial statements, the research question is as follows:

Do individual auditor level factors have an incremental explanatory power over audit firm level factors in affecting quality of audited financial statements?

1.4 Scope of the Study

This study will focus on both individual level and firm level factors that affect individual judgment of an auditor in affecting quality of audited financial statements by using discretionary accruals as a proxy for quality of audited financial statements. Individual technical knowledge is proxied by the scores which is derived by designed cases that have been done by each auditor. The scores were weighted by two experted. This study examines the association between (1) individual level factors and quality of audited financial statements, and (2) firm level factors and quality of audited financial statements. The audited financial statements used as the sample in this study are from year 2001-2004. The auditors in this study are only Thai SEC approved auditors. The samples do not include companies in the financial service industry, which includes banks, finance and securities, and insurance companies. The reason to exclude those companies is that computing discretionary accruals for these firms are problematic (Becker et al. 1998), and that they operate under strict regulations of the Bank of Thailand and the Department of Insurance.

1.5 Contributions of Research

This study adds to the literature on quality of audited financial statements (e.g., Krishnan 2003) and judgment and decision making study additional evidence about whether individual level factors have an incremental explanatory power over firm level variables in affecting quality of audited financial statements. With the regulators, the results show that firm level factors have influences to the quality of audited financial statements. Those variables include audit firm size, number of listed companies' responsibilities, and auditor-client relationship. In addition to the firm level factors, individual factors such as ethics and corporate governance should be emphasized and promote best practice to enhance higher quality of audited financial statements. Moreover, with the users of financial statements, the users should learn from this study that auditor's related factors; both individual and firm level factors would imply to the quality of audited financial statements.

1.6 Structure of Research

Chapter two presents the literature review and development of research question and hypotheses. Chapter three, research design, provides details about the sample selection, model for hypotheses testing and data analyses. Chapter four presents the empirical results. Finally, Chapter five concludes the research results.

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CHAPTER II

LITERATURE REVIEW AND DEVELOPMENT OF RESEARCH HYPOTHESES

2.1 Accounting Profession in Thailand

The requirement for legal entities (limited companies, juristic partnerships) to prepare and present audited financial statements dates back to 1924 when the first Civil and Commercial Code B.E. 2467 (1924) was enacted. Accounting education at undergraduate level was first offered in 1938 by Chulalongkorn University and Thammasat University, public universities which remain in existence to date. Accounting education was based on either the U.S. or the U.K. knowledge base as teachers were graduates from either U.S. or U.K. universities. In 1939, the first Accounts Act B.E. 2482 was enacted, providing the first legal framework for legal entities to maintain accounting books and records and prepare annual accounts.

Significant developments were the founding of the Institute of Thai Accountants in 1948, which subsequently changed its name to the Institute of Certified Accountants and Auditors of Thailand (ICAAT) in 1975, and the enactment of the Auditors Act B.E. 2505 in 1962. Most importantly this Act establishes the Board of Supervision of Audit Practice (BSAP) and Certified Public Accountants (CPA). However, up until 1973 developments of the profession were gradual and slow. The important milestone of development came in 1974 when the Stock Exchange of Thailand was founded and signaled the immediate need for comprehensive legal and regulatory framework governing all important aspects of accounting and auditing. The accounting and auditing environment today is a reflection of the significant developments since 1974.

The accounting and auditing profession is under the legal and regulatory framework implemented by the Institute of Certified Accountants and Auditors of Thailand (ICAAT), and the Board of Supervision of Audit Practice (BSAP). ICAAT was

established in 1948 and is a member of the International Federation of Accountants (IFAC) and the Asian Federation of Accountants (AFA).

ICAAT is a self regulating organization, governed by the Board of Directors comprising a maximum of 21 members. The President of ICAAT is elected by its members with a 2-year term in office and is eligible for reelection for a further period of two years. Other members of the Board are appointed by the President.

Memberships of ICAAT fall into two categories namely Ordinary members and Academic-activities members. Academic-activities membership is open to either institutions or ordinary persons. Ordinary member must be a Thai national who possesses a bachelor's degree in accounting, or a diploma in accounting. Academic-activities personal member must possess a high diploma in accounting and have no less than three years of work experience in accounting, or possess a bachelor's degree in any field of study and have a minimum of one-year work experience in accounting or auditing. Academic-activities institutional member must be the public sector, government organization, or other juristic entities. The granting, suspension and withdrawal of CPA license is under the control of the Board of Supervision of Audit Practice (BSAP) attached to the Ministry of Commerce established under the Auditors Act. The requirements for becoming a CPA include education, training / experience and examination. Continuing professional education is required for practicing and non-practicing CPA.

On October 23, 2004, the Government enacted the Accounting Profession Act to supersede the Auditors Act B.E. 2505 (1962). Under this Act, Federation of Accounting Professions was established as a Self-regulated Organization (SRO) to govern the accounting profession as well as accountants and auditors in Thailand. The accounting standard setting body and the auditing standards setting body were also formulated. All the works in the areas of accounting standard and auditing standard setting were transferred to these two committees. In January 2005, ICAAT members decided to abolish ICAAT and transferred its members to Federation of Accounting Professions. Nevertheless, the majority members of these two committees

were those who worked for ICAAT. Therefore, their work policies remained the same as those of ICAAT.

In 1997, Thailand faced a financial crisis in the devaluation of Thai currency. Many companies and 56 financial institutions collapsed. Besides being criticized for lack of good governance, transparency, accountability, accounting standards and practices were in doubt. Pressure for full adoption of international accounting standard was brought up in 1998, leading to issuance of many standards during 1998-2000.

For company's accountants, Thai authority also introduced control measures on accountants or chief financial officers of all companies in Thailand. The Accounting Act was enacted in August 2000 requiring all companies to register the names of accounting officers for accountability purposes. The named accountant has to meet the minimum requirement i.e. a bachelor degree in accounting. The accountant has to sign a statement when filing the company's annual financial statements implying that the statements are true and correct and in accordance with the generally accepted accounting principles.

Public companies listed on the Stock Exchange of Thailand generally employ professionally qualified accountants or persons with graduate degree in either accounting or finance to carry out activities relating to internal financial control and external financial reporting. There are approximately 400 public companies listed on the Stock Exchange of Thailand (September 2005). Company directors are legally responsible for the financial statements. Shareholders have the right to take legal actions against the management and/or the auditors if the financial statements are materially misleading.

There are specific laws requiring audits of financial statements. The Accounts Act requires all companies (approximately 265,557, as of June 2005)* and juristic partnerships (approximately 221,043*, as of June 2005) to have their financial statements audited by CPA with some exemptions. These exemptions apply to juristic

partnerships whose capital, assets, or revenues do not exceed certain amounts specified by ministerial regulations. The Securities and Stock Exchange Act requires that annual financial statements of listed companies be audited by CPA, and quarterly financial statements to be reviewed by CPA. The Public Companies Act also requires that financial statements of public companies be audited by CPA. Under the Civil and Commercial Code, all limited companies and juristic partnerships must have their financial statements audited by CPA. However, certain exemptions are granted under the Accounts Act. The Revenue Code requires all limited companies and juristic partnerships to submit audited financial statements accompanying their income tax returns. In case of juristic partnerships exempted from audit by CPA, the financial statements must be audited by Tax Auditors. CPA may act as Tax Auditors, but Tax Auditors may audit only those exempted juristic partnerships. According to the regulations of the Bank of Thailand, banks and other financial institutions must have their annual and half-year financial statements audited by CPA. Qualified CPA must be an accounting graduate having practical auditing experiences for a period of approximately three years and passing examinations of five subjects. One CPA is not allowed to perform audit for more than 300 clients.

In 2004, there are 5,907 certified public accountants* (with half active in the profession) of which approximately 79 CPA (practice under firms' name) are in public practice**. The Big 4 are the audit firms that dominate the global audit industry. Their size is measured by fees, or number of partners and staffs, or multinational clients they serve worldwide. The Big 4 comprises of PriceWaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. The Big 4 has dominated the audits of public companies listed on the Stock Exchange of Thailand (SET) (approximately 80%). In 2004, there are 23 audit firms that perform the audit for SET listed companies. Among these firms, the Big 4 have 48 auditors approved by SEC while the remaining 19 non-Big 4 firms have 31 auditors.

* Source : Department of Business Development ; September 2005

** Source : The Securities Exchange Commission of Thailand (SEC)

2.2 Auditing Standard Setting in Thailand

Prior to 2004, the Thai Standard on Auditing Committee (TSAC) under the Institute of Certified Accountants Auditors of Thailand (ICAAT) acts as the national professional body responsible for setting standards on auditing. As ICAAT is a member of IFAC, Thai Standards on Auditing are based on and similar to International Standards on Auditing. A due process of standard setting is followed fairly similar to that of the accounting standard setting which includes (1) set up steering committee to determine the context of the particular standard and its impact, (2) present the results of study to the auditing standard setting committee, (3) organize the public hearing, except that the process does not require the final approval by the Board of Supervision of Audit Practice (BSAP) before ICAAT issues the standards for adoption. The BSAP, which regulates auditors, has issued a Notification setting out the general standards on auditing, and another Notification setting out the requirements on the auditor's opinion on financial statements. One of the requirements in the first Notification is that the auditors must perform the audits in accordance with auditing standards issued by ICAAT.

A number of organizations are involved in the enforcement of the Standards on Auditing, namely the BSAP, the SEC, the Bank of Thailand, the Revenue Department, and Supervisory Board of the Department of Business Development of the Ministry of Commerce. The BSAP considers compliance issues which are brought to attention by any party. Issues are first considered by the Ethics Sub-Committee of the BSAP. Final decision rests with the BSAP. Disciplinary actions include warning, suspension of license, and withdrawal of license. Appeals against the BSAP's decision may be made through the court of law. The ICAAT performs quality review of audit work in the case of auditors applying for approval by the SEC to audit listed companies. Approval is given for a 5-year period. The SEC may give approval or take disciplinary actions based on the results of the review by ICAAT. The SEC may suspend approval for certain periods, or reject the application for approval, and refer the case to the BSAP. The auditor may appeal against the decision. An appeal committee, set up by the SEC but consisting of outside independent experts, is responsible for considering the appeal

and reporting its decision to the SEC for final decision. The Bank of Thailand monitors compliance by requiring auditors of banks and financial institutions to submit audit programs for its review before the start of the audit. Otherwise it would normally rely on findings of the SEC and the BSAP. The Revenue Department monitors compliance passively based on the results of tax investigations, as well as consideration of cases decided by the BSAP. The Department of Business Department performs routine examinations of the accounting books and records maintained by companies to monitor compliance with the Accounting Act. Companies are selected on a random basis or specific basis where there are indicators of problems. Such examinations may also be extended to a review of the audit work performed by the auditors of those companies to ensure compliance with the auditing standards and the Code of Ethics. Negative findings on the auditors are submitted to the Ethics Sub-Committee of the BSAP for consideration.

In 1978, the Thai Government passed the Public Companies Act (B.E. 2521) in order to facilitate growth of the domestic stock market. The Ministry of Commerce issued Regulation No. 7 (for public companies) (B.E. 2521), which prescribes formats and minimum disclosures for the profit and loss account and balance sheet for public companies. There is a considerable overlap between the Ministerial Regulation No. 7 and Ministerial Regulation No. 2, particularly with regard to the form and content of the published annual financial statements, and the requirement that the financial statements be audited on a yearly basis. The 1978 Act requires that the annual reports of Thai public companies include information pertaining to their ownership of subsidiaries and private companies, value of directors' shareholdings, and details of contracts between the company and its directors. The 1978 Act also prescribes that companies set aside at least 5 percent of their annual earnings as a non-distributable legal reserve until that reserve constitutes 25 percent of the nominal value registered capital. Furthermore, under the 1978 Act, companies must file a copy of their audited annual report with Department of Business Development within one month of the annual general meeting.

The economic crisis in 1997 had some impacts on the audit profession. Questions were raised here and there as to why the auditors' reports did not indicate any warnings of possible failures of the 56 financial institutions. There were some threats of litigations against the auditors, which had never been a common practice in Thai culture. To date, only one case against the auditor has been publicized relating to one of the 56 financial institutions. However, due to the widespread effects of the crisis, the number of auditors' reports containing emphasis on a matter paragraph on going concern uncertainty had increased significantly. In addition, the Big 4 (Big 5 at that time) introduced into their audit reports an emphasis on a matter paragraph drawing attention to the economic crisis which affected and could continue to effect the companies.

The accounting and auditing profession in Thailand attracted public interest again when the failures of Enron, etc., in the U.S. were revealed. The failures of Enron, etc., prompted the profession and the regulators to undertake immediate studies of the current code of ethics, standards, and other requirements relating to accounting and auditing with a view to making improvements in areas which would maintain and enhance public confidence in the profession. Such studies cover the provisions of the Sarbanes Oxley Act of 2002 in the U.S. and take into consideration the Thai environment. In relation to auditing, there are current proposals for improvements in key areas such as quality control for audit work, independent external quality review, prohibition of certain non-audit services to audit clients and mandatory partner rotation. With regard to auditing standards, the policy is to issue Thai Standards on Auditing based on and similar to International Standards on Auditing, and the implementation is current and on-going.

In addition, the SEC had ordered many listed companies such as Roynet, Daidomon, Thai Film, Picnic, etc. to correct their financial statements and also penalized the auditors who performed the audit for those companies. Besides understanding factors affecting individual auditor's judgment and quality of audited financial statements in developing the model, this study also benefits the enhancement

of reliability of financial statements and the selection of auditors for listed companies by legislative authority in order to ensure better quality of financial statements.

After October 23, 2004, the Accounting Profession Act superseded the Auditor Act B. E. 2505 (1962). The auditing standards setting body under this act follow the works done by the previous standard setting body. The revised International Standards on auditing are studied and translated and do the public hearing. Those revised standards will then issued as the standards after being considered and approved by the Supervisory Board of Accounting Profession.

The study of audit reports in Thailand

There are few studies of auditing in Thailand. Following are some literature regarding auditing in Thailand.

Boonyanet (2002) studied empirical evidence of the relationship between audit reports (i.e. going concern audit reports and all types of audit qualifications) and delisting factors in stock markets. The findings indicate that going concern reporting issued under modified opinion are a predictor of mandatory delisting. The study also finds that when the lagged effect is taken into account, all types of audit qualifications issued under modified opinions are important determinants of mandatory delisting. Apart from audit reports, a decrease in Gross Domestic Product (GDP) significantly influences mandatory delisting probability. The study also finds that bad trading record announcement by the Thai Stock Exchange provides useful incremental information about the probability of mandatory delisting.

Kochapun (2003) finds that the reliability of internal control systems, listed company status, companies' total revenues, service years of auditing and audit periods are the most important information affecting audit fees. This study suggests that certified public accounts should consider the reasonable results of internal audit work as part of their works in order to improve external audit quality. Praditvorakhun (2003) studies factors affecting clients' satisfaction with auditing. Questionnaires were sent to

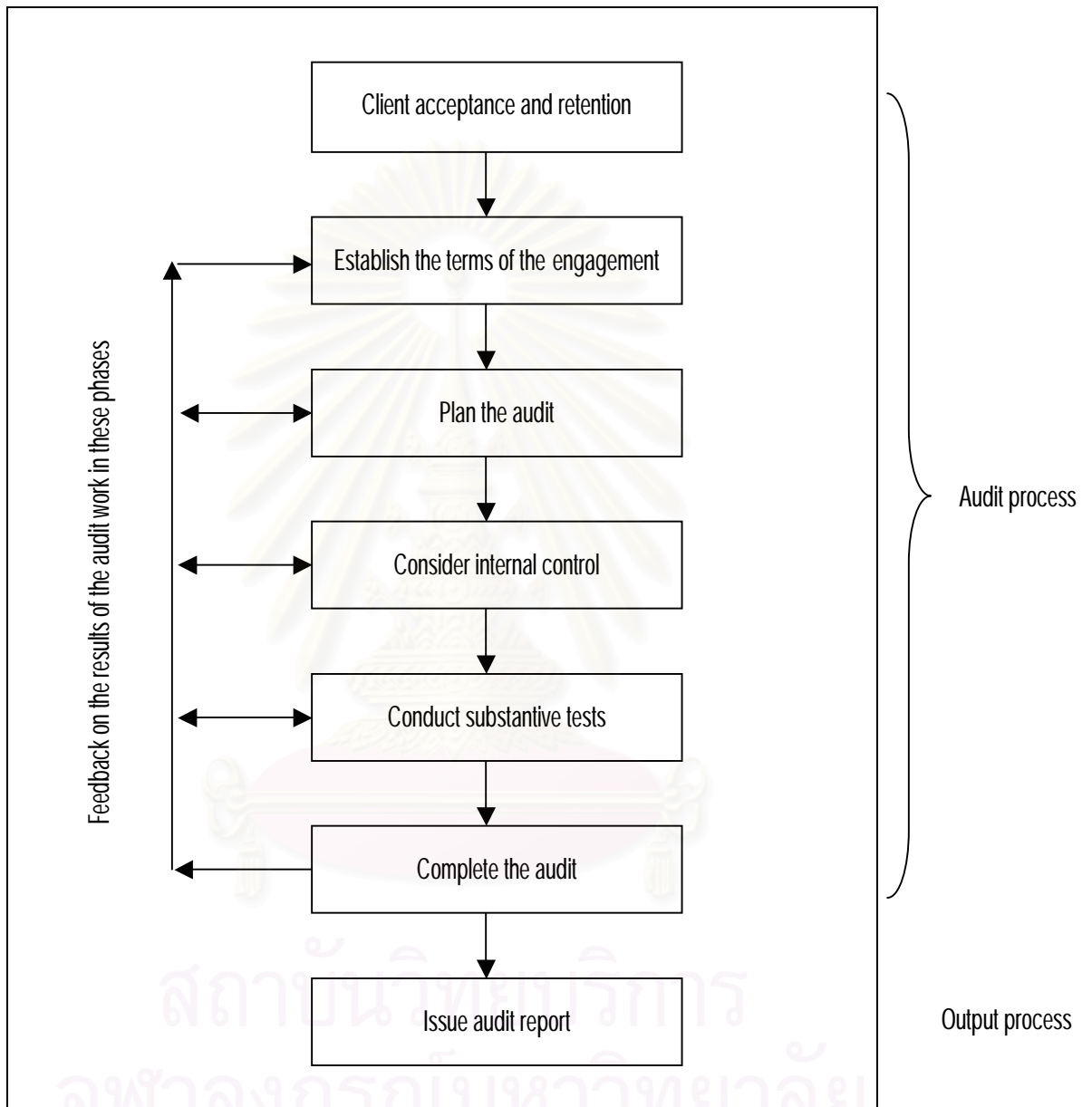
audit committees, controllers of public companies and regulatory agencies to rate the level of satisfaction with auditing based on the auditor attributes, audit performance, and audit firm factors. Results indicate that the regulatory agencies perceive that professional competence of auditors, professional skepticism, professional ethics, compliance with professional standard, appropriate audit planning, and quality control procedures have a greater effect on satisfaction with auditing.

Dendonsai (2004) studied factors associated with behavior that reduce audit quality from the perspectives of assistant auditors and audit managers of audit firms with SEC-approved auditors. Questionnaires were used, and the results showed that three most frequently mentioned behaviors that reduce audit quality are under-reporting of time spent on audit work, increasing tolerant level in order to bypass certain errors, and failure to investigate relevant and technical accounting issues. The most significant factors associated with behaviors that reduce audit quality are sufficient training and perceived effectiveness of audit review process.

2.3 Audit process and output process

The audit work has two main stages: audit process and output process. Both the audit process and output process are mainly involved with judgments and decisions. The audit process entails judgments about the amount and type of evidence to be collected, the extent to which such evidence is reliable, and the actions that should be taken in response to the collected and evaluated evidence. The output process entails judgments about the conclusion of the audit process and what kind of opinion should be issued for the reporting firm. Major phases in an audit are shown in Figure 2.1

Figure 2.1 Major Phases in an Audit



Source : William Messier, 1999

2.4 Factors affecting quality of individual judgment and decision making

Theoretical concepts

The theoretical concepts related to quality of individual judgment and decision making consist of human information processing approach, cognitive style approach, and concept of judgment and decision making which can be summarized as follows:

2.4.1 Human information processing approach (Belkaoui 2001):

Auditors, when performing the critical decisions referred to each of the audit phases, undertake a structured set of activities that correspond with the concept of human information processing (HIP) theory as they relate to cognitive decision making. The audit activities and their corresponding human information processing are: planning (hypothesis generation), evidence gathering (information search), evidence evaluation (information evaluation), and decision-making (choice).

There are three main components of an information processing model- input, process and output. Studies of the information set input (or cues) focus on the variables that are likely to affect the way people process information for decision-making. Studies of the process component focus on the variables affecting the decision maker such as (1) Characteristics of judgment; personal, task-related, human or mechanical, number of judges, and (2) Characteristics of decision rules; form, cue usage, stabilities and heuristics (Libby and Rappaport, 1982).

Studies of the output component focus on variables related to the judgment, prediction or decision that are likely to affect the way the user processes the information. The variables examined include: (1) The qualities of the judgment; accuracy, speed, reliability in terms of consistency, consensus and convergence, response biases, and predictability, and (2) Self-insight; subjective cue usage, perceived decision quality, and perceptions of characteristics of information sets. (Verrecchia, 1980).

2.4.2 Cognitive style approach

The cognitive style approach focuses on the variables that are likely to have an impact on the quality of the judgments made by the decision makers. "Cognitive style" is a hypothetical construct that is used to explain the mediation process between stimuli and responses (Belkaoui, 2001).

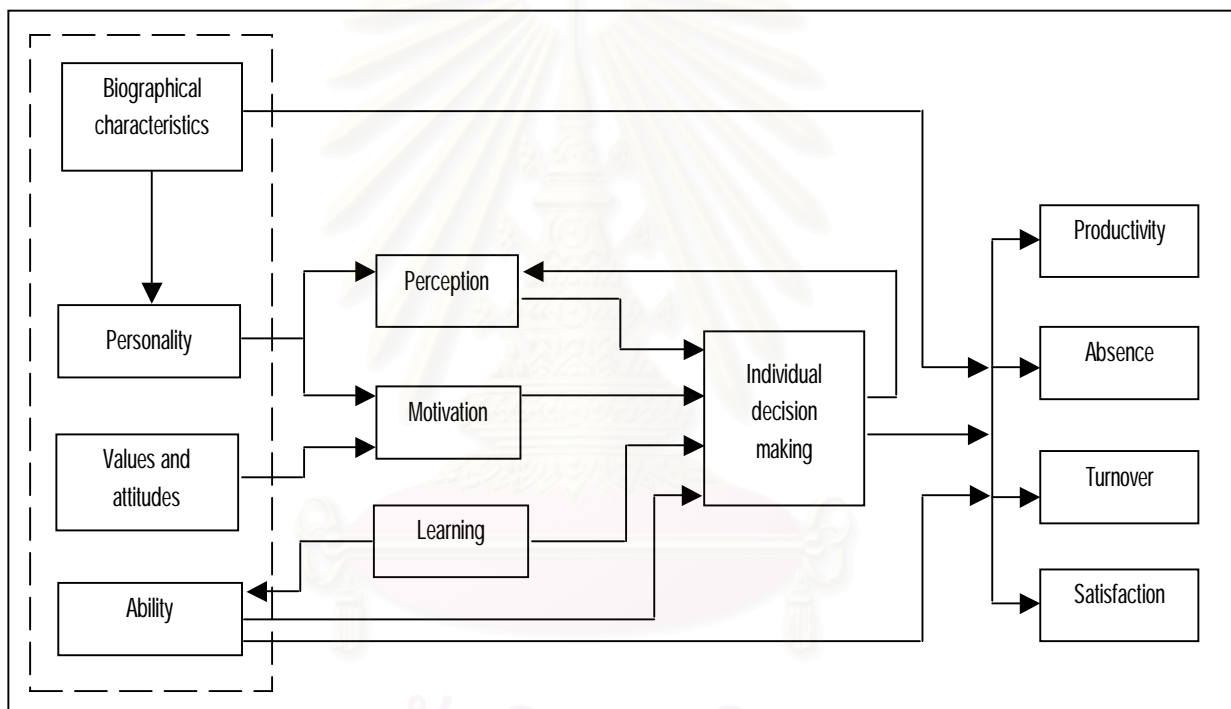
When an individual makes decisions, he/she makes choices from among two or more alternatives. Decision making occurs as a reaction to a problem. There is a discrepancy between some current state of affairs and some desired state, requiring consideration of alternative courses of action. Every decision requires interpretation and evaluation of information. Data is typically received from multiple sources and it needs to be screened, processed, and interpreted (Robbins, 1989).

2.4.3 Judgment and decision making

The behavioral approach to the formulation of accounting theory emphasizes the relevance to decision-making of information being communicated (communication decision orientation) and the individual and group behavior caused by the communication of the information (decision-maker orientation). Because accounting is considered to be a behavioral process, the behavioral approach to the formulation of an accounting theory applies behavioral science to accounting (Belkaoui, 2001). The American Accounting Association's Committee on Behavioral Science Content of Accounting Curriculum provides the objective of behavioral science, which may also apply to behavioral accounting, that is to understand, explain, and predict human behavior, and to establish generalizations about human behavior that are supported by empirical evidence collected in an impersonal way by procedures that are completely open to review and replication and capable of verification by other interested scholars. Behavioral science thus represents the systematic observation of human's behavior for the purpose of experimentally confirming specific hypotheses by reference to observable changes in behavior. The systematic study of behavior is a means to making reasonable accurate predictions. (Lawler and Rhode, 1976) The phrase

“systematic study” means looking at relationships, attempting to attribute causes and effects, and basing our conclusions on scientific evidence i.e. on data gathered under controlled conditions and measured and interpreted in a reasonably rigorous manner. The predominant areas are psychology, sociology, social psychology, anthropology, and political science (Driver, Hardy, Lorsh, 1987).

Figure 2.2 The Individual Level in the Organizational Behavior (OB) Model



Source : Gordon, J.R. 2002

The term judgment typically refers to forming of an idea, opinion, or estimate about an object, an event, a state, or another type of phenomenon. Judgments tend to take the form of predictions about the future or an evaluation of a current state of affairs. The term decision refers to making up one’s mind about the issue at hand and taking a course of action. Decisions typically follow judgments and involve a choice among various alternatives based on judgments about those alternatives and, possibly, preferences for factors such as risk and money. In other words, judgment reflects one’s beliefs, and decision may reflect both beliefs and preferences. For example, an auditor

makes a judgment about whether financial statements contain material misstatements. Then, he or she makes a decision about what type of audit opinion to issue based on his or her judgment about misstatements and preferences regarding client retention and litigation (Bonner, 1999).

The major idea underlying such research on judgment and decision-making is that decision makers are bounded by rational (Simon, 1957). Simon (1976) satisficing model is a decision making model where a decision maker chooses the first solution that is "good enough", that is, satisfactory and sufficient. The essence of the satisficing model is that, when faced with complex problems, decision makers respond by reducing the problems to a level at which they can be readily understood. This is because the information processing capability of human beings makes it impossible to assimilate and understand all the information necessary to optimize. The capacity of the human mind for formulating and solving complex problems is far too small to meet all the requirements for full rationality. Individuals operate within the confines of bounded rationality. They construct simplified models that extract the essential features from problems without capturing all their complexity.

Quality of individual judgment and decision making

The quality of judgments and decisions (JDM performance) is determined by reference to some normative criterion for accuracy, if one exists. This criterion can be an actual outcome associated with a judgment or decision. Less-than-optimal JDM can lead to serious financial and other consequences for the individuals making the decisions, the firms for which they work, and others who rely on their work (Ashton and Ashton, 1995). The quality of an individual's JDM can affect his or her performance evaluation, compensation, job retention and promotion indicates that auditor's performance evaluations are related to the quality of research their technical judgments (Tan and Libby, 1997). Poor JDM can lead to negative legal outcomes such as payments in civil litigation (Erickson et al., 2000).

2.5 Factors affecting quality of audited financial statements

Theoretical concepts

The theoretical concepts related to quality of audited financial statement consist of (1) the agency theory, (2) the positive accounting theory, and (3) the concept of quality of audited financial statements, all of which can be summarized as follows:

2.5.1 The Agency Theory

Jensen and Meckling (1976) model the contract between the shareholders of a firm and an owner-manager. Jensen and Meckling call the contract between the owner-manager and shareholders an agency relationship. They define an agency relationship as "a contract under which one or more (principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen and Meckling, 1976). Auditing is one of the ways in which the contracts are monitored. The auditors check that the numbers used in contractual provisions have been calculated using accepted procedures and whether the contractual provisions have been breached. Accounting researchers have applied the theory to auditing and have developed intuitive explanations for auditing practice. For example, explanations have been developed for the emphasis on auditor independence and for the existence of professional societies and large audit firms. (Watts and Zimmerman, 1986)

Accounting and auditing play an important role in the principal-agent relationship (Messier, 1999). First, the agency relationship between an owner and manager produces a natural conflict of interest because of the information asymmetry that exists between the manager and absentee owner. Information asymmetry means that the manager generally has more information about the "true" financial position and results of operations of the entity than the absentee owner does. Because the manager is responsible for reporting and the absentee owner cannot observe the manager's actions, the manager may manipulate the reports. The owner is price-protected against this possibility by again assuming that the manager will manipulate the reports to his or

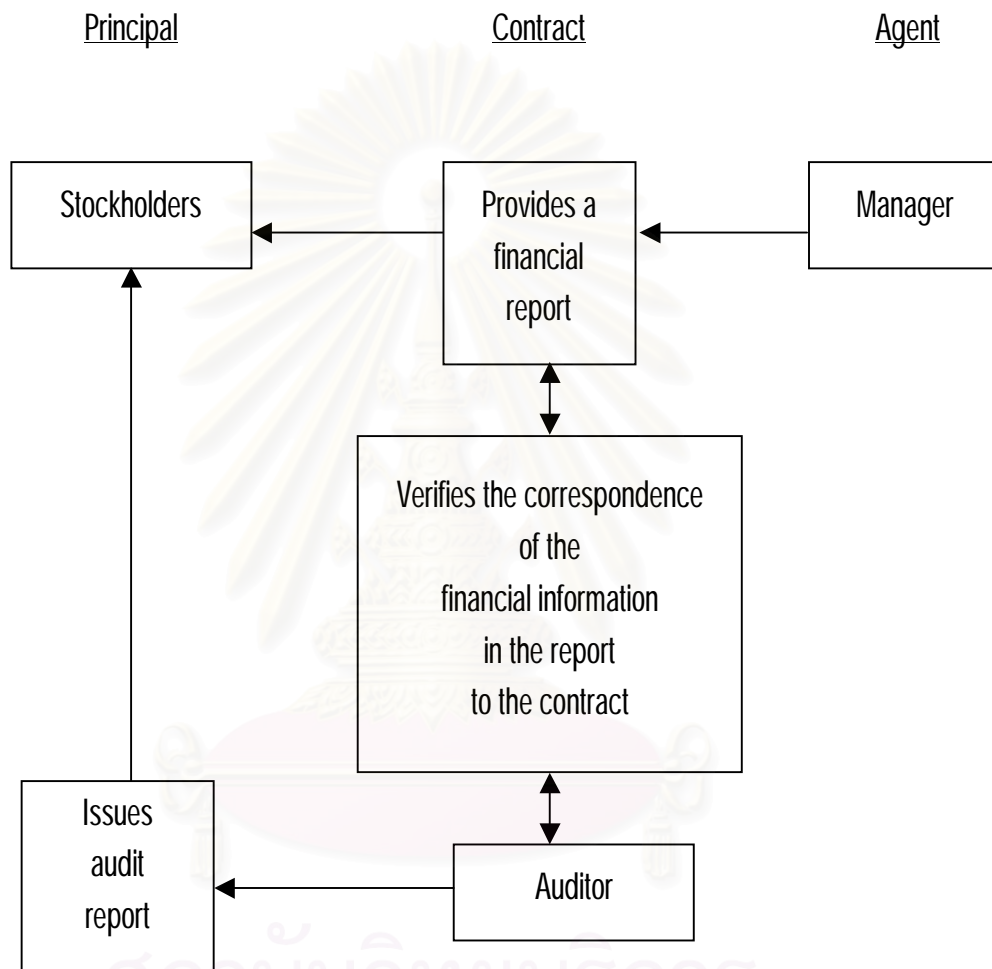
her benefits and by adjusting the manager's compensation accordingly. It is at this point that the demand for auditing arises. If the manager is honest and the cost of an audit does not exceed the amount by which the owner may adjust the manager's compensation, it is in the manager's self-interest to hire an auditor to monitor his or her activities. The auditor's role is to determine whether the reports prepared by the manager conform to the contract's provisions. Thus, the auditor's verification of the financial information adds credibility to the report. While auditing is one possible form of additional monitoring, the extensive presence of auditing in such contracts suggests that auditing is a cost-effective monitoring device. Figure 2.3 provides an overview of this agency relationship.



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

Figure 2.3

The Agency Relationship Leading to the Demand for Auditing



Source : William Messier, 1999

2.5.2 The positive accounting theory

Contracting explanation for auditing practices (Watts and Zimmerman, 1986):

Contracting theory has been used to develop intuitive explanations for the auditor's concern with his independence and reputation, for development of professional societies and large firms, and also industry specialization.

Auditor competence and independence

The auditor's monitoring is not valuable to the parties to the firms unless those parties consider the probability that he or she will report a contract breach. For example, a given auditor's name will not lead to higher prices for a new share issue unless the stock market expects the auditor to reduce agency costs. DeAngelo (1981a) defines audit quality as the perceived probability that an auditor will both discover and report a breach in the client's reporting system. The probability that the auditor discover a given breach depends on the auditor's competence and the quantity of inputs devoted to the audit (Watts and Zimmerman, 1986). The probability that the auditor reports the discovered breach refers to the auditor's independence from the client (Watts and Zimmerman, 1982; 1986). Reputation gives auditors incentives to be independent (Benston, 1975b).

Audit firm size

Watts and Zimmerman (1986) state that Contracting Theory can explain an audit firm regarding the size by a large audit firm provides a much larger bond for its audit services than does a single auditor accredited by a professional society. The bond consists of not merely the assets of the partnership and the individual partners' assets but also all the partners' human capital (Fama and Jensen, 1983b). The size of the large firm's bond means the large firm is more likely than the single accredited auditor to resist a given manager's pressure to not report breaches (i.e., is more likely to be independent; DeAngelo, 1981b). DeAngelo (1981b) theorizes that larger firms

perform better audits because they have a greater reputation, and because larger firms have more resources they can attract more highly skilled employees. Large firms have many clients. The value of quasi-rents lost if a given client does change auditors is more likely to be less than the impact of the failure to report a breach on the firm's brand name and its audit fees.

2.5.3 Quality of audited financial statements

The principle vehicle by which an organization's financial accounting information being communicated to investors, auditors and other external parties is financial statements. The audit firm provides an independent opinion on the financial statements by examining and gathering evidence related to the reporting firm's financial statements, related disclosures and underlying systems and records to assess whether the financial statements are presented in accordance with "generally accepted accounting principles". The audited financial statement is the outcome of a negotiation process between the auditor and the client (e.g. Antle and Nalebuff, 1991). As summarized by Nelson and Tan (2005), auditor-client interactions are fundamental of preserving audit quality. These interactions include negotiations over changes in the financial statements necessary for the auditor to provide an unqualified opinion.

Accrued earnings is regarded as a superior measure of firm performance than cash flows because it mitigates timing and mismatching problems inherent in measuring cash flows over short intervals (Dechow, 1994). However, because of the flexibility accorded under the Generally Accepted Accounting Principles (GAAP), accrual accounting is subject to managerial discretion. Misalignment of managers' and shareholder's could induce managers to use the flexibility provided by GAAP to manage income opportunistically, and creating distortions in the reported earnings (Watts and Zimmerman, 1986; Healy and Palepu, 1993). Discretionary accruals is estimated from Modified Jones Model. Dechow, Sloan, and Sweeney (1995) concluded that a Modified Jones Model exhibits the highest power in detecting earnings management. Higher quality of audited financial statements should present lower discretionary accruals.

Several researchers in earning management use discretionary accruals as a proxy for quality of audited financial statement (i.e. Healy, 1985; Bowen et al., 1987; Jones, 1991; Healy and Palepu, 1993; Dechow, 1994; Dechow et al., 1995; Dye and Verrechia, 1995; Sloan et al., 1995; Dechow Sloan and Sweeney, 1996; Becker et al., 1998; Collins and Hribar, 1991; Johnson et al., 2002; Reynolds, Dies and Francis, 2004). The decision to use directional discretionary accruals or the absolute value of discretionary accruals is driven by the nature of the study, specifically whether there is an expectation regarding management's incentives. When a researcher has an expectation of management's incentive, directional discretionary accruals represent a more powerful test (Johnson et al., 2002). Alternatively, several papers have examined the impact of factors that are not associated with a clear directional management incentive. They used absolute value of discretionary accruals as a proxy for quality of audited financial statements (Warfield Wild and Wild, 1995; Francis et al., 1999; Bartov Gul and Tsui, 2000; Reynolds and Francis, 2001; Klein, 2002; Johnson et al., 2002; Frankel et al., 2002; Krishnan, 2003; Chung and Kallapur, 2003; Ashbaugh et al., 2003; Reynolds Dies and Francis, 2004).

Factors affecting quality of audited financial statements might be classified into two major groups as follows:

2.5.4 Firm level factors;

1. Audit firm size

Watts and Zimmerman (1986) state that Contracting Theory can explain an audit firm regarding the size. A large audit firm provides a much larger bond for its audit services than does a single auditor accredited by a professional society. The bond consists of not merely the assets of the partnership and the individual partners' assets but also all the partners' human capital (Fama and Jensen, 1983b). The size of the large firm's bond means the large firm is more likely than the single accredited auditor to resist a given manager's pressure to not report breaches (i.e., is more likely to be independent; DeAngelo, 1981b). DeAngelo (1981b) theorizes that larger firms

perform better audits because they have a greater reputation. Larger firms also have more resources that enable them to attract more highly skilled employees. Large firms have many clients. The value of quasi-rents lost if a given client does change auditors is more likely to be less than the impact of the failure to report a breach on the firm's brand name and its audit fees. The most commonly studied factor is audit firm size. Mostly, researchers have defined large firm as Big 8, Big 6 (in 2003, only Big 4). Results have shown that larger firms receive larger audit fees than smaller firms. The perception of a positive association between audit firm size and quality of audited financial statements has been a subject of concern for some time. While regulators (AICPA 1980) have maintained that quality of audited financial statements is independent of firm size, accounting researchers (e.g. DeAngelo, 1981b) have argued that large accounting firms produce a higher quality audit than small accounting firms.

Craswell et al. (1995) indicate that Big 6 auditors devote more resources to staff training and development of industry expertise relative to non-Big 6 auditors. Because of their size, Big 6 auditors are also more likely to invest in information technology and employ state-of-the-art techniques to detect earnings management than non-Big 6 auditors. Moreover, relative to non-Big 6 auditors, Big 6 auditors are in better position to negotiate with clients who might adopt aggressive accounting practices.

Becker et al. (1998) study the relation between quality of audited financial statements and earnings management. Earnings management is captured by discretionary accruals that are estimated using a cross-sectional version of the Jones 1991 model. This study finds that clients of non-Big 6 auditors report discretionary accruals that are on average 1.5 to 2.1 percent of total assets higher than the discretionary accruals reported by clients of Big 6 auditors. Also, consistent with earnings management, they find that the mean and median of the absolute value of discretionary accruals are greater for firms with non-Big 6 auditors.

Krishnan (2003) finds that clients of Big 6 auditors report lower amounts of discretionary accruals than clients of non-Big 6 auditors and the association between

stock returns and discretionary accruals is greater for firms audited by Big 6 auditors than for firms audited by non-Big 6 auditors. Furthermore, discretionary accruals of clients of Big 6 auditors have a greater association with future profitability than discretionary accruals of clients of non-Big 6 auditors. Finally, the stock market recognizes the superiority of Big 6 auditors over non-Big 6 auditors only for discretionary accruals. He uses both cross-sectional Jones (1991) Model and the Modified Model.

2. Auditor independence/Client importance

The probability that the auditor report the discovered breach refers to the auditor's independence from the client (Watts and Zimmerman, 1982, 1986). Reputation gives auditors incentives to be independent (Benston, 1975b). Based on DeAngelo's (1981) Analytical model researchers have generally viewed an auditor's independence in terms of two competing incentives. DeAngelo (1981) models that, as the economic bond between the audit firm and client increases, the audit firm's dependence on the client increases. Non-audit fees can also threaten independence when client use them as contingent fees (Ashbaugh et al., 2003). Magee and Tseng (1990) note that while contingent fees are explicitly prohibited by audit standards, clients can create contingent fees by withholding profitable non-audit services when the auditor does not allow the client to report its preferred financial condition. The implications of audit and non-audit services jointly provided by public accounting firms to their clients have been hotly debated for decades regarding auditor independence. Generally, the joint supply of the two services can be viewed as either leading to efficiencies (Simunic, 1984) or impaired objectivity (Frankel et al., 2002). Frankel et al. 2002 has the first academic study to report a disturbing tendency for auditors to accede to client's demands when also providing non-audit services (Kwak, 2002).

Several recent studies examine the association between non-audit service fees and discretionary accruals (e.g., Chung and Kallapur, 2001; Francis and Ke, 2002; Frankel, Johnson, and Nelson, 2002; Reynolds, Deis, and Francis, 2002). The ratio of non-audit fees to audit fee (fee ratio) has been proposed as an alternative

measure of auditor independence. The use of a fee ratio to measure auditor independence has received support from the U.S. Securities and Exchange Commission as well as several recent academic studies (Antle et al., 2002; DeFond et al., 2002; Frankel et al., 2002; Ashbough et al., 2003; Chung and Kallapur, 2003; Reynolds, Dies, and Francis, 2004). The results in the literature are mixed. Specifically, this line of research investigates whether companies that report higher levels of non-audit service fees are more likely to report larger discretionary accruals and meet analysts' earnings forecasts. The results from these investigations, however, are ambiguous. For example, although Frankel, Johnson, and Nelson (2002) find a positive association between non-audit service fees and the magnitude of discretionary accruals, Chung and Kallapur (2001) do not find this association. Francis and Ke (2002) also find that this relation is weakly significant and found only among non-Big 5 auditors. Similarly, although Frankel, Johnson, and Nelson (2002) find a positive association between non-audit service fees and managements' propensity to meet analysts' earnings forecasts, Reynolds, Deis, and Francis (2002) fail to find such a relation. Thus, the evidence on whether non-audit services are associated with increased levels of earnings management is mixed.

The economic theory of auditor independence (Watts and Zimmerman, 1981; DeAngelo, 1981b) suggests that auditors' incentives to compromise their independence are related to client importance. Previous studies (Stice, 1991; Lys and Watts, 1994; Chung and Kallapur, 2003) used the ratio of a client's total fees to audit firm's total revenues as a proxy for client importance. Frankel et al. (2002) instead uses the ratio of client non-audit to total fees as a proxy for client importance. Chung and Kallapur (2003) do not find a significant cross-sectional relationship between the absolute value of abnormal accruals and any of the client importance ratios. They use several ratios such as ratio of total client fees (audit and non-audit) to audit firm's total U.S revenues, and ratio of non-audit fees from the client to audit firm's total U.S revenues.

Nelson and Tan (2005) summarized that numerous papers have considered how auditors' incentives affect their correction decisions, audit opinions, and

other decisions. Those papers can be viewed as revealing an effect of auditor-client interaction (Libby and Kinney, 2002; Ng and Tan, 2003). Moreover, several papers have examined interactions between auditors and other parties, typically with regards to other parties' views of auditor independence. For example, Lowe et al. (1999) provide evidence that bank loan officers, analysts and stockbrokers believe that audit independence is compromised by auditors providing non-audit services, particularly when data is elicited using a within-subjects design.

3. Industry expertise/Number of listed companies' responsibilities

Krishnan (2003) states that one mechanism that might mitigate earnings management is auditors' industry expertise. He uses a large sample of clients of Big 6 auditors, and applies absolute discretionary accruals as a common proxy for earnings management. When Big 6 auditors are partitioned into specialists and non-specialists, he finds that clients of non-specialist auditors exhibit higher levels of discretionary accruals than clients of specialist auditors. Clients of non-specialist auditors report absolute discretionary accruals that are, on average, 1.2 percent of total assets higher than the discretionary accruals reported by clients of specialist auditors. This finding is consistent with the notion that specialist auditors mitigate accruals-based earnings management more than non-specialist auditors and, therefore, influence the quality of earnings. Proxies for industry expertise are industry market share, and number of listed and non-listed companies. An expertise is defined as any industry where audit firm's market share exceed 15 percent. Industry market shares can be collected by audit fees in each industry.

However, market share is subject to several limitations as a measure of specialization (Gramling et al., 2001; Krishnan, 2001). For example, it is not clear whether the advantages of specialization in an industry accrue from auditing a large number of clients or a few large clients (Francis, Stokes, and Anderson, 1999).

4. Corporate governance of clients

Financial-reporting problems of companies are often attributable to weak corporate governance and/or weaknesses in management control philosophy (Beasley, 1996; Beasley et al., 1999). Dechow et al. (1996) note that the likelihood of earnings manipulation is systematically related to poor governance structures and weaknesses in management oversight. Beasley (1996) and Beasley et al. (1999) demonstrated the link between weak corporate governance and financial statement fraud. Beasley (1996) compared companies where fraud occurred to a matched sample of non-fraud companies and found that the fraud companies were typified by a lower percentage of outside members on the board. Outside directors in the fraud companies held a lower proportion of the company's common stock and had served as directors for a shorter period of time compared to outside directors in non-fraud companies. The prior research suggests that there are empirical and theoretical linkages between management control philosophy, corporate governance, and financial reporting (Hanno and Agoglia, 1999; Cohen and Honno, 2000). Corporate governance is measured by the percentage of outside directors. Following Aim-orn Jaikengkit (2003), the outside directors are defined as board members who do not hold managerial position within the firm and own not more than 0.5 percent of total shares of the firms.

2.5.4.1 The hypothesis for firm level factors will be:

Hypothesis 1 : Firm level factors are associated with quality of audited financial statements.

2.5.5 Individual level factors;

Auditors bring to bear on an audit task their individual characteristics (i.e. knowledge, ability, and personality) and cognitive limitations that leave them susceptible of judgmental biases (Nelson and Tan 2005). Variables for individual level factors using the concept of individual level characteristics in the organizational behavior model (Gordon, 2002) are technical knowledge, number of listed companies' responsibilities, and level of ethics. Following are the literature regarding individual level factors.

Technical knowledge, expertise and decision performance

Behavioral research in accounting has identified numerous contexts and tasks in which auditors' judgments differ (i.e. Bonner and Lewis, 1990; Davis and Weber, 1986; Harper, 1988; Heiman, 1990; Krogstad, Ettenson, and Shanteau, 1984; Moeckel, 1990). In an effort to explain why auditors perform differently in similar circumstances, many researchers have turned to a cognitive psychology view of expertise. This view, described by Libby and Luft (1993), proposes that judgment and performance differences can be partially explained by knowledge differences, and that knowledge differences are brought about by differing experience and training. A professional's knowledge is composed of both knowledge content (including facts, personal experiences, strategies, skills) and the structure within which those concepts are stored (Solso, 1991). In this theory, the way in which knowledge is organized is considered critical to an understanding of decision processes, learning abilities, and individual performance (Choo, 1989). Knowledge structure is a function of audit experience, and audit performance is a function of knowledge structure, motivation, and ability (Libby and Frederick, 1990; Bedard and Graham, 1994; Nelson et al., 1995; Ponemon, 1993).

Various definitions of expertise have been employed by researchers in accounting (Bedard, 1989; Choo, 1989; Colbert, 1989; Davis and Solomon, 1989; Libby, 1989; Sahanteau, 1989; Libby and Frederick, 1990; Solomon, 1999) and psychologists

interested in experience and expertise effect. Chi, Glaser and Rees (1982), for example, representing what has been called the "Cognitive Science" (Bedard, 1989 and Johnson, 1988) define expertise as "the possession of a large body of knowledge and procedural skill. It has been reported that, relative to non experts, experts have in memory better and more complete representations of the task. They encode new information more efficiently and completely, and they have richer decision strategies as well as more appropriate mechanisms for appraising such strategies (Johnson, 1988). A number of auditing studies have examined the role of professional experience in making audit judgments. Some researchers used students to represent novice or non-expert auditors (Ashton and Kramer, 1980; Krogstad et al., 1984; Weber, 1980; Frederick and Libby, 1986; Biggs, Mock, and Watkins, 1988).

Differences in judgment competence between expert versus novice accountants/auditors include differences in their decision/judgment consensus, confidence, cue weightings, consistency, insights and accuracy. Studies of differences in judgment competence between expert versus novice auditors could be classified by the two main types of research methodologies that they employed, namely, ANOVA analysis and protocol analysis. In ANOVA analysis, the researcher constructs a set of auditing cases that are systematically different from one another. By observing how an individual auditor's judgment changes from case to case, the researcher is able to estimate (via inferential statistics) how important certain factors (cues) in the auditing cases are to that auditor. In protocol analysis, the researcher analyzes verbal protocol data collected by having auditors think aloud into a tape recorder while performing the experimental task. The tape was transcribed and the protocols classified into predetermined categories relevant to the researchers' hypotheses.

Frederick (1991) demonstrate that experienced auditors have more knowledge and more organized knowledge of internal controls than do inexperienced auditors, which allows them to retrieve more controls. Experienced auditors also have multiple organizations of internal controls (episodic and schematic). However, the retrieval of experienced auditors can be subject to output interference because of their

knowledge structures, inexperienced auditors were subject to this interference because of incomplete knowledge.

Biggs and Mock (1983) show that more experienced auditors acquired more relevant information than inexperienced auditors and used similar strategies and heuristics in their information search. Their strategies were also more systematic than those of the inexperienced auditors and were based on their knowledge of typical control systems and test design. Finally, experienced auditors were more focused on gaining an understanding of the entire client situation, whereas inexperienced auditors made sampling decisions on a control-by-control basis.

Bonner and Lewis (1990) find that, on average, more experienced auditors outperform less experienced auditors. The same as Bedard and Biggs (1991) observe that auditors with more manufacturing experience can better identify errors in a manufacturing client's data than auditors with less manufacturing experience. This is consistent with the findings of Johnson et al. (1991) that industry experience is associated with enhanced ability to detect fraud. Wright and Wright (1997) conclude that significant experience in the retailing industry enhances hypothesis generation in identifying material errors. Maletta and Wright (1996) observe fundamental difference in error characteristics and methods of detection across industries. They suggest that auditors who have a more comprehensive understanding of an industry's characteristics and trends will be more effective in auditing than auditors without such industry knowledge.

Tan and Kao (1999) suggest that task complexity affects the way knowledge and problem-solving ability interact with accountability. As the task becomes more complex (listing financial statement errors associated with an internal control deviation), accountability will improve performance only when knowledge is high. For the most complex task, accountability improves performance only when both knowledge and problem-solving ability are high.

Individual number of listed companies' responsibilities

In an audit setting, auditors accumulate expertise by providing audit services. The more audits an auditor performs, the more expertise he/she will accumulate, and hence higher quality of the audit. However, it is not clear whether the advantages of specialization in an industry accrue from auditing a large number of clients or a few large clients (Francis, Stokes, and Anderson, 1999).

Ethics

Prior literature (i.e. Leming, 1978; Ponemon, 1990, 1992; Ponemon and Gabhart, 1993; Trevino, 1986; Trevino and Youngblood, 1990) also suggests that individuals that are more morally developed are less likely to engage in unethical behavior. Sweeney and Roberts (1997) found that an auditor's level of ethical development influences his or her sensitivity to ethical issues present in work-related ethical dilemmas. Other studies (Ponemon, 1994; Windsor and Ashkanasy, 1995) suggest that the level of ethical development affects an auditor's resolution to work-related ethical dilemmas.

According to Ponemon (1990), auditors at lower levels of ethical reasoning, measured by Defining Issues Test (DIT) (Rest, 1979), are more sensitive to factors relating to penalty (personal harm) resulting from misconduct when framing as independence judgment. Ponemon (1990) also indicates that auditors at higher ethical reasoning levels are more sensitive to affiliation (harm to others) when framing ethical judgments. In addition, Ponemon (1992) investigated if socialization into accounting firms impacts on auditors' ethical reasoning skills. Comparison of DIT p-scores from practicing partners and managers indicates that partners and managers at higher ethical reasoning levels would be able to better independently frame ethical judgments separate from clients and other colleagues within the firm. The results also indicate that auditors at higher ethical reasoning levels have greater sensitivity to ethical conflicts not well defined by the firm or the profession. An implicit assumption in all studies using the DIT is that a higher DIT score is better. Shaub (1994) investigated the differences

between a sample of 207 auditors and a sample of 91 senior auditing students. Results show that age and education are not significantly associated with level of moral reasoning for either sample. Higher moral reasoning levels were found for woman, individuals with higher grade point averages, and individuals who had taken ethics courses. Ponemon and Gabhart (1990) examined the relationship between auditors' independence judgments and moral reasoning levels. The sample consisted of 119 audit partners and managers. Each subject completed DIT and 9 case studies invoking an auditor-independence dilemma. Results show that auditors with lower DIT scores are more likely to violate independence rules and are more sensitive to penalty factors.

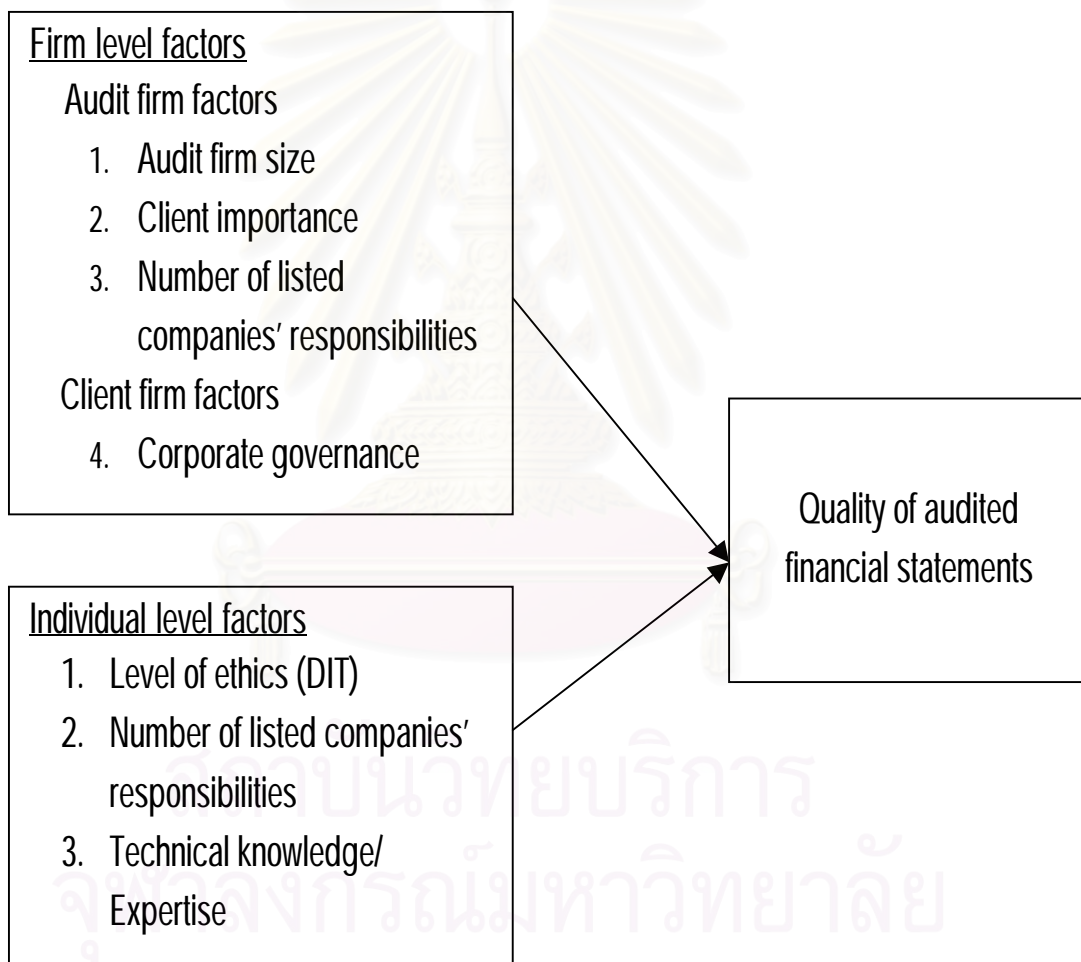
2.5.5.1 The next hypothesis will be:

Hypothesis 2 : Individual level factors have an incremental explanatory power over firm level factors in affecting quality of audited financial statements.

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TABLE 2.1 Conceptual Model of Research

Do individual auditor level factors have an incremental explanatory power over audit firm level factors in affecting quality of audited financial statements?



CHAPTER III RESEARCH DESIGN

3.1 Introduction

The main objective of this study is to study the individual and firm level factors that influence the quality of the audited financial statement. This study adds to the literature by providing additional evidence about whether individual level factors have an incremental explanatory power over firm level variables in affecting quality of audited financial statement. Two stages of analyses are developed (1) study of factors affecting quality of audited financial statement (2) study of whether individual level factors have an incremental explanatory power over firm level variables. This chapter explains the specific research, the details of sample selection procedures and data sources. Combination of research instruments are used in this study; archival study, field research and in-depth interview, questionnaires, and experiment.

3.2 Sample Selection

Data is gathered from I-SIMS CD, data publicly available on www.SEC.or.th, www.SET.or.th, and www.dbd.go.th, news from several newspapers, SEC news, and annual reports. The sample includes all observations that meet the criteria i.e. being a listed company on the Stock Exchange of Thailand (SET) during 2001-2004, and not being a company in financial institution industry i.e. banking, finance and securities, and insurance industry. The reason is that computing discretionary accruals for these firms is problematic (Becker et al., 1998). Details are as follows:

TABLE 3.1 Number of Firms in the Study

Listed Companies	Number of Listed Companies
Listed companies on the Stock Exchange of Thailand (SET) as of Jan. 1, 2001	408
<u>minus</u> Firms in financial institution sector	(62)*
Listed companies excluding those in financial institution sector	346
<u>add</u> New listed companies during 2002-2004	42
<u>minus</u> Firms audited by Office of the Auditor General	(6)
Total listed companies	382

* Industry code 3, 13, and 18 from Table 3.2

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TABLE 3.2

2004 Industry Distribution of Listed Companies

Code	Industry	Total
1	Agribusiness	19
2	Automotive	17
3	Banking	14
4	Commerce	11
5	Companies under Rehabilitation	45
6	Communication	17
7	Construction Materials	34
8	Electrical Products and Computer	16
9	Electronic Components	10
10	Energy & Utilities	17
11	Entertainment and Recreation	17
12	Fashion	25
13	Finance and Securities	27
14	Food and Beverage	22
15	Health Care Services	13
16	Hotel and Travel Services	11
17	Household Goods	8
18	Insurance	21
19	Machinery and Equipment	2
20	Mining	1
21	Packaging	15
22	Paper & Printing Materials	3
23	Personal Products & Pharmaceuticals	4
24	Petrochemicals & Chemicals	14
25	Printing and Publishing	9
26	Professional Services	4
27	Property Development	41
28	Transportation & Logistics	13
		<u>450</u>

Thai SEC-approved auditors are used in this study. There are 79 auditors, 48 are from the Big 4, and 31 are from non-Big 4 (2001-2004). United Auditing PKF is not included in this study, due to the researcher is working there.

	Company	Total number of auditors
Big 4	1. Deloitte Touche Tohmatsu Jaiyos Co., Ltd.	8
	2. Ernst & Young Office Limited	12
	3. KPMG Phoomchai Audit Ltd.	15
	4. PricewaterhouseCoopers ABAS Limited	<u>13</u>
		48
Non-Big 4	1. A.M.T. & Associates	1
	2. ANS Audit Co., Ltd.	2
	3. AST Master Co., Ltd.	2
	4. BDO Richfield Co., Ltd.	2
	5. Bunchikij Co., Ltd.	2
	6. C&A Accounting Firm	1
	7. Chamras CPA	1
	8. Dharmniti Auditing Co., Ltd.	1
	9. Grant Thornton	2
	10. Office of DIA International Auditing	2
	11. Karin Audit Company Limited	1
	12. M.R. & ASSOCIATES CO., LTD.	2
	13. Office of Pitisevi	2
	14. RSM Nelson Wheeler Audit Limited	1
	15. S.K. Accountant Service Co., Ltd.	3
	16. SP Audit Company Limited	1
	17. Thammakarn Accounting Office	1
	18. Dr. Virach and Associates	2
	19. United Auditing PKF Company Limited	<u>2</u>
		31
	Total Thai SEC approved auditors	<u><u>79</u></u>

3.3 Research Methodology

3.3.1 The Measurement and Definition of Variables

The following variables measurement includes the factors affecting quality of audited financial statements which can be divided into firm level and individual level.

Variables measurement

3.3.1.1 Firm level variables

1. Audit firm size

Dummy variable indicates auditor size, equal to 0 if auditor is non-Big 4 and 1 if auditor is Big 4 firm.

2. Client importance

The ratio of non-audit fees to audit fees has been proposed as an alternative measure of client importance (DeFond et al., 2002; Frankel et al., 2002; Ashbaugh et al., 2003; Chung and Kallapur, 2003; Reynolds, Dies, and Francis, 2004). This study collects non-audit fee from the annual report which is required by Thai SEC to be disclosed, starting from 2004 year-end financial statements onwards.

3. Industry Expertise/Number of listed companies' responsibilities

This study uses engagement partners who have, on average, 27 years of auditing experience (max = 43, min = 15), which can be considered very high expertise. However, it is not clear whether the advantages of specializing in an industry accrue from auditing a large number of clients or a few large clients (Francis, Stokes and Anderson, 1999). This study believes that high number of listed companies' responsibilities should affect audit quality, therefore this variable is added to the model. Number of listed companies' responsibilities can be collected from website of SET, SEC, and Department of Business Development.

4. Corporate governance of clients

Percentage of outside board members is used as a proxy for corporate governance in this study.

Control Variables

This study draws control variables from previous research that identifies several additional factors that may influence the magnitude of discretionary accruals, including operating cash flow, company size (log total asset), absolute value of total accruals, and leverage (Francis, Maydew, and Sparks, 1996; Becker et al., 1998). Operating cash flow, defined as cash flow from operations is scaled by lagged total assets because they have been shown to vary inversely with discretionary accruals (Dechow, Sloan and Sweeney, 1995; Becker et al., 1998; Johnson et al., 2002; Reynolds, Deis, and Francis, 2004). Leverage may also be associated with discretionary accruals. High leverage has been found to be associated with closeness to the violation of debt covenants (Press and Weintrop, 1990); and debt covenant violation has been found to be associated with discretionary accrual choice (DeFond and Jiambalvo, 1994). This study includes the absolute value of total accruals in the model to control for performance characteristics, which may also impact the level of discretionary accruals (Frankel et al., 2002; Reynolds, Deis, and Francis, 2004). Company size is measured as log of total assets and may be correlated with operating characteristics that cause large companies to have systematically smaller accruals, even though accruals are scaled by lagged total assets (Reynolds and Francis, 2000).

Dependent Variable

Quality of audited financial statement

Previous literature in earnings management use discretionary accruals as a proxy for quality of audited financial statement (i.e. Healy, 1985; Bowen et al., 1987; Jones, 1991; Healy and Palepu, 1993; Dechow, 1994; Dechow et al., 1995; Dye and Verrecchia, 1995; Dechow, Sloan, Sweeney, 1995; Becker et al., 1998; Collins and Hribar,

1991; Johnson et al., 2002; Francis et al., 2002; Krishnan, 2003; Ashbaugh et al., 2003; Reynolds, Dies and Francis, 2004). The audited financial statement is the outcome of a negotiation process between the auditor and the client (e.g. Antle and Nalebuff, 1991). Higher quality of audited financial statements should present lower discretionary accruals. This study will follow this and use cross-sectional Modified Jones Model to estimate discretionary accruals. Dechow, Sloan, and Sweeney (1995) concluded that a Modified Jones Model exhibits the highest power in detecting earnings management. Measurement for this variable is as follows:

The role of accruals

The role of accruals in arriving at summarized measure of firm performance is an important question in accounting research. Accruals, on average, have incremental information content above cash flows (Bowen, Burghstahler, and Daley, 1987). Accrual earnings is regarded as a superior measure of firm performance than cash flows because it mitigates timing and mismatching problems inherent in measuring cash flows over short intervals (Dechow, 1994). However, because of the flexibility accorded under the Generally Accepted Accounting Principles (GAAP), accrual accounting is subject to managerial discretion. Managerial discretion could enhance earnings' informativeness by allowing communication of private information (Watts and Zimmerman, 1986; Holthausen, 1990; Healy and Palepu, 1993). However, misalignment of managers' and shareholder's incentives could induce managers to use the flexibility provided by GAAP to manage income opportunistically, and creating distortion in the reported earnings (Watts and Zimmerman, 1986; Healy and Palepu, 1993).

Accrual-based earnings are more informative to investors than operating cash flows (Dechow, 1994; Subramanyam, 1996). However, accrual-based earnings are also inherently more uncertain than cash flows for two reasons. First, accrual-based earnings involve managerial discretion and incentives exist for opportunistic behavior with respect to accounting policies (Dye and Verrechia, 1995; Holthausen, Larker, and

Sloan, 1995; Dechow, Sloan, and Sweeney, 1995). Second, accruals require managers to subjectively estimate future outcome that, by definition, cannot be objectively verified by auditors prior to occurrence, such as bad debt and loan loss reserves, depreciation and amortization estimations (expected lives and residual values), warranties, pension costs, leases, contingent liabilities, adjustments of inventories and fixed assets because of asset impairment. Dechow et al. (1995) evaluate alternative accrual-based models for detecting earnings management. The evaluation compares the specification and power of commonly used test statistics across the measures of discretionary accruals generated by the models. Dechow et al. concluded in the paper that a modified version of the model developed by Jones (1991) exhibits the highest power in detecting earnings management.

The accrual component of earnings is computed using information from the balance sheet and income statement, as commonly found in the earnings management literature (Healy 1985, Jones 1991, Dechow et al. 1995; Sloan 1996) for calculating discretionary accruals. Following previous research this study employs the Modified Jones Model.

The proxy for quality of audited financial statement report quality is discretionary accruals, which is estimated from the cross-sectional Modified Jones Model. The error term from that model represents discretionary accruals. The main model estimating discretionary accruals are as follows:

$$TA/A_{t-1} = \alpha_1 \left[\frac{1}{A_{t-1}} \right] + \alpha_2 \left[\frac{\Delta REV - \Delta REC}{A_{t-1}} \right] + \alpha_3 \left[\frac{PPE}{A_{t-1}} \right] + e_t$$

Where

TA_t = total accruals which come from income before extraordinary items minus operating cash flow **

ΔREV_t = revenues in year t less revenues in year t-1

PPE_t	=	gross property plant and equipment in year t
A_{t-1}	=	total assets at t-1; and
$\alpha_1, \alpha_2, \alpha_3$	=	firm specific parameters
ΔREC_t	=	net receivables in year t less net receivables in year t-1
e_t	=	error term for sample firm

** Operating cash flow is cash flow from operations scaled by lagged total assets (Becker et al., 1998; Johnson et al., 2002).

The first hypothesis is whether firm level factors are associated with quality of audited financial statement. As mentioned earlier, SEC requested listed companies to disclose the non-audit fee from 2004 onwards. The research model to test the association between firm level factors and quality of audited financial statements as detailed below:

$$\begin{aligned}
 ABSDA = & \beta_0 + \beta_1 SIZE + \beta_2 CLIENT + \beta_3 OUTSIDER + \beta_4 LISTED \\
 & + \beta_5 LOG Asset + \beta_6 OCF/at-1 + \beta_7 ABSTA/at-1 \\
 & + \beta_8 LEVERAGE + \varepsilon
 \end{aligned}
 \tag{1}$$

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Variables	Proxied by	Symbol	Expected sign
Dependent variable			
Absolute value of discretionary accruals	Absolute value of error term from cross-sectional Modified Jones Model	ABSDA	
Independent variables (Firm level)			
Size	Big 4 and non-Big 4 Dummy variable indicating 1 = Big 4, 0 = non-Big 4	SIZE	-
Client importance	Non audit fee/audit fee ratio	CLIENT	+
Corporate governance of clients	Percentage of outsiders on the board	OUTSIDER	-
No. of listed companies	Total listed companies of each audit firm	LISTED	+
Control variables			
LOG asset	Log of total assets	LOGASSET	
Operating cash flow	Cash Flow from Operating scaled by lagged total assets	OCF/at-1	-
Absolute value of total accruals	Absolute value of total accruals scaled by lagged total assets	ABS TA/at-1	
LEVERAGE	Total liabilities/Total assets	LEVERAGE	

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3.3.1.2 Individual Level Factors

The sample in this study are auditors who performed audit for listed companies on the Stock Exchange of Thailand (SET) during 2001-2004 and who still work as auditors at present (2006). The total sample are 77 auditors, 29 from non-Big 4 firms, and 48 from Big 4 firms. A letter was sent to each auditor to ask for an interview appointment. At the meeting, auditor was requested to analyze a case. Some questions were asked thereafter. DIT questionnaires were explained. Each auditor was asked to return DIT questionnaires.

Independent variables measurement

Technical knowledge

One case with three situations is designed for SEC approved auditor. The designed case includes the situations that require judgment about audit opinion. The situations consist of allowance for doubtful debt, impairment of asset and going concern issues. The selected situations are developed based on the interview with SEC officers, i.e. the situations on which auditors usually give different opinions. We found that those situations are allowance, uncertainties and estimation issues. The case is designed by an experienced lecturer at Chulalongkorn University and reviewed by another audit expert lecturer at Chulalongkorn University. Both have working experience with the Big 4 firms. Scores are weighted by 2 experts. Pilot test was done by 5 senior managers to check whether they can understand and answer the case, and the average time they spent for those cases.

Individual number of listed companies' responsibilities

Data is gathered from an interview with each auditor, together with websites of SET and SEC.

DIT (Defining Issues Test)

Measures of Moral Reasoning

Since the introduction of Kohlberg's (1969) theory, researchers have sought to construct a reliable psychometric instrument to assess an individual's level of moral reasoning (Colby and Kohlberg, 1987; Rest 1979a). Rest (1979b) developed the Defining Issues Test (DIT), a self-administered multiple choice questionnaire that provides an objective measure of ethical reasoning in terms of a distribution of ethical capacities (instead of a single-stage score). The short version of the DIT consisted of these three stories: Heinz, Prisoner, and Newspaper (Rest, 1986). These scenarios deal with a different ethical dilemma (i.e. theft, withholding of information from authorities, and freedom of speech). In response to each conflict, subjects are asked to select and rank-order the issues they think have the most relevance to the settlement of the presented dilemma.

This study uses the short version of DIT, Heinz, Prisoner, and Newspaper (Rest, 1986), with Thai translation. Pilot study was conducted among 20 respondents (managers and senior managers) to check whether they can understand the cases and how much time they take to complete the 3 cases. Validity and inconsistency check were performed for those 20 respondents. There are 3 invalid samples (M score of more than 4). Reliability check for the pilot study shows Cronbach's Alpha equals 0.7428. The average time to complete the 3 cases is approximately 30 minutes.

Scoring the DIT

This paper scores DIT by hand, simply by following the direction giving in Rest (1986)'s manual. Rest (1986) stated that pre-doctoral students may use the DIT with the hand scoring procedures outlined in the manual. The DIT P (principled) score comes from adding the points together from stage 5A, 5B and 6. The DIT P score has been proven to be an objective measure with very high statistical reliability and validity scores (Rest, 1986). An implicit assumption in all studies using DIT is that a higher DIT score is better.

Internal Checks on Subject Reliability of DIT Questionnaire

There are two checks on the reliability of each subject's questionnaire. One check is the "M" score. Rest (1986) stated that M items were written to sound lofty and pretentious but did not mean anything. These items do not represent any stage of thinking but rather represent a subject's tendency to endorse statement for their pretentiousness. For the short form questionnaire, if a subject's raw M score is greater than 4, then the questionnaire is invalidated.

The second check on subject reliability is the Consistency Check. This involves a comparison of a subject's rating (done at the upper left hand side of the page) with a subject's ranking (the four items listed at the bottom of the page in order of decreasing importance). If a subject ranks an item 1st, then his ratings for that item should have no higher items (although other items may tie in rating). If a subject ranks an item 2nd, then his rating for that item should have no higher items except the item ranking at 1st. Although a little inconsistency might be tolerated, according to the rule of thumb, a protocol must be discarded if two stories have more than 9 items rated the same.

There are three parts to the Consistency Check. Failing of any one part will invalidate a questionnaire. Part 1 is that no story shall have more than 8 inconsistencies on any single story (in other words, 9 or more would throw it out). Part 2 is that there can be no more than two stories in which there are any inconsistencies. Part 3 is that no more than one story can have more than 9 items rated the same. If two stories have 10 or more items rated the same, then the questionnaire is invalidated. For the short form questionnaire, Rest (1986) suggested to eliminate questionnaires that have a raw M score of more than 4, or have any story with more than 8 inconsistencies, or have three stories with any inconsistencies at all, or if two stories have more than 9 items rated the same. It is noted that while the short form saves more time, the basic reliability of scores is lower.

This study further adds individual level factors which are DIT, total listed companies' responsibilities of each auditor, and technical knowledge on Model 1 to find out whether individual level factors have an incremental explanatory power over firm level factors in affecting quality of audited financial statements. The research model is shown below:

$$\begin{aligned} \text{ABSDA} = & \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{CLIENT} + \beta_3 \text{OUTSIDER} + \beta_4 \text{LISTED} \\ & + \beta_5 \text{LOG ASSET} + \beta_6 \text{OCF/at-1} + \beta_7 \text{ABSTA/at-1} + \beta_8 \text{LEVERAGE} \\ & + \beta_9 \text{DIT (H/L)} + \beta_{10} \text{LISTED-IN} + \beta_{11} \text{TECHKW} \end{aligned} \quad (2)$$

Variables	Proxied by	Symbol	Expected sign
Dependent variable			
Absolute value of discretionary accruals	Absolute value of error term from cross-sectional Modified Jones Model	ABSDA	
Independent variables			
Size	Big 4 and non-Big 4 Dummy variable indicating 1 = Big 4, 0 = non-Big 4	SIZE	-
Client important	Non audit fee/audit fee ratio	CLIENT	+
Corporate governance of clients	Percentage of outsiders on the board	OUTSIDER	-
No. of listed companies	Total listed companies of each audit firm	LISTED	+
Ethical level	Dummy variable; 1 = high, 0 = low	DIT (H/L)	-
Individual no. of listed companies	Total listed companies of each auditor	LISTED-IN	+
Technical knowledge	LOG case scores, the scores are derived by designed cases that have been done by each auditor. The scores are weighted by two experts	TECHKW	-
Control variables			
LOG asset	Log of total assets	LOGASSET	
Operating cash flow	Cash Flow from Operating scaled by lagged total assets	OCF/at-1	
Absolute value of total accruals	Absolute value of total accruals scaled by lagged total assets	ABS TA/at-1	
LEVERAGE	Total liabilities /Total assets	LEVERAGE	

CHAPTER IV EMPIRICAL RESULTS

4.1 Sample Characteristics

The sample consisted of listed companies on the Stock Exchange of Thailand (SET) during 2001-2004. The number of firms listed on the SET was 408 firms as of January 1, 2001. As discussed in Chapter 3, the sample does not include 62 firms in the financial institution sector, which are banking, finance and securities, and insurance industries. The number of firms listed on the SET excluding the financial institution sectors totaled 346 firms. This study also excludes firms that have been audited by Office of the Auditor General. The newly-listed companies during 2003-2004 amounted to 42 firms. This study uses data over the 4 years period. Therefore, total number of samples is 1357 firms which can be categorized by industry distribution as shown in TABLE 4.1. Some firms did not submit the financial report to the Stock Exchange of Thailand (SET), causing some missing data. Numbers of samples are shown in TABLE 4.2.

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TABLE 4.1 Industry Distribution for Sample Firms 2001-2004

Code	Industry	Total	Big 4	Non - Big 4
			Number of Observations	Number of Observations
1	Agribusiness	72	48	24
2	Automotive	52	33	19
4	Commerce	42	26	16
5	Companies under Rehabilitation	172	74	98
6	Communication	56	53	3
7	Construction Materials	105	55	50
8	Electrical Products and Computer	51	42	9
9	Electronic Components	34	28	6
10	Energy & Utilities	43	34	9
11	Entertainment and Recreation	52	30	22
12	Fashion	100	51	49
14	Food and Beverage	82	74	8
15	Health Care Services	48	24	24
16	Hotel and Travel Services	42	38	4
17	Household Goods	32	26	6
19	Machinery and Equipment	8	5	3
20	Mining	4	4	-
21	Packaging	54	23	31
22	Paper & Printing Materials	9	8	1
23	Personal Products & Pharmaceuticals	14	6	8
24	Petrochemicals & Chemicals	51	38	13
25	Printing and Publishing	34	12	22
26	Professional Services	14	5	9
27	Property Development	144	97	47
28	Transportation & Logistics	42	30	12
		<u>1,357</u>	<u>864</u>	<u>493</u>

TABLE 4.2 Firm Level Factors Characteristics and Numbers of Samples

Listed Companies	Firm variable factors Model 1 Number of sample 2001-2004
Firm listed in SET	1,357
minus Missing value (do not submit the financial statement, and some firms do not have non-audit fee data)	(1,089)
Total numbers of samples	268

4.2 Results of Data Analysis

4.2.1 The Association between Firm level Factors and Quality of Audited Financial Statements.

TABLE 4.3 Descriptive Statistics – Firm Level Factors

	Model 1 (N=268)	
	Mean	Std. Deviation
ABSDA	0.365	1.264
SIZE	0.68	0.466
CLIENT	0.705	2.652
OUTSIDER	0.376	0.116
LISTED	53.77	42.552
LOG ASSET	3.672	0.618
OCF/at-1	0.101	0.129
ABSTA/at-1	0.118	0.342
LEVERAGE	0.612	0.777

This first hypothesis is whether firm level factors are associated with quality of audited financial statement. The result from TABLE 4.4 shows that size, client importance, percentage of outsiders on the board, and number of listed companies' responsibilities are associated with quality of audited financial statement. Client importance, and size show negative relation with discretionary accruals, while percentage of outsiders on the board, and number of listed companies' responsibilities have positive relation with absolute value of discretionary accruals.

$$\begin{aligned} \text{ABSDA} = & \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{CLIENT} + \beta_3 \text{OUTSIDER} + \beta_4 \text{LISTED} + \beta_5 \text{LOG Asset} + \beta_6 \text{OCF/at-1} \\ & + \beta_7 \text{ABSTA/at-1} + \beta_8 \text{LEVERAGE} + \varepsilon \end{aligned} \quad (1)$$

TABLE 4.4 Regression to Test the Association between Firm level Factors and Quality of Audited Financial Statements ^a

Variable	Coefficient Estimate	t-statistics ^c	p value ^c
Intercept	-0.113	-2.017	0.045
SIZE	-0.024	-3.000	0.003**
CLIENT	-0.024	-4.047	0.000**
OUTSIDER	0.014	2.478	0.014**
LISTED	0.024	3.133	0.002**
LOG ASSET	0.005	0.737	0.462
OCF/at-1	-0.012	-2.105	0.036
ABS TA/at-1	0.995	167.302	0.000
LEVERAGE	-0.024	-4.066	0.000
F-statistic 3798.023 (0.000) [#]			
Adj. R-square 0.991			

^aThe sample consists of 268 firm-years during 2001-2004.

^bThe variables are defined as follows.

ABSDA = Absolute value of discretionary accruals

SIZE = 1 = Big4, 0 = non-Big4

CLIENT = Client importance derived by non-audit fee to audit fee ratio

OUTSIDER = Percentage of outsiders on the board

LISTED = Total listed companies of each audit firm

LOG ASSET = Log of total assets

OCF/at-1 = Cash flow from operating scaled by lagged total assets

ABS TA/at-1 = Absolute value of total accruals scaled by lagged total assets

LEVERAGE = Total liabilities divided by total assets

ε = error term

^ct-statistics and p value ; * significance at $0.01 \leq \alpha \leq 0.05$ and

** significance at $\alpha < 0.01$ level

[#]The number in the parenthesis is p value of F-statistics

4.2.2 Individual Level Factors and Quality of Audited Financial Statements

Sample Characteristics

The auditors in this study are those who audited listed companies on the Stock Exchange of Thailand (SET) during 2001-2004 and still work as auditors at present (2006). Details are shown in TABLE 4.5:

TABLE 4.5 Number of Samples

Auditors	Company	Number of sample 2001-2004
Big 4	1. Deloitte Touche Tohmatsu Jaiyos Co., Ltd.	8
	2. Ernst & Young Office Limited	12
	3. KPMG Phoomchai Audit Ltd.	15
	4. PricewaterhouseCoopers ABAS Limited	13
		48
Non-Big 4	1. A.M.T. & Associates	1
	2. ANS Audit Co., Ltd.	2
	3. AST Master Co., Ltd.	2
	4. BDO Richfield Co., Ltd.	2
	5. Bunchikij Co., Ltd.	2
	6. C&A Accounting Firm	1
	7. Chamras CPA	1
	8. Dharmniti Auditing Co., Ltd.	1
	9. Grant Thornton	2
	10. Office of DIA International Auditing	2
	11. Karin Audit Company Limited	1
	12. M.R. & ASSOCIATES CO., LTD.	2
	13. Office of Pitisevi	2
	14. RSM Nelson Wheeler Audit Limited	1
	15. S.K. Accountant Service Co., Ltd.	3
	16. SP Audit Company Limited	1
	17. Thammakarn Accounting Office	1
	18. Dr. Virach and Associates	2
		29
Total Thai SEC approved auditors		<u>77</u>

Among 77 auditors, 31 auditors accepted to give an interview and the appointment was made during September-October 2006. 15 auditors gave feedback through their secretaries, saying that the interview was inconvenient for them. The remaining 25 auditors had no response. Meeting was arranged for each auditor in a meeting room of their offices. They were asked to analyze the case. On average, the auditors finished the case within 15 minutes (max 40 mins and min 5 mins). There were 6 auditors who did not do the case face-to-face due to their busy schedule. The case was sent to them and the finished case together with the time spent was returned later. The average age of participants is 50 years (max = 72, min = 38). The sample respondents report that they have, on average, 27 years of auditing experience (max = 43, min = 15).

DIT scores

3 stories DIT are used because the pilot study shows the average time is 30 minutes, and the partners are always very busy. 31 auditors who accepted the interview were asked to complete and return the DIT questionnaires. Instructions were explained to them. All auditors sent back the questionnaires. The average time they spent for DIT is 22 mins (max 75 mins and min 10 mins). 6 auditors willing to fill in the questionnaires without interview also returned the questionnaires. The questionnaires were sent to other auditors by mail in September 2006 and resent in October 2006. However, there was no response.

DIT questionnaires are scored using the guideline from Rest 1986's manual as mentioned in Chapter 3. Reliability and validity check was made. Invalid questionnaires i.e. 6 samples were excluded. Cronbach's Alpha for DIT questionnaires is 0.6229 for 31 respondents.

The result shows that SEX has significant and positive association with DIT score. That means females have higher DIT score than males, while education, age and experience have no relation with DIT. This result is consistent with prior findings of Shaub (1994) who stated that higher moral reasoning levels were found in women.

Results showed that age and education are not significantly associated with level of moral reasoning.

Interview

Questions were asked regarding their experience, ages, number of client responsibilities, education and client importance in their point of views. The results are as follows;

Big 4 Firms: Their client importance depends on these following factors: audit fee, referred work from overseas (global account), big client, client with high risk, relationship with client, and client that has impact on the country. Their firms have quality control system. Client assessment is performed on a yearly basis to consider whether they will continue to audit that client. Personnel development is provided continuously through quarterly knowledge update in which all staff in the firm have to participate. Systematic quality control for each job is in place. Some firms assign job responsibility based on industrial type. Technical team is required to provide review for all listed companies. Quality assurance team comes from abroad to review quality of works. The management team supervises staff training to ensure adequacy.

Non-Big 4 firms: Their client importance depends on the following factors: client in big group, risk, management team of client, relationship with client and accounting system of client. Non-big 4 firms always have problems of high turnover of staff, and client's negotiation on audit fee. There is quality control system for each audit partner and manager within the team. Most of these firms do not conduct any technical review. They always consult outside audit expert once they cannot make decision on difficult situation.

This study further adds DIT, total listed companies' responsibilities of each auditor, and technical knowledge variables in the regression model 1 to find out whether individual level factors have an incremental explanatory power over firm level variables in affecting quality of audited financial statements. The result shows in TABLE 4.6 below:

$$\text{ABSDA} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{CLIENT} + \beta_3 \text{OUTSIDER} + \beta_4 \text{LISTED} + \beta_5 \text{LOG ASSET} + \beta_6 \text{OCF/at-1} + \beta_7 \text{ABS TA/at-1} + \beta_8 \text{LEVERAGE} + \beta_9 \text{DIT (H/L)} + \beta_{10} \text{LISTED-IN} + \beta_{11} \text{TECHKW} \quad (2)^b$$

TABLE 4.6 Regression to Test the Association between Individual Level Factors and Quality of Audited Financial Statements ^a

Variable	Coefficient Estimate	t-statistics ^c	p value ^c
Intercept	-0.001	-0.094	0.925
SIZE	-0.024	-1.790	0.076
CLIENT	-0.023	-4.129	0.000**
OUTSIDER	0.011	1.741	0.085
LISTED	0.024	1.721	0.088
LOG ASSET	-0.010	-1.606	0.111
OCF/at-1	0.001	0.095	0.924
ABS TA/at-1	0.997	163.319	0.000
LEVERAGE	-0.020	-3.332	0.001
DIT (H/L)	0.013	1.841	0.069*
LISTED-IN	0.009	0.878	0.382
TECHKW	-0.001	-0.107	0.915
F-statistic 3112.376 (0.000) [#]			
Adj. R-square 0.997			

^aThe sample consists of 31 auditors 114 firm-years during 2001-2004.

^bThe variables are defined as follows.

ABSDA	= Absolute value of discretionary accruals
SIZE	= 1 = Big4, 0 = non-Big4
CLIENT	= Client importance derived by non-audit fee to audit fee ratio
OUTSIDER	= Percentage of outsiders on the board
LISTED	= Total listed companies of each audit firm
LOG ASSET	= Log of total assets
OCF/at-1	= Cash flow from operating scaled by lagged total assets
ABS TA/at-1	= Absolute value of total accruals scaled by lagged total assets
LEVERAGE	= Total liabilities divided by total assets
DIT (H/L)	= Dummy variable; 1 = high DIT , 0 = low DIT
LISTED-IN	= Total listed companies of each auditor
TECHKW	= LOG case scores, the scores are derived by designed cases that have been done by each auditor. The scores are weighted by two experts
ε	= error term

^ct-statistics and p value ; * significance at $0.01 \leq \alpha \leq 0.05$

** significance at $\alpha < 0.01$ level

Since the dependent variable is the same in model 1 and model 2, and model 1 is nested model of model 2, the result from TABLE 4.4 and TABLE 4.6 stated that when adding individual level factors to the model, the adjusted R square increase from 0.991 (model 1) to 0.997 (model 2). The result indicates that individual level factors have an incremental explanatory power over firm level factors (Dechow 1994; Bartov et al., 2001; Kerstein and Kim, 1995).

The result from TABLE 4.6 indicates that higher DIT will create lower quality which is not consistent with several literatures (i.e. Leming, 1978; Ponemon, 1990, 1992; Ponemon and Gabhart, 1993; Trevino, 1986; Trevino and Youngblood, 1990). The reason may be because sample size is too small, data for non-audit fee is not much. There are some high correlation between variables i.e., size and technical knowledge (0.732), listed and size (0.855), and listed and technical knowledge (0.752).

Therefore, alternative measurement for individual client importance, and technical knowledge (individual industry expertise) variables are developed. Client importance is also measured by the ratio of a client's total fee to audit firm's total revenues (Stice, 1991; Lys and Watts, 1994; Chung and Kallapur, 2003). This study measures individual client importance by each client's total fee to total individual auditor listed companies' revenues. Individual industry expertise can be collected by individual auditor's audit fee in each industry that exceed 15 percent of total audit fee in each industry (Krishnan, 2003). The association between individual level factors and quality of audited financial statements are shown in TABLE 4.7

$$\begin{aligned} \text{ABS DA} = & \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{EXPERT-IN} + \beta_3 \text{CLIENT-IN (H/L)} + \beta_4 \text{DIT (H/L)} \\ & + \beta_5 \text{CLIENT-IN (H/L)* DIT (H/L)} + \beta_6 \text{LOG ASSET} + \beta_7 \text{OCF/at-1} \\ & + \beta_8 \text{ABS TA/at-1} + \beta_9 \text{LEVERAGE} + \varepsilon \end{aligned} \quad (3)^b$$

TABLE 4.7 Regression to Test the Association between Individual Level Factors and Quality of Audited Financial Statements ^a

Variable	Coefficient Estimate	t-statistics ^c	p value ^c
Intercept	0.146	4.747	0.000
SIZE	-0.037	-2.463	0.014*
EXPERT-IN	0.020	1.377	0.169
CLIENT-IN (H/L)	-0.040	-2.171	0.030*
DIT (H/L)	-0.036	-2.194	0.029*
CLIENT-IN (H/L)* DIT (H/L)	0.028	1.400	0.162
LOG ASSET	-0.051	-3.553	0.000
OCF/at-1	-0.031	-2.274	0.023
ABS TA/at-1	0.932	60.176	0.000
LEVERAGE	0.033	2.177	0.030
F-statistic 594.921 (0.000) [#]			
Adj. R-square 0.921			

^aThe sample consists of 31 auditors 458 firm-years during 2001-2004.

^bThe variables are defined as follows.

ABSDA	=	Absolute value of discretionary accruals
SIZE	=	1 = Big4, 0 = non-Big4
EXPERT-IN	=	Proxied for individual industry expertise can be collected by individual auditor's audit fee in each industry that exceed 15 percent of total audit fee in each industry as stated by Krishnan (2003); 1 = expertise, 0 = non-expertise This study uses only listed companies in each industry
CLIENT-IN (H/L)	=	Client importance individual is derived by each client's total fee to total individual auditor listed companies' revenues; 1 = high client importance, 0 = low client importance
DIT (H/L)	=	Dummy variable; 1 = high DIT , 0 = low DIT
LOG ASSET	=	Log of total assets
OCF/at-1	=	Cash flow from operating scaled by lagged total assets
ABS TA/at-1	=	Absolute value of total accruals scaled by lagged total assets
LEVERAGE	=	Total liabilities divided by total assets
ε	=	error term

^ct-statistics and p value ; * significance at $0.01 \leq \alpha \leq 0.05$

** significance at $\alpha < 0.01$

The results from TABLE 4.7 states that size, client importance individual, and DIT have negative relationship with absolute value of discretionary accruals. This means higher DIT score will create higher quality as supported by several literatures stating that individuals who are more morally developed are less likely to engage in unethical behavior (i.e. Leming, 1978; Ponemon, 1990, 1992; Ponemon and Gabhart, 1993; Trevino, 1986; Trevino and Youngblood, 1990). As summarized by Nelson and Ton (2005), auditor-client interactions are fundamental of preserving audit quality. Further study about univariate analysis of variance, and test of between-subjects effects are shown in TABLE 4.8

TABLE 4.8 Test of Between-Subjects Effects; Individual Level Factors

Between-Subjects Factors

Client importance \ DIT	High	Low	Total
	High	63	83
Low	128	184	312
Total	191	267	458

Dependent Variables: ABS Discretionary accruals

Low DIT	F statistic	Sig.
Corrected Model	645.839	0.000 ^a
Intercept	4.770	0.030
SIZE	3.394	0.067
EXPERT-IN	0.654	0.419
LOG ASSET	4.140	0.043
OCF/at-1	0.371	0.543
ABS TA/at-1	2698.459	0.000
LEVERAGE	5.640	0.018
CLIENT (IN H/L)	4.062	0.045*
High DIT	F statistic	Sig.
Corrected Model	143.222	0.000 ^b
Intercept	7.436	0.007
SIZE	4.122	0.044
EXPERT-IN	1.921	0.167
LOG ASSET	2.857	0.093
OCF/at-1	22.111	0.000
ABS TA/at-1	831.673	0.000
LEVERAGE	0.955	0.330
CLIENT (IN-H/L)	0.066	0.797

^a R Square = 0.946 (Adjusted R Square = 0.944)

^b R Square = 0.846 (Adjusted R Square = 0.840)

* significance at $0.1 \leq \alpha \leq 0.05$

^cThe variables are defined as follows.

SIZE	= 1 = Big4, 0 = non-Big4
EXPERT-IN	= Individual industry expertise; 1 = expertise, 0 = non-expertise
LOG ASSET	= Log of total assets
OCF/at-1	= Cash flow from operating scaled by lagged total assets
ABS TA/at-1	= Absolute value of total accruals scaled by lagged total assets
LEVERAGE	= Total liabilities divided by total assets
CLIENT (H/L)	= Individual client importance; 1 = high client importance 0 = low client importance

The results from the test of between-subjects effects in TABLE 4.8 indicate that client importance will affect quality of audited financial statements (absolute value of discretionary accruals) only when DIT is low. When DIT is high, client importance has no significant impact on quality of audited financial statement.

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CHAPTER v

CONCLUSIONS AND IMPLICATIONS

5.1 Summary of the Study

The objective of this research is to investigate the incremental explanatory power of individual auditor's judgment over audit firm level factors on quality of audited financial statements of companies listed on the Stock Exchange of Thailand during 2001-2004. As summarized by Nelson and Tan (2005), auditor-client interactions are fundamental of preserving audit quality. These interactions include negotiations over changes in the financial statements necessary for the auditor to provide an unqualified opinion. Previous studies examined single relationship between individual factors and quality of auditor judgment or between firm level factors and quality of audited financial statements. This study uses the engagement partners who really perform the audit and are responsible for the auditor's report of listed companies on the Stock Exchange of Thailand.

5.2 Conclusions

From the empirical result, it can be summarized that individual auditor's judgment has an incremental explanatory power over audit firm level factors in affecting quality of audited financial statement, especially ethics, moral reasoning and auditor-client interactions. This result supports Thai government's declaration on ethics, morality and good governance as national agenda items in December 2006. One of the reasons why Thailand has to slow down and revisit country's strategic position is because the society needs to improve better performance in ethics, morality and good governance. Greater independence and high ethics will lead to good governance. Moreover, the result supports that high number of listed companies' responsibilities will create lower quality (Francis, Stokes and Anderson, 1999).

5.3 Limitations

There are a number of limitations of this research. First, some data in the financial statements were missing. For example, some firms do not submit the financial statements to the Stock Exchange of Thailand (SET). As disclosure of non-audit fee data started in 2004, same non-audit fee ratio of the year 2004 was used for the data period of this study 2001-2004. Second, only 37 auditors out of 77 auditors accepted to do the case and DIT questionnaires. Among these 37 auditors, 31 auditors gave an interview and did the case face-to-face, while 6 auditors preferred to later send back the questionnaires and case. Further study with larger sample size should be done. The third limitation in this study is the hand scoring of DIT. According to the DIT manual (Rest, 1986), pre-doctoral students may use the DIT using hand scoring as outlined in the manual. The result however may not be totally consistent with that using computer-based scoring. Finally, the case is designed and scored by two experts. Reliability and validity may thus be questionable.

5.4 Suggestions for Future Research

The suggestion for further research is to study the association between ethics, client importance and audit quality with larger sample size. The study on how to measure ethics with other instrument is another interesting area. Other proxies for client importance should be explored. Finally, other proxies for audit quality apart from absolute value of discretionary accruals should be determined.

5.5 Implementation

From the results of this study, the conclusion as mentioned in 5.2 shows the incremental explanatory power of individual auditor's judgment over audit firm level factors in affecting quality of audited financial statements. The implementation of this study would be as follow.

1) With the literature on quality of audited financial statements, this study adds evidence to confirm that individual level factors have an incremental explanatory power in affecting quality of audited financial statements. The previous studies had examined single relationship between individual factors and quality of auditor judgment or between firm level factors and quality of audited financial statements.

2) With the regulators, the results show that firm level factors have influences to the quality of audited financial statements. Those variables include audit firm size, number of listed companies responsibilities and auditor-client relationship. The client-auditor relationship could confirm the need to rotate auditors when they perform audit to the same clients for a long period of time. This study does not illustrate whether 5-year rotation as regulated by the SEC is suitable. Also, this study does not provide evidence on whether the rotation of auditors within firm or between firms could make different quality of audited financial statements. In addition to the firm level factors, individual factors such as ethics and good corporate governance should be emphasized and promote best practice to enhance higher quality of audited financial statements.

3) With the users of financial statements, the users of financial statements should learn from this study that the auditor's related factors; both individual and firm level factors would imply to the quality of audited financial statements. They can take into consideration as primary cautious when they use the audited financial statements for decision making. Also, this study urges the investors to understand and separate the auditor's responsibility and management's responsibility. Also, encourage the investors to use auditor's report as a tool for decision making.

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APPENDICES

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APPENDIX A : The Test of Assumptions of Regression Model

Model check

- All the model are checked for influential outlier by Cook's Distance (D_i) from the decision rule that if the value of D_i is $0.8 < D_i < 1.0$ then consider that observation is an influential observation. No influential outlier is found among all 3 models.
- Errors term is normal distribution
- Durbin-Watson of all models are more than 1.5 but less than 2.5 that mean error term is independence as shown in TABLE A.1
- VIF of all models do not more than 10 to occur multicollinearity as shown in TABLE A.2
- Correlation between variables of 4 models show no multicollinearity in TABLE A.3, A.4, A.5

TABLE A.1 Durbin-Watson of the Models

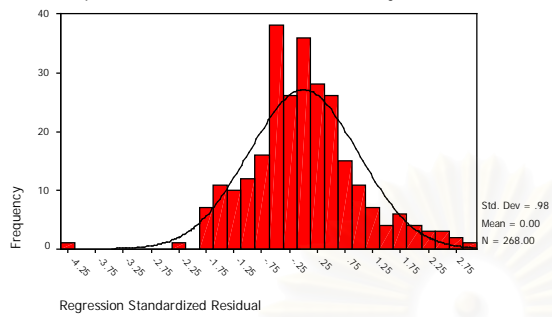
	Model 1	Model 2	Model 3
Durbin-Watson	1.915	1.914	1.802

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Charts

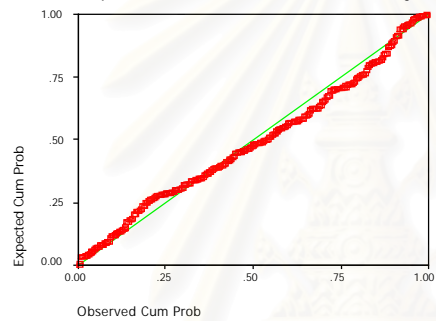
Histogram

Dependent Variable: ABS Discretionary accruals



Normal P-P Plot of Regression Standardized Residual

Dependent Variable: ABS Discretionary accruals



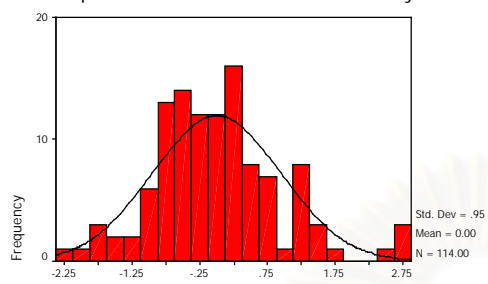
Model 1

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Charts

Histogram

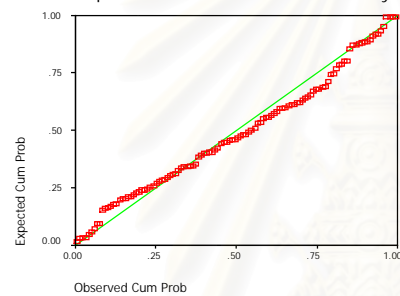
Dependent Variable: ABS Discretionary accruals



Regression Standardized Residual

Normal P-P Plot of Regression Standardized Residual

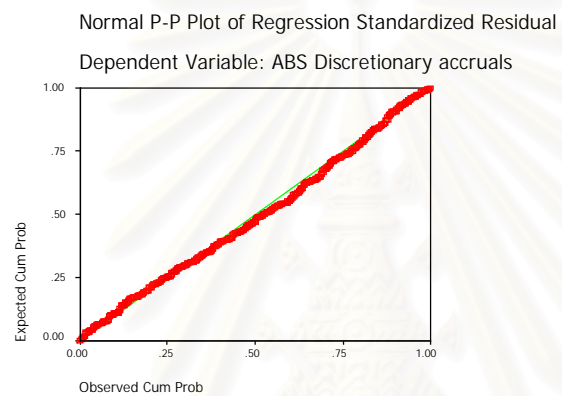
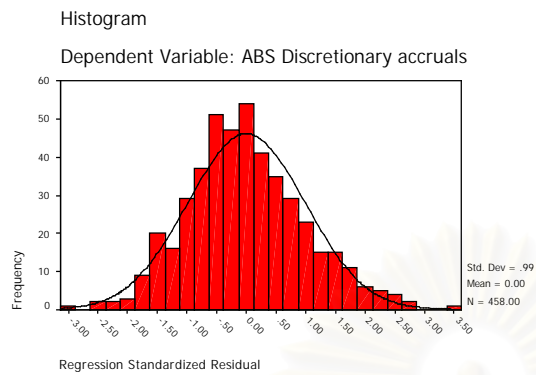
Dependent Variable: ABS Discretionary accruals



Model-2

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Charts



Model-3

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TABLE A.2 Tolerance and VIF of the Models

	Model 1		Model 2		Model 3	
	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF
SIZE	0.514	1.945	0.161	6.194	0.744	1.345
EXPERT-IN					0.834	1.199
CLIENT	0.940	1.064	0.904	1.106		
CLIENT (IN-H/L)					0.499	2.003
OUTSIDER	0.960	1.042	0.797	1.254		
LISTED	0.548	1.824	0.144	6.921		
LOG ASSET	0.833	1.200	0.716	1.397	0.839	1.192
OCF/at-1	0.949	1.053	0.797	1.254	0.927	1.078
ABSTA/at-1	0.923	1.083	0.782	1.279	0.718	1.393
LEVERAGE	0.943	1.060	0.798	1.253	0.757	1.321
LISTED-IN			0.280	3.574		
DIT (H/L)			0.567	1.764	0.624	1.602
CLIENT-IN (H/L)*DIT (H/L)					0.430	2.323
TECHKW			0.302	3.310		

TABLE A.3 : Pearson Correlation - Model (1)^a

	SIZE	CLIENT	OUTSIDER	LISTED	LOG ASSET	OCF/at-1	ABSTA/ at-1	LEVERAGE
SIZE	1							
CLIENT	0.145***	1						
OUTSIDER	-0.057	0.073	1					
LISTED	0.648***	0.219***	-0.070	1				
LOG ASSET	0.334***	0.022	-0.129**	0.124**	1			
OCF/at-1	0.002	-0.059	0.026	0.005	-0.032	1		
ABSTA/ at-1	-0.005	0.008	0.062	0.064	-0.150***	-0.171***	1	
LEVERAGE	-0.101**	-0.026	-0.070	-0.080*	-0.117**	-0.130**	0.142**	1

P value; *** significance at $\alpha < 0.01$ level

** significance at $0.01 \leq \alpha \leq 0.05$ level

* significance at $0.05 < \alpha \leq 0.10$ level

$${}^a\text{ABSDA} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{CLIENT} + \beta_3 \text{OUTSIDER} + \beta_4 \text{LISTED} + \beta_5 \text{LOG Asset} + \beta_6 \text{OCF/at-1} + \beta_7 \text{ABSTA/at-1} + \beta_8 \text{LEVERAGE} + \varepsilon \quad (1)$$

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TABLE A.4 : Pearson Correlation - Model (2)^a

	SIZE	CLIENT	OUTSIDER	LISTED	LOG ASSET	OCF/at-1	ABSTA/aT-1	LEVERAGE	DIT (H/L)	LISTED-IN	TECHKW
SIZE	1										
CLIENT	0.221***	1									
OUTSIDER	-0.116	0.070	1								
LISTED	0.855***	0.259***	-0.166**	1							
LOG ASSET	0.321***	0.084	-0.070	0.185**	1						
OCF/at-1	0.059	-0.072	0.042	0.008	-0.079	1					
ABSTA/aT-1	0.045	-0.008	0.050	0.089	-0.181**	-0.266***	1				
LEVERAGE	-0.080	-0.064	-0.098	-0.132**	-0.169**	-0.065	0.110	1			
DIT (H/L)	0.134*	0.031	0.245***	-0.026	0.301***	-0.171**	0.086	-0.083	1		
LISTED-IN	0.300***	0.095	-0.346***	0.564***	-0.021	0.014	-0.150*	-0.257***	-0.477***	1	
TECHKW	0.732***	0.209**	-0.152**	0.752***	0.283***	-0.087	0.000	-0.210**	-0.070	0.563***	1

P value; *** significance at $\alpha < 0.01$ level
 ** significance at $0.01 \leq \alpha \leq 0.05$ level
 * significance at $0.05 < \alpha \leq 0.10$ level

$${}^a\text{ABSDA} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{CLIENT} + \beta_3 \text{OUTSIDER} + \beta_4 \text{LISTED} + \beta_5 \text{LOG ASSET} \\ + \beta_6 \text{OCF/at-1} + \beta_7 \text{ABSTA/at-1} + \beta_8 \text{LEVERAGE} + \beta_9 \text{DIT (H/L)} \\ + \beta_{10} \text{LISTED-IN} + \beta_{11} \text{TECHKW} \quad (2)$$

TABLE A.5 : Pearson Correlation - Model (3)^a

	SIZE	EXPERT-IN	CLIENT-IN (H/L)	DIT (H/L)	CLIENT-IN (H/L)* DIT (H/L)	LOG ASSET	OCF/at-1	ABSTA/ aT-1	LEVERAGE
SIZE	1								
EXPERT-IN	0.316***	1							
CLIENT-IN (H/L)	-0.239***	-0.077*	1						
DIT (H/L)	-0.036	-0.223***	0.020	1					
CLIENT-IN (H/L)* DIT (H/L)	-0.047	0.073*	0.584***	0.472***	1				
LOG ASSET	0.269***	0.173***	0.169***	0.112***	0.150***	1			
OCF/at-1	0.053	0.055	-0.079**	-0.028	-0.044	-0.057	1		
ABSTA/ aT-1	0.042	0.017	0.007	-0.070*	-0.072*	-0.038	-0.233***	1	
LEVERAGE	0.052	0.073*	0.026	-0.017	0.018	0.054	-0.105**	0.483***	1

P value; *** significance at $\alpha < 0.01$ level

** significance at $0.01 \leq \alpha \leq 0.05$ level

* significance at $0.05 < \alpha \leq 0.10$ level

$$\begin{aligned}
 {}^a\text{ABSDA} = & \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{EXPERT-IN} + \beta_3 \text{CLIENT-IN (H/L)} + \beta_4 \text{DIT (H/L)} \\
 & + \beta_5 \text{CLIENT-IN (H/L)* DIT (H/L)} + \beta_6 \text{LOG ASSET} + \beta_7 \text{OCF/at-1} \\
 & + \beta_8 \text{ABSTA/at-1} + \beta_9 \text{LEVERAGE} + \varepsilon
 \end{aligned}
 \tag{3}$$

APPENDIX B : Case Study in Thai

บริษัท กขค จำกัด (มหาชน) เป็นบริษัทผลิตและจำหน่ายสินค้าอุปโภคบริโภคเพื่อขายไปตลาดในประเทศและต่างประเทศบางส่วน โดยมีลูกหนี้รายย่อยหลายราย ปีนี้เป็นปีแรกที่สอบบัญชีให้บริษัทนี้ โดยปีที่แล้วตรวจสอบโดยผู้สอบบัญชีอื่น ซึ่งรายงานอย่างไม่มีเงื่อนไขโดยมีวรรคเน้นข้อความเกี่ยวกับการดำเนินงานต่อเนื่อง ผู้สอบบัญชีได้ขอสอบทานกระดาษทำการจากผู้สอบบัญชีเดิมและพิสูจน์ยอดยกมาเป็นที่พอใจแล้ว ภายหลังจากตรวจสอบภาคสนามเสร็จสิ้น ผู้ช่วยผู้สอบบัญชีได้สรุปผลการตรวจสอบ และร่างรายงานการตรวจสอบเพื่อให้ผู้สอบบัญชีพิจารณาจากสถานการณ์ทั้ง 3 สถานการณ์นี้ ให้ท่านพิจารณาว่ารายงานของผู้สอบบัญชีควรจะเป็นอย่างไรในแต่ละสถานการณ์

สถานการณ์ที่ 1 เรื่องค่าเผื่อหนี้สงสัยจะสูญ

บริษัทได้มีการตั้งค่าเผื่อหนี้สงสัยจะสูญตามการแยกอายุหนี้ โดยลูกหนี้ที่ค้างชำระเกินกว่า 6 เดือน จะตั้งร้อยละ 50 และลูกหนี้ที่ค้างชำระเกินกว่า 12 เดือน จะตั้งร้อยละ 100 นอกจากนั้นจะมีการตั้งค่าเผื่อสำหรับลูกหนี้บางรายเป็นกรณีพิเศษหากพิจารณาได้ว่าจะสูญ แม้ว่าค้างชำระไม่เกินกว่า 6 เดือน เช่นในกรณีได้ข่าวว่าลูกหนี้ไม่จ่ายชำระหนี้ให้เจ้าหนี้รายอื่น แต่ยังคงจ่ายชำระให้บริษัทอยู่เป็นต้น

อย่างไรก็ตาม ผู้ช่วยผู้สอบบัญชีได้ดูข้อมูลในอดีต พบว่าบริษัทมีการตัดหนี้สูญในระหว่างปีเป็นจำนวนมาก โดยที่ลูกหนี้ดังกล่าวไม่ได้ตั้งค่าเผื่อหนี้สงสัยจะสูญไว้ในปีก่อนหน้า และมองว่าการตั้งค่าเผื่อหนี้สงสัยจะสูญในปีปัจจุบันก็อาจจะไม่พอ และเห็นว่าน่าจะต้องตั้งค่าเผื่อหนี้สงสัยจะสูญมากกว่านี้อย่างเป็นทางการ (แต่ไม่สามารถระบุจำนวนเงินได้) จะออกรายงานอย่างไร

- ก) ออกรายงานอย่างไม่มีเงื่อนไข
- ข) ออกรายงานอย่างไม่มีเงื่อนไข แต่มีวรรคเน้นข้อความดังนี้

โดยที่มีได้เป็นการแสดงความเห็นอย่างมีเงื่อนไข ตามที่กล่าวไว้ในหมายเหตุประกอบงบการเงินข้อ ข้าพเจ้าให้ข้อสังเกตว่าความเพียงพอของค่าเผื่อหนี้สงสัยจะสูญของบริษัทขึ้นอยู่กับสภาพเศรษฐกิจและความสามารถในการจ่ายชำระหนี้ของลูกหนี้ในอนาคต

2) ค) ออกรายงานอย่างมีเงื่อนไข กรณีถูกจำกัดขอบเขตดังนี้ (โปรดระบุว่าเป็นแบบ 1 หรือ 2)

1) โดยผู้บริหาร

2) โดยสถานการณ์

ตามที่กล่าวในหมายเหตุประกอบงบการเงินข้อ ค่าเผื่อนี้สังสัยจะสูญของ บริษัทอาจไม่เพียงพอ อย่างไรก็ตามข้าพเจ้าไม่สามารถตรวจสอบให้เป็นที่พอใจเกี่ยวกับค่าเผื่อนี้สังสัยจะสูญที่เพียงพอ เนื่องจาก..... และไม่สามารถหาหลักฐานอื่นเพื่อตรวจสอบความเพียงพอในเรื่องดังกล่าว

ข้าพเจ้าเห็นว่า ยกเว้นผลของการปรับปรุงที่อาจจำเป็น ถ้าข้าพเจ้าสามารถตรวจสอบเรื่องค่าเผื่อนี้สังสัยจะสูญ ตามที่กล่าวในวรรคก่อนหน้า.....

ง) ออกรายงานอย่างมีเงื่อนไข กรณีผิดหลักการบัญชี ดังนี้

ตามที่กล่าวไว้ในหมายเหตุประกอบงบการเงินข้อ บริษัทมิได้ตั้งค่าเผื่อนี้สังสัยจะสูญให้เพียงพอ ซึ่งไม่เป็นไปตามหลักการบัญชีที่รับรองทั่วไป โดยผลกระทบของค่าเผื่อนี้สังสัยจะสูญที่ควรจะเป็นต้องการเงินไม่สามารถหาได้

ข้าพเจ้าเห็นว่า ยกเว้น.....

กรุณาวางกลมล้อมรอบความเห็นของท่าน ก) ข) ค1) ค2) ง)

ความเห็นอื่น (ถ้ามี)

.....
.....

สถานการณ์ที่ 2 การด้อยค่าของสินทรัพย์

บริษัทมีที่ดินว่างเปล่า ซึ่งบันทึกโดยใช้วิธีราคาทุนและแสดงอยู่ในบัญชีเงินลงทุนในอสังหาริมทรัพย์ ที่ดินดังกล่าวซื้อมาในช่วงที่ตลาดอสังหาริมทรัพย์กำลังเติบโตและมีราคาสูงมาก จำนวนเงินของที่ดินมีสาระสำคัญต่อการเงิน ปัจจุบันราคาตลาดของที่ดินทั่วไปลดลงจากช่วงปีที่กิจการซื้อมา ผู้สอบบัญชีขอให้ทางบริษัทจัดให้มีการประเมินราคาที่ดินดังกล่าว ซึ่งบริษัทได้จ้างให้ผู้ประเมินราคาอิสระ 2 ราย ซึ่งอยู่ในรายชื่อที่สำนักงาน ก.ล.ต. เห็นชอบ ผู้ประเมินรายหนึ่งประเมินราคาสูงกว่าอีกราย และไม่เกิดการด้อยค่า แต่ผู้ประเมินอีกรายประเมินต่ำกว่าและเกิดการด้อยค่า โดยทั้งคู่ประเมินโดยใช้วิธีเดียวกันคือ ราคาตลาด บริษัทเลือกราคาจากผู้ประเมินที่สูงกว่า และไม่ตั้งด้อยค่าโดยไม่ยอมที่จะจ้างผู้ประเมินราคาอิสระรายที่ 3 เนื่องจากเห็นว่าต้องเสียค่าใช้จ่ายโดยไม่จำเป็นอีก ผู้สอบบัญชีควรออกรายงานเกี่ยวกับเรื่องนี้อย่างไร

- ก) ออกรายงานอย่างไม่มีเงื่อนไข
- ข) ออกรายงานอย่างไม่มีเงื่อนไข แต่มีวรรคเน้นข้อความดังนี้

โดยที่มิได้เป็นการแสดงความเห็นอย่างมีเงื่อนไข ตามที่กล่าวไว้ในหมายเหตุประกอบงบการเงินข้อ บริษัทได้ให้ผู้ประเมินอิสระ 2 ราย ประเมินราคาที่ดินที่มีได้ใช้ในการดำเนินงาน โดยผู้ประเมินรายหนึ่งประเมินราคาไม่เกิดการด้อยค่า แต่ผู้ประเมินอีกรายหนึ่งประเมินด้อยค่า บริษัทมิได้ตั้งค่าเผื่อการด้อยค่าจากที่ดินที่มีได้ใช้ในการดำเนินงานดังกล่าว โดยใช้ราคาประเมินจากผู้ประเมินรายที่สูงกว่า

- ค) ออกรายงานอย่างมีเงื่อนไข กรณีถูกจำกัดขอบเขตดังนี้ (โปรดระบุว่าเป็นแบบ 1 หรือ

2)

- 1) โดยผู้บริหาร
- 2) โดยสถานการณ์

ตามที่กล่าวในหมายเหตุประกอบงบการเงินข้อ บริษัทได้ให้ผู้ประเมินราคาอิสระ 2 ราย ประเมินราคาที่ดินที่มีได้ใช้ในการดำเนินงาน โดยผู้ประเมินรายหนึ่งประเมินราคาไม่เกิดการด้อยค่า แต่ผู้ประเมินอีกรายหนึ่งประเมินด้อยค่า บริษัทมิได้ตั้งค่าเผื่อการด้อยค่าจาก ที่ดินที่มีได้ใช้ในการดำเนินงานดังกล่าว เนื่องจากราคาประเมินไม่เท่ากันดังกล่าว ผู้สอบบัญชีไม่อาจพอใจในมูลค่าของที่ดินที่มีได้ใช้ในการ

ดำเนินงานดังกล่าว และไม่สามารถหาหลักฐานอื่นเพื่อตรวจสอบมูลค่าที่คาดว่าจะได้รับของที่ดินที่มีได้ใช้ในการดำเนินงานดังกล่าว

ง) ออกรายงานอย่างมีเงื่อนไข กรณีผิดหลักการบัญชี ดังนี้

ตามที่กล่าวในหมายเหตุประกอบงบการเงินข้อ บริษัทได้ให้ผู้ประเมินราคาอิสระ 2 ราย ประเมินราคาที่ดินที่มีได้ใช้ในการดำเนินงาน โดยผู้ประเมินรายหนึ่งประเมินราคาไม่เกิดการด้อยค่า แต่ผู้ประเมินอีกรายหนึ่งประเมินด้อยค่า บริษัทมิได้ตั้งค่าเผื่อการด้อยค่า ซึ่งไม่เป็นไปตามหลักความระมัดระวัง ตามหลักการบัญชีที่รับรองทั่วไป หากบริษัทตั้งด้อยค่าตามที่ผู้ประเมินราคาอิสระรายที่ 2 ประเมินไว้ จะทำให้มีผลกระทบต่อที่ดินที่มีได้มีไว้เพื่อการดำเนินงาน ลดลง.....บาท และกำไรสุทธิลดลง..... บาท กำไรต่อหุ้นลดลง บาทต่อหุ้น

กรุณาวางกลมล้อมรอบความเห็นของท่าน ก) ข) ค1) ค2) ง)

ความเห็นอื่น (ถ้ามี)

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สถานการณ์ที่ 3 การดำเนินงานต่อเนื่อง

บริษัทมีขาดทุนจากการดำเนินงานต่อเนื่องมาตั้งแต่ปี 2540 หลังการลดค่าเงินบาท โดยมีขาดทุนสะสม และทำให้ส่วนของผู้ถือหุ้นติดลบ อัตราส่วนทุนหมุนเวียนเป็น 1.2 ร้อยละ 90 ของเงินกู้ยืมระยะยาวมาจากการกู้ยืมเงินจากสถาบันการเงิน ส่วนที่เหลือได้รับเงินกู้มาจากบริษัทที่เกี่ยวข้องกัน เงินกู้ยืมจากสถาบันการเงินมีการค้ำประกัน โดย ที่ดิน อาคาร และอุปกรณ์ของบริษัท ในระหว่างปีบริษัทเริ่มไม่สามารถจ่ายชำระหนี้ได้ตามปกติ และเงื่อนไขของสัญญากู้ยืมให้สิทธิผู้กู้สามารถเรียกคืนเงินต้นทั้งหมดได้ทันที บริษัทจึงจัดประเภทเงินกู้ยืมระยะยาวดังกล่าวเป็นเงินกู้ยืมที่อยู่ในหนี้สินหมุนเวียน

บริษัทอยู่ในระหว่างการเจรจากับสถาบันการเงินเจ้าหนี้เพื่อปรับโครงสร้างหนี้ ซึ่งโดยปกติสถาบันการเงินจะยอมให้มีการปรับโครงสร้างหนี้โดยยึดอายุการชำระหนี้

บริษัทเห็นว่าการปรับโครงสร้างหนี้ น่าจะสำเร็จ และการดำเนินงานของบริษัทในอนาคต น่าจะจ่ายชำระหนี้ที่เหลือภายหลังการปรับโครงสร้างหนี้ได้ ส่วนเงินกู้ยืมจากบริษัทที่เกี่ยวข้องกัน สามารถเจรจาเพื่อให้จ่ายภายหลังจากจ่ายเจ้าหนี้สถาบันการเงินได้ ทั้งนี้บริษัทได้ทำแผนงานในอนาคต 10 ปี แสดงประกอบ โดยจะเห็นได้ว่าแผนดังกล่าวประกอบด้วยข้อสมมติฐานหลายประการ ผู้สอบบัญชีควรออก รายงานการสอบบัญชีอย่างไร

- ก) ออกรายงานอย่างไม่มีเงื่อนไข โดยมองว่าสถานการณ์น่าจะดีกว่าปีที่แล้ว
- ข) ออกรายงานอย่างไม่มีเงื่อนไข แต่มีวรรคเน้นข้อความดังนี้

โดยที่มิได้เป็นการแสดงความเห็นอย่างมีเงื่อนไข ตามที่กล่าวไว้ในหมายเหตุประกอบงบการเงินข้อ บริษัทประสบการขาดทุนต่อเนื่อง และมีส่วนของผู้ถือหุ้นติดลบ ปีจ่ายต่าง ๆ แสดงถึง ความไม่แน่นอนที่สำคัญ ซึ่งอาจทำให้เกิดข้อสงสัยอย่างมากเกี่ยวกับความสามารถในการดำเนินงานต่อเนื่องของกิจการ อย่างไรก็ตาม บริษัทได้มีการเจรจาเพื่อขอปรับโครงสร้างหนี้ และคาดว่าจะสามารถดำเนินงานต่อเนื่องได้ งบการเงินนี้ทำขึ้นภายใต้ข้อสมมติฐานว่าบริษัทจะดำเนินงานต่อเนื่อง จึงไม่ได้ปรับปรุงมูลค่า และจัดประเภทรายการสินทรัพย์ และหนี้สินที่อาจจำเป็น หากกิจการไม่สามารถดำเนินงานต่อเนื่อง

- ค) ออกรายงานอย่างมีเงื่อนไข กรณีถูกจำกัดขอบเขต ดังนี้ (โปรดระบุว่าเป็นแบบ 1 หรือ

2)

1. โดยผู้บริหาร

2 โดยสถานการณ์

บริษัทประสบการขาดทุนต่อเนื่อง และมีส่วนของผู้ถือหุ้นติดลบ เป็นเหตุให้เกิดข้อสงสัยต่อการดำเนินงานต่อเนื่องของบริษัท อย่างไรก็ตาม บริษัทได้มีการเจรจาเพื่อขอปรับโครงสร้างหนี้ แผนการดำเนินงานซึ่งแสดงให้เห็นว่าบริษัทอาจสามารถดำเนินงานต่อเนื่องได้ ขึ้นอยู่กับข้อสมมติฐานหลายประการ ซึ่งข้าพเจ้าไม่สามารถตรวจสอบให้เป็นที่พอใจเกี่ยวกับข้อสมมติฐานดังกล่าว และไม่สามารถหาหลักฐานอื่นเพื่อตรวจสอบการดำเนินงานต่อเนื่องของบริษัท

ข้าพเจ้าเห็นว่าขึ้นอยู่กับเหตุการณ์ในอนาคตที่จะแสดงถึงความถูกต้องของข้อ
สมมติฐานตามแผนการดำเนินงานของกิจการ งบการเงิน.....

ง) ออกรายงานแบบไม่แสดงความเห็น

บริษัทประสบปัญหาการขาดทุนต่อเนื่อง มีส่วนของผู้ถือหุ้นติดลบ และไม่สามารถจ่ายชำระหนี้ได้ตามปกติ ปีจ่ายต่าง ๆ แสดงถึงความไม่แน่นอนที่สำคัญ ซึ่งอาจทำให้เกิด ข้อสงสัยอย่างมากเกี่ยวกับความสามารถในการดำเนินงานต่อเนื่องของกิจการ งบการเงินนี้ทำขึ้นภายใต้ข้อสมมติฐานว่าบริษัทจะดำเนินงานต่อเนื่อง จึงไม่ได้ปรับปรุงมูลค่า และจัดประเภทรายการสินทรัพย์และหนี้สินที่อาจจำเป็น หากกิจการไม่สามารถดำเนินงานต่อเนื่อง

เนื่องจากผลของความไม่แน่นอนเกี่ยวกับปัญหาต่อการดำเนินงานต่อเนื่องของกิจการ ตามที่กล่าวไว้ในวรรคก่อนอาจมีผลอย่างมากต่อฐานะการเงินและผลการดำเนินงานของกิจการ ข้าพเจ้าจึงไม่แสดงความเห็นต่องบการเงินสำหรับปีสิ้นสุดวันที่.....

กรุณาวางกลมล้อมรอบความเห็นของท่าน ก) ข) ค1) ค2) ง)

ความเห็นอื่น (ถ้ามี)

.....
.....

สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

APPENDIX C : Case Study in English

ABC Public Company is the manufacturer and trader of consumer products to sell to domestic and partly to foreign market. There are many small accounts receivable. This year is the first year you audit this Company. Last year, its financial statements audited by other auditors and reported unqualified opinion on his auditor's report with emphasis paragraph in relation to its going concern. The auditor has requested to review working papers from the previous auditor and satisfactorily proved for the balance brought forward. After finished audit fieldworks, assistance to auditor has concluded the audit results and drafted auditor's report for auditor to consider in 3 situations below. Please determine what type of auditor's report should be in each situation.

Situation 1 Allowance for doubtful accounts

The Company has provided allowance for doubtful accounts classified by aging. Debtors with outstanding over than 6 months will be provided for 50% and debtors with outstanding over than 12 months will be provided for 100%. In addition, there will be extra provision for certain debtors if considered to be doubtful of loss although their outstanding is not over than 6 months, for example, in case of those debtors have default its loans to other creditors but still be able to meet the schedule with the Company.

However, assistances to auditor have studied the past information and found that the Company has written off bad debt during the year in significant amount. Those written-off debtors has no provision for allowance for doubtful accounts in previous years. They also view that the allowance for doubtful accounts for this year may not be sufficient and additional allowance in material amount may be required.

What type of auditor's report should be?

- A) Unqualified opinion
- B) Unqualified opinion with emphasis paragraph

“Without qualifying our opinion, as described in note..... We draw attention to the sufficiency of allowance for doubtful accounts which is based on the economics and the ability to service the debts in the future”

C) Qualified opinion by scope restriction as follow. (Please identify C-1 or C-2)

C-1) by management

C-2) by circumstance

“As discussed in note.....the Company’s allowance for doubtful account may not be sufficient. However, we cannot perform audit to satisfy the sufficiency of allowance for doubtful accounts because.....and we cannot find other audit evidence to conclude on such sufficiency.

In our opinion, except for the effect of the adjustments (if any) if we can audit the allowance for doubtful accounts as described in the above paragraph.....

D) Qualified opinion by not compliance with generally accepted accounting principles (GAAP).

“As discussed in note....., the Company does not sufficiently provide for allowance for doubtful accounts which is not in accordance with generally accepted accounting principles. The effect of this allowance to the financial statements cannot be determined.

In our opinion, except for.....

Situation 2 Impairment of assets

The Company has a vacant plot of land which is recorded at cost and presented as investment in property. Those land has bought during the real estate market was peak and the price was at the very high level. The amount of those land is material to the financial statements. The Company engages two valuation appraisers which are in the lists of the Security and Exchange Commission (SEC) approval. One of the

appraiser reports higher value than the other and no impairment noted. However, the other appraiser reports lower value and the impairment should be accounted for. Both appraisers use the same approach, market approach, in valuation. The Company chooses the higher value and not records allowance for impairment. The Company decides not to engage the third appraiser because it view that it is unnecessary to spend more money on this issue.

What type of auditor's report should be?

- A) Unqualified opinion
- B) Unqualified opinion with emphasis paragraph

"Without qualifying our opinion, as discussed in note....., the Company engages two appraisers to value vacant land. One of the appraiser reports value with no impairment but the other reports value that caused impairment. The Company does not provide allowance for impairment on that vacant land by using the higher value from one appraiser"

- C) Qualified opinion by scope restriction as follow (please identify C-1 or C-2)
 - C-1) by management
 - C-2) by circumstance

As discussed in note....., the Company engages two appraisers to value vacant land. One of the appraiser reports value with no impairment but the other reports value that caused impairment. The Company does not provide allowance for impairment from those vacant lands due to inconsistency of those valuations. The auditor is unable to satisfy with the value of such vacant land and unable to find other audit evidence to satisfy with the recoverable amount of such vacant land.

- D) Qualified opinion by not compliance with generally accepted accounting principles (GAAP).

As discussed in note....., the Company engages two appraisers to value vacant land. One of the appraiser reports value with no impairment but the other reports value that caused impairment. The Company does not provide allowance for impairment which is not in compliance with the principles of conservatism and not in conformity with generally accepted accounting principles. If the Company follow the second appraiser, it will be affected on the vacant land balance decrease in the amount of.....Baht, and net income decrease in the amount of.....Baht, earnings per share decrease in the amount ofBaht per share.

Situation 3 Going concern

The Company has loss from operation continued since 1997 after devaluation of Baht currency. The Company also has accumulated deficits and negative balance of shareholders' equity; Current ratio is 1.2; 90% of long-term loans come from loans from financial institutes, the remaining come from loans from related parties; loans from financial institutes are guaranteed by the Company's property, plant and equipment. During the year, the Company starts not being able to service its debts as normal. There is a debt covenance that allow the lenders to call back all their principals immediately. Therefore, the Company classifies long-term loans to be loans in current liabilities.

The Company is in the process of negotiation with the lenders for debts restructuring which normally the financial institutes allow to have debt restructured by extending their term of payments.

The Company opines that the debt restructuring would be succeed and the future operations of the Company could be able to meet the payment schedule after debt restructuring. The loans from related parties can be negotiated to repay after paying to the financial institutes. The Company has prepared 10-year plan as supporting documents. Such plan consists of many assumptions.

What type of auditor's report should be?

A) Unqualified opinion as the current situation is better than those of last year.

B) Unqualified opinion with emphasis paragraph.

“Without qualifying our opinion, as discussed in note....., the Company faces continuing losses and has negative balance of shareholders’ equity. These factors lead to significant uncertainty and substantial doubt about the company’s ability to continue as a going concern. However, the Company is in the process of negotiation for debt restructuring and expects to be able to continue as a going concern. This financial statement is prepared using the assumption that the Company will continue as a going concern. If the Company is unable to continue as a going concern, the adjustment of the amount and classification of asset and liabilities may be necessary.

C) Qualified opinion by scope restriction as follows (Please identify (C-1 or C-2)

C-1) by management

C-2) by circumstance

The Company faces continuing losses and has negative balance of shareholders’ equity that causes substantial doubt about the Company’s ability to continue as a going concern. However, the Company is in the process of negotiation for debt restructuring, and the procedure plan shows that the Company is able to continue as a going concern. Such plan is based on a lot of assumptions. This financial statement is prepared under those assumptions that we are unable to audit to satisfy with such assumptions and unable to find other evidence to support the Company ability to continue as a going concern.

In our opinion, subject to the future circumstance that will conclude to the correctness of the assumption of the operation plan of the Company, the financial statements.....

D) Disclaimer

The Company faces continuing losses and has negative balance of shareholders’ equity and unable to service usual debt payment. These factors lead to significant uncertainty and substantial doubt about the company’s ability to continue as

a going concern. This financial statement is prepared using the assumption that the Company will continue as a going concern. If the Company is unable to continue as a going concern, the adjustment of the amount and classification of asset and liabilities may be necessary.

Because the effect of uncertainty due to the Company continuous a going concern, as discussed in the above paragraph, has substantial impact on the financial position and the results of operation of the Company, We are unable to provide opinion on.....



สถาบันวิทยบริการ
จุฬาลงกรณ์มหาวิทยาลัย

APPENDIX D : DIT Questionnaires in Thai

ระยะเวลาในการตอบแบบสอบถาม.....นาที

ความคิดเห็นเกี่ยวกับปัญหาทางสังคม

แบบสอบถามที่แนบมา มีจุดประสงค์เพื่อความเข้าใจเกี่ยวกับความคิดของแต่ละคนต่อปัญหาทางสังคม แต่ละคนจะมีความคิดเห็นที่แตกต่างกัน ไม่มีคำตอบที่ถูกต้องในเรื่องราวต่าง ๆ นี้ อยากรู้ให้ท่านช่วยแสดงความคิดเห็นของท่านเกี่ยวกับปัญหาต่าง ๆ คำตอบต่าง ๆ จะเป็นความลับ จะไม่มีใครทราบคำตอบของท่าน

ชื่อ _____ เพศ _____

การศึกษา _____ อายุ _____

ประสบการณ์การทำงาน _____ ปี

คำแนะนำสำหรับส่วนที่ 1

เลือก 1 ช่อง ทางด้านซ้ายมือของแต่ละหัวข้อ ตามที่ท่านคิดว่าแต่ละหัวข้อมีความสำคัญอย่างไร

คำแนะนำสำหรับส่วนที่ 2

จากหัวข้อข้างบน ทั้ง 12 ข้อ เลือก 4 ข้อที่ท่านคิดว่าสำคัญที่สุด อันดับ 1 2 3 และ 4

Newspaper

Fred เป็นนักเรียนในชั้นมัธยมปลาย ต้องการที่จะพิมพ์หนังสือพิมพ์สำหรับนักเรียน เพื่อที่เขาจะได้นำเสนอความคิดเห็นหลากหลายของเขา เขาต้องการพูดถึงสงครามในเวียดนาม และต้องการที่จะเผยแพร่บางอย่างเกี่ยวกับกฎของโรงเรียน เช่น กรณีที่ห้ามเด็กผู้ชายไว้ผมยาว

เมื่อ Fred เริ่มต้นทำหนังสือพิมพ์ของเขา เขาขออนุญาตอาจารย์ใหญ่ อาจารย์ใหญ่ได้บอกว่าจะตกลงถ้าหากก่อนที่จะมีการเผยแพร่ในทุก ๆ เล่ม Fred จะต้องนำบทความทุกอย่างของเขาให้อาจารย์ใหญ่ออนุมัติ Fred ตกผลงและได้นำเสนอทุกบทความให้แก่อาจารย์ใหญ่เพื่ออนุมัติ อาจารย์ใหญ่ออนุมัติทุกบทความ และ Fred เผยแพร่บทความในหนังสือพิมพ์ 2 ฉบับสำหรับ 2 อาทิตย์ถัดไป

ทว่าอาจารย์ใหญ่ไม่คาดว่าหนังสือพิมพ์ของ Fred จะได้รับความสนใจอย่างมาก นักเรียนมีความสนใจและมีความตื่นเต้นโดยเริ่มต้นที่จะประท้วงเกี่ยวกับกฎของการไว้ผม และกฎอื่นของโรงเรียน ผู้ปกครองหลายคนโกรธและต่อต้านความเห็นของ Fred พวกเขาโทรศัพท์มายังอาจารย์และบอกว่าหนังสือพิมพ์นี้ไม่ควรได้รับการเผยแพร่ ผลจากความวุ่นวายที่เกิดขึ้น อาจารย์ใหญ่สั่งให้ Fred เลิกพิมพ์หนังสือพิมพ์นี้ โดยให้เหตุผลว่ากิจกรรมของ Fred ก่อให้เกิดความวุ่นวายต่อการดำเนินงานของโรงเรียน

อาจารย์ใหญ่ควรจะสั่งให้หยุดเผยแพร่หนังสือพิมพ์หรือไม่? (เลือก 1 ข้อ)

_____ ควรหยุด

_____ ไม่สามารถตัดสินใจ

_____ ไม่ควรหยุด

ให้ทำวิเคราะห์ความสำคัญในแต่ละข้อต่อไปนี้

มากที่สุด	มาก	ปานกลาง	น้อย	ไม่สำคัญ

1. อาจารย์ใหญ่ควรมีความรับผิดชอบต่อนักเรียนหรือต่อผู้ปกครองมากกว่ากัน?
2. อาจารย์ใหญ่ได้บอกหรือไม่ว่าหนังสือพิมพ์สามารถเผยแพร่ได้ในระยะยาวหรือเขาได้สัญญาว่าจะอนุมัติหนังสือพิมพ์ครั้งละ 1 เล่ม?
3. นักเรียนจะประท้วงมากขึ้นหรือไม่ ถ้าอาจารย์ใหญ่สั่งให้หยุดเผยแพร่หนังสือพิมพ์?
4. เมื่อความสงบสุขของโรงเรียนถูกคุกคาม อาจารย์ใหญ่ ควรมีสิทธิที่จะสั่งนักเรียนไว้หรือไม่?
5. อาจารย์ใหญ่มีสิทธิ์ที่จะพูดว่าไม่ ในกรณีนี้หรือไม่?
6. ถ้าอาจารย์ใหญ่ยกเลิกหนังสือพิมพ์ เขาได้ชี้แจงการพูดคุยอย่างเต็มที่ถึงปัญหาสำคัญหรือไม่?
7. คำสั่งอาจารย์ใหญ่จะทำให้ Fred ขาดความศรัทธาในอาจารย์ใหญ่หรือไม่?
8. Fred มีความจงรักภักดีต่อโรงเรียน และมีความรักชาติของเขาหรือไม่?
9. ผลกระทบอะไรที่การหยุดบทความ มีต่อการศึกษาของนักเรียนในด้านความคิดเห็นและดุลยพินิจในเรื่องการวิพากวิจารณ์?
10. Fred ละเมิดสิทธิของคนอื่นหรือไม่ในการเผยแพร่ความคิดเห็นส่วนตัวของเขา?
11. อาจารย์ใหญ่ ควรจะได้รับผลกระทบจากผู้ปกครองที่โกรธหรือไม่ เนื่องจากอาจารย์ใหญ่เป็นผู้ที่รู้ดีที่สุดว่าจะเกิดขึ้นที่โรงเรียน?
12. Fred ได้ใช้หนังสือพิมพ์ในการปลุกให้เกิดความเกลียดชังและความไม่พอใจหรือไม่?

จากหัวข้อข้างบน เลือก 4 ข้อที่สำคัญที่สุด

_____ สำคัญมากที่สุด _____ สำคัญมากเป็นลำดับ 2 _____ สำคัญมากเป็นลำดับ 3 _____ สำคัญมากเป็นลำดับ 4

Escaped Prisoner

ผู้ชายคนหนึ่งถูกตัดสินจำคุกเป็นเวลา 10 ปี หลังจากที่ถูกคุมขังไปแล้ว 1 ปี ผู้ชายคนนี้นั้นหนีออกมาจากคุก ย้ายไปอยู่ในพื้นที่ใหม่ของประเทศ และใช้ชื่อใหม่ว่า Thompson 8 ปีต่อมา เขาทำงานหนักและค่อย ๆ เก็บเงินได้เพียงพอที่จะซื้อธุรกิจเป็นของตนเอง เขามีความมั่งคั่งต่อลูกค้า ให้เงินเดือนพนักงานด้วยค่าจ้างสูงสุด และบริจาคกำไรส่วนใหญ่แก่การกุศล ต่อมาวันหนึ่ง Mrs. Jones เพื่อนบ้านเก่าแก่ของผู้ชายคนนี้ จดจำได้ว่าเขาเคยหนีออกจากคุกเมื่อ 8 ปีมาแล้ว และเป็นบุคคลที่ ตำรวจกำลังต้องการตัว

Mrs. Jones ควรจะแจ้งตำรวจให้จับ Mr. Thompson หรือไม่ และให้ตำรวจส่งเขากลับไปติดคุกใหม่หรือไม่? (เลือก 1 ข้อ)

_____ ควรแจ้งตำรวจ _____ ไม่สามารถตัดสินใจ _____ ไม่ควรแจ้งตำรวจ

ให้ท่านวิเคราะห์ความสำคัญในแต่ละข้อต่อไปนี้

มากที่สุด	มาก	ปานกลาง	น้อย	ไม่สำคัญ	
					1. Mr. Thompson เป็นคนดีตลอดระยะเวลายาวนาน เพื่อพิสูจน์ว่าเขาไม่ใช่คนเลว ยังไม่เพียงพอหรือ?
					2. ทุก ๆ ครั้งที่มีคนหนีจากการถูกลงโทษจากคดีอาญา จะกระตุ้นให้เกิดคดีมากขึ้นใช้หรือไม่?
					3. จะไม่เป็นการดีกว่าหรือที่เราไม่ต้องมีคุก และหนักใจกับระบบกฎหมายของเรา?
					4. Mr. Thompson ได้ชดใช้หนี้ให้กับสังคมแล้วหรือไม่?
					5. สังคมเพิกเฉยหรือไม่ว่า Mr. Thompson ควรจะเป็นอย่างไร?
					6. อะไรเป็นประโยชน์ที่นักโทษควรอยู่ห่างจากสังคมโดยเฉพาะอย่างยิ่งสำหรับนักสังคมสงเคราะห์?
					7. เป็นไปได้อย่างไรที่ทุกคนจะโหดร้าย และไม่มีความตั้งใจที่จะส่ง Mr. Thompson ไปเข้าคุก?
					8. เป็นการยุติธรรมสำหรับนักโทษทุกคนใช้หรือไม่ที่ควรจะได้รับรางวัลจูงใจไปตลอดคดีตัดสิน ถ้าหาก Mr. Thompson ถูกปล่อยตัว?
					9. Mrs. Jones เป็นเพื่อนที่ติด Mr. Thompson ใช่หรือไม่?
					10. มันเป็นเรื่องของคนในชาติใช้หรือไม่ที่ควรจะรายงานการหลบหนีจากคดีอาญา โดยไม่ต้องคำนึงถึงสถานการณ์ใด ๆ?
					11. ความตั้งใจของคนและสังคมที่จะให้มีสิ่งที่ดีที่สุดควรจะได้รับดูแลอย่างไร?
					12. การกลับไปเข้าคุกจะดีอย่างไรสำหรับ Mr. Thompson หรือปกป้องใครบางคนหรือไม่?

จากหัวข้อข้างบน เลือก 4 ข้อที่สำคัญที่สุด

_____ สำคัญมากที่สุด _____ สำคัญมากเป็นลำดับ 2 _____ สำคัญมากเป็นลำดับ 3 _____ สำคัญมากเป็นลำดับ 4

Heinz and the Drug

ในยุโรปมีผู้หญิงคนหนึ่งเกือบจะใกล้ตายจากโรคมะเร็งชนิดหนึ่ง มียาอยู่หนึ่งชนิดที่หมอบอกว่าอาจช่วยชีวิตเธอได้ มันอยู่ในรูปแบบของเรเดียม (radium) ที่คนขายยาในเมืองเดียวกันได้ค้นพบขึ้นมาเมื่อเร็ว ๆ นี้ ยาชนิดนี้แพง แต่คนขายยาคิดค่ายา 10 เท่าจากต้นทุนยาที่ผลิตจริง เขาจ่าย \$200 สำหรับค่า radium และคิด \$2000 สำหรับยาเม็ดเล็ก ๆ หนึ่งเม็ด Heinz สามีของผู้ป่วย ไปพบทุก ๆ คนที่รู้จักเพื่อที่จะขอยืมเงินแต่เขาสามารถรวบรวมได้เพียง \$1000 ซึ่งเป็นจำนวนเพียงครึ่งเดียวของราคาค่ายา เขาบอกกับคนขายยารว่าภรรยาของเขา กำลังจะตาย และขอร้องคนขายยาให้ขายลูกงหรือยอมให้จ่ายเงินภายหลัง แต่คนขายยาตอบว่า “ไม่ได้ ฉันค้นพบยาและฉันต้องการทำรายได้จากยาตัวนี้” ดังนั้น Heinz รู้สึกหมดหวัง และเริ่มที่จะคิดที่จะเข้าไปในร้านของผู้ชายคนนี้ เพื่อขโมยยาให้กับภรรยาของเขา

Heinz ควรขโมยยาหรือไม่? (เลือก 1 ข้อ)

_____ ควรขโมย _____ ไม่สามารถตัดสินใจ _____ ไม่ควรขโมย

ให้ทำหน้าวิเคราะห์ความสำคัญในแต่ละข้อต่อไปนี้

มากที่สุด	มาก	ปานกลาง	น้อย	ไม่สำคัญ	
					1. กฎหมายในสังคมควรจะได้รับการยกระดับหรือไม่?
					2. มันเป็นเรื่องธรรมดาใช้หรือไม่สำหรับสามีที่รักที่จะภรรยาจนทำให้ต้องขโมยยา?
					3. Heinz เต็มใจที่จะเสี่ยงที่อาจจะถูกยิง เนื่องจากเข้าไปขโมยยาตอนกลางคืน หรือมีโอกาสติดคุกสำหรับการเข้าไปขโมยยาที่อาจจะช่วยภรรยาได้หรือไม่?
					4. Heinz เป็นนักหีบขมอยมืออาชีพ (professional wrestler) หรือถูกชักจูงอย่างสมเหตุสมผลให้เป็นนักหีบขมอยมืออาชีพ (professional wrestler)
					5. Heinz ขโมยสำหรับตัวเขาเองหรือทำทุกอย่างเพียงเพื่อช่วยเหลือคนอื่น?
					6. สิทธิของคนขายยาในการคิดค้น ควรได้รับการยอมรับหรือไม่?
					7. จุดสำคัญของการมีชีวิตอยู่ มีความกว้างขวางกว่าการยุติการตาย การอยู่ร่วมในสังคม และการเป็นตัวของตัวเองหรือไม่?
					8. อะไรเป็นคุณค่าที่ควรจะเป็นสำหรับหลักสำคัญในการปกครองให้แต่ละคนปฏิบัติต่อกัน?
					9. คนขายยากำลังจะยอมให้เป็นคนใจแคบภายใต้กฎหมายที่เหลวไหล (worthless) ซึ่งอย่างไรก็ตามจะปกป้องแต่คนรวย
					10. กฎหมายในกรณีนี้กำลังจะเป็นสิทธิเรียกร้องขั้นพื้นฐานที่สำคัญที่สุดสำหรับสมาชิกในสังคมหรือไม่?
					11. คนขายยาควรจะถูกขโมยหรือไม่ในการที่เป็นคนที่โลกและโหดร้าย?
					12. การขโมยในกรณีนี้เป็นสิ่งที่ดีสำหรับสังคมโดยรวมหรือไม่?

จากหัวข้อข้างบน เลือก 4 ข้อที่สำคัญที่สุด

_____ สำคัญมากที่สุด _____ สำคัญมากเป็นลำดับ 2 _____ สำคัญมากเป็นลำดับ 3 _____ สำคัญมากเป็นลำดับ 4

APPENDIX E : DIT Questionnaires in English

1. HEINZ AND THE DRUG

In Europe a woman was near death from a special kind of cancer. There was one drug that the doctors thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug cost to make. He paid \$200 for the radium and charged \$2000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about \$1000, which is half of what it cost. He told the druggist that his wife was dying, and asked him to sell it cheaper or let him pay later. But the druggist said, "No. I discovered the drug and I'm going to make money from it". So Heinz got desperate and began to think about breaking into the man's store to steal the drug for his wife.

Should Heinz steal the drug? (Check one)

_____ Should steal it _____ Can't decide _____ Should not steal it

IMPORTANCE:

Great	Much	Some	Little	No	
					1. Whether a community's laws are going to be upheld.
					2. Isn't it only natural for a loving husband to care so much for his wife that he'd steal?
					3. Is Heinz willing to risk getting shot as a burglar or going to jail for the chance that stealing the drug might help?
					4. Whether Heinz is a professional wrestler, or has considerable influence with professional wrestlers.
					5. Whether Heinz is stealing for himself or doing this solely to help someone else.
					6. Whether the druggist's rights to his invention have to be respected.
					7. Whether the essence of living is more encompassing than the termination of dying, socially and individually.
					8. What values are going to be the basis for governing how people act towards each other.
					9. Whether the druggist is going to be allowed to hide behind a worthless law which only protects the rich anyhow.
					10. Whether the law in this case is getting in the way of the most basic claim of any member of society.
					11. Whether the druggist deserves to be robbed for being so greedy and cruel.
					12. Would stealing in such a case bring about more total good for the whole society or not.

From the list of questions above, select the four most important:

MOST IMPORTANT _____
 SECOND MOST IMPORTANT _____
 THIRD MOST IMPORTANT _____
 FOURTH MOST IMPORTANT _____

2. ESCAPED PRISONER

A man had been sentenced to prison for 10 years. After one year, however, he escaped from prison, moved to a new area of the country, and took on the name of Thompson, For 8 years he worked hard, and gradually the saved enough money to buy his own business. He was fair to his customers, gave his employees top wages, and gave most of his own profits to charity, Then one day, Mrs. Jones, an old neighbor, recognized him as the man who had escaped from prison 8 years before, and whom the police had been looking for.

Should Mrs. Jones report Mr. Thompson to the police and have him sent back to prison? (Check one)

_____ Should report him _____ Can't decide _____ Should not report him

IMPORTANCE:

Great	Much	Some	Little	No	
					1. Hasn't Mr. Thompson been good enough for such a long time to prove he isn't a bad person?
					2. Everytime someone escapes punishment for a crime, doesn't that just encourage more crime?
					3. Wouldn't we be better off without prisons and the oppression of our legal systems?
					4. Has Mr. Thompson really paid his dept to society?
					5. Would society be failing what Mr. Thompson should fairly expect?
					6. What benefits would prisons be apart from society, especially for a charitable man?
					7. How could anyone be so cruel and heartless as to send Mr. Thompson to prison?
					8. Would it be fair to all the prisoners who had to serve out their full sentences if Mr. Thompson was let off?
					9. Was Mrs. Jones a good friend of Mr. Thompson?
					10. Wouldn't it be a citizen's duty to report an escaped criminal, regardless of the circumstances?
					11. How would the will of the people and the public good best be served?
					12. Would going to prison do any good for Mr. Thompson or protect anybody?

From the list of questions above, select the four most important:

- MOST IMPORTANT _____
- SECOND MOST IMPORTANT _____
- THIRD MOST IMPORTANT _____
- FOURTH MOST IMPORTANT _____

3. NEWSPAPER

Fred, a senior in high school, wanted to publish a mimeographed newspaper for students so that he could express many of his opinions. He wanted to speak out against the war in Viet Nam and to speak out against some of the school's rules, like the rule forbidding boys to wear long hair.

When Fred started his newspaper, he asked his principal for permission. The principal said it would be all right if before every publication Fred would turn in all his articles for the principal's approval. Fred agreed and turned in several articles for approval. The principal approved all of them and Fred published two issues of the paper in the next two weeks.

But the principal had not expected that Fred's newspaper would receive so much attention. Students were so excited by the paper that they began to organize protests against the hair regulation and other school rules. Angry parents objected to Fred's opinions. They phoned the principal telling him that the newspaper was unpatriotic and should not be published. As a result of the rising excitement, the principal ordered Fred to stop publishing. He gave as a reason that Fred's activities were disruptive to the operation of the school.

Should the principal stop the newspaper? (Check one)

_____ Should stop it _____ Can't decide _____ Should not stop it

IMPORTANCE:

Great	Much	Some	Little	No

1. Is the principal more responsible to students or to the parents?
2. Did the principal give his word that the newspaper could be published for a long time, or did he just promise to approve the newspaper one issue at a time?
3. Would the students start protesting even more if the principal stopped the newspaper?
4. When the welfare of the school is threatened, does the principal have the right to give orders to students?
5. Does the principal have the freedom of speech to say "no" in this case?
6. If the principal stopped the newspaper would he be preventing full discussion of important problems?
7. Whether the principal's order would make Fred lose faith in the principal.
8. Whether Fred was really loyal to his school and patriotic to his country.
9. What effect would stopping the paper have on the student's education in critical thinking and judgments?
10. Whether Fred was in any way violating the rights of others in publishing his own opinions.
11. Whether the principal should be influenced by some angry parents when it is the principal that knows best what is going on in the school.
12. Whether Fred was using the newspaper to stir up hatred and discontent.

From the list of questions above, select the four most important:

MOST IMPORTANT _____
 SECOND MOST IMPORTANT _____
 THIRD MOST IMPORTANT _____
 FOURTH MOST IMPORTANT _____

BIOGRAPHY

Junyaporn Techamontrikul was born on December 31st, 1961 in Bangkok, Thailand. She received her Bachelor of Accountancy in 1983 from Chulalongkorn University. She later obtained her Master of Business Administration in 1987 from Middle Tennessee State University, USA, and Master's Degree in Accountancy in 2002 from Chulalongkorn University.

She had experience working in the area of marketing and advertising with Lintas advertising agency as a Vice President until December 1998 before changing to auditing area. She has been working with United Auditing PKF as an audit partner since 1999 and was approved by Thai SEC as qualified auditor in 2003.



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