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FACTORS INFLUENCING VOLUNTARY AUDIT AMONG SMALL AND MEDIUM ENTERPRISES: THE MALAYSIAN EVIDENCE

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ABSTRACT

In Malaysia, the Small and Medium Enterprises (SMEs) are encouraged to get their financial statements audited although such practice is on a voluntary basis. This study examined the voluntary practices of the SMEs in getting their financial statements audited. Specifically, this study examined the factors influencing the voluntary audit among the SMES. Three factors were chosen namely, improved quality of financial statements, managerial ownership and managers' perception towards voluntary audit. Using a questionnaire as the research instrument on 70 SMEs, the results showed that managerial ownership and managers' perception towards voluntary audit influence the SMEs to get their financial statements audited. However, the results showed that there is a negative relationship of the improvement quality of financial statements towards voluntary audits among the SMEs. The findings provide further understanding on the SMEs' action in willingness to adopt one practice. In addition, this study also provides valuable information to the Malaysian regulatory and professional accounting bodies in their debates on providing audit exemption for the SMEs in Malaysia.

Contribution/Originality: This study contributes to the existing literature by examining the voluntary practices of the SMEs in getting their financial statements audited.

1. INTRODUCTION

The new Companies Act 2016 stipulates that SMES be exempted from being audited has bring a significant relief to the SMEs since they opine that it is unnecessary for their financial statements to be audited. The SME's ownership and management of the company's assets are often vested on the same person and hence, appears to be meaningless for an auditor to report to the shareholders that the directors (who are also the shareholders) have produced a true and fair picture of the financial statement of the business which would then be a great waste of money and resources (Salleh *et al.*, 2008). However despite the exemption being given, there is a growing demand by few SMEs to voluntary audit their financial statements (Kim *et al.*, 2010) since an audit provides an intrinsic value of stem in unregulated environment and sends a positive signal to the public. In addition, unaudited financial statements will increase difficulties in getting loan financing and extend the credit liability (Tabone and Baldacchino, 2003).

According to the MIA News in 2017, audited financial statements would enhance a company's ability to obtain financing and builds public confidence towards the integrity of financial statements. However, often, owners or managers of SMEs do not know how to prepare financial statements and keep proper data and figures (Kim *et al.*, 2010). Consequently, the SMEs are unable to carry out the accounting functions internally due to inadequate knowledge and resources. On top of that, the owners of SMEs often focus on their core business, and therefore, appoint managers in helping them to manage their daily operation and accounting records which may result to agency problems. Niskanen *et al.* (2011) opined that SMEs usually attempt to mitigate these agency problems by doing voluntary audits. The demand for auditing is attributed to its monitoring role, which enhances the credibility of financial information. Thus, this has led to the SME owners voluntarily auditing their financial statements even in an unregulated setting (Carey *et al.*, 2000; Kaur and Kurt, 2008).

This study examined the factors the factors influencing the voluntary audit among the SMES. The findings provided further understanding on the reasons as to why the SMEs are willing to get their financial statements audited. The remainder of this paper is organized as follows. Section 2 reviews related literature. This is followed by the research method in Section 3. The empirical results and discussions are presented in Section 4. The final section concludes the paper which includes suggestions for future research.

2. LITERATURE REVIEW

SMEs play a vital role in the Malaysia economy and are the backbone of industrial development in the country. SME can be categorized into micro, small or medium business enterprise depending on the amount of sales or number of fulltime employees. According to the Department of Statistics Malaysia (2018) SMEs in Malaysia have shown a strong growth of 7.2% which has exceeded the Malaysia GDP that was registered at 5.9% in 2017. This shows that many SMEs have raised their skill and exposure to penetrate their market or the export market.

The SMEs can be categorized into agriculture, services, manufacturing, mining and quarrying and construction. The prime movers for SMEs were the services and manufacturing and these sectors underpinned the expansion of GDP in 2017. However, most SMEs are managed by their owners which depend on internal sources of capital to finance growth. The SMEs often struggle in maintaining book keeping and management accounts (Cox, 1992) leading to the vulnerability of management accounts due to owners being more vigilant about performance and running businesses (Ghani *et al.*, 2019). According to Jensen and Meckling (1976) owners that manage wholly-owned firms will make operating decisions to maximise utilities rather than manage the financial statements. This is because as the shareholders and directors are the same people it can seem meaningless for the auditors to report that the financial statement has been prepared according to the accounting standards or stated at true and fair view (Salleh *et al.*, 2008).

To improve good accounting practices, it must start with proper recording of bookkeeping of the company. The level of awareness on financial management among the SMEs is still considered low whereby the managers practice poor management in keeping accounting records, which could be attributed to the absence of statutory requirement for the SMEs financial information to be publicly disclosed (Mohd *et al.*, 2017). Since accounting has become the way companies measure their performance, auditing has become increasingly important in verifying that the financial statements have been appropriately prepared. Audits are still perceived as a valuable service since it signifies the quality of the process as it conducted in a professional manner involving fair judgments by a trustworthy person. Thus, this created a demanded by SMEs to conduct voluntary audits for their companies (Lee and Ali, 2008).

Studies have also shown that there are factors that influence the SMEs to practice voluntary audits. One of the factors is the improved quality of financial statements. In general, SMEs have limited financial resources and banks are less likely to provide a loan without reasonable assurance and do prefer credible audited financial statements by independent auditors. For example: Gahman and Ali (2015) examined the internal control system, audit evidence and compliance with accounting standards in SMEs. They used 65 auditing firms in Mombasa. They have also used the structured questionnaires and content analysis. They found that the effectiveness of internal control systems helps external auditors to rely on the work of internal auditors and improve their effectiveness. For audit evidence, they found that the auditors tended to collect more evidence when they found high-risk in balance accounts. The findings also showed that correlation existed between the variables. Similarly, Ezeagba (2017) also conducted a study of financial statement reporting in SMEs in Nigeria. He found that the challenges facing SMEs in adopting effective financial statements and poor credit facilities to SME contribute to inadequate accounting records. This study hypothesizes that SMEs that have limited financial resources prefer to get their financial statements audited by independent auditors. Hence, the following hypothesis was proposed:

H1: Improved quality of financial statement significantly influences voluntary audit of financial statements among the SMEs in Malaysia.

Studies have also examined the effect of managerial ownership on voluntary audits among SMEs (such as Mustapha *et al.* (2015)). Mustapha et al. conducted a study to determine whether the managerial ownership of small businesses influenced voluntary audits from the agency theory perspective. They used the mediating variable with managerial ownership at less than 50% shareholdings and more than 50% shareholdings. They found out that SMEs with lower managerial ownership have a significantly higher demand for voluntary audits (mean score=3.0126) than those SMEs that have high managerial ownership (mean score=2.4898). This result may be explained by the fact that Malaysian SMEs are concentrated and actively managed by their owners, and when the shareholders and directors are the same people, it appears that there is no meaning for auditors to report to shareholders. Other studies found that the owner-managers characteristic is one of the influential factors in the supplying of accounting and audit services (Adeyemi *et al.*, 2015). Their study showed that the fear of audits is an inhibitive factor to not practicing audits.

Research conducted by Haapamäki (2018) discovered that there was a significant strong relationship between management ownership and voluntary audits. Similar findings were found in Engku *et al.* (2012) that showed management ownership as significant in order to have separation of ownership and controller and need to be independent to evaluate the financial statements of companies. However, according to Salleh *et al.* (2008) if the shareholders and directors are the same people, it appears that there is no meaning for the auditors to report to the shareholders that the directors and the management have prepared the annual financial statement in a true and fair view. Owners of business have direct control over the day-to-day management and financial statements are being prepared either by them or under their direct supervision. Hence, following hypothesis was proposed:

H2: Managerial ownership significantly influences voluntary audit of financial statements among the SME in Malaysia.

Another body of the audit literature has also examined the effect of managers' perception of the importance of audited financial statements on SMEs. Marriott and Marriott (2000) found out that financial awareness among the managers of SMEs varies considerably. In their discussion paper, managers that do not have sufficient accounting knowledge will often pass the accounting function to other departments. Thus, the manager must have an adequate knowledge in financial matters or it may bring serious consequences to the financial stability of the SMEs. Chakraborty (2015) suggested that managers of SMEs often take inaccurate information and make clumsy decisions regarding investment, credit and operations. Since the managers of SMEs have to make decisions, they should know the quality accounting information and strategic business decisions of SMEs. In his study, he found that SMEs have very poor accounting monitoring due to the managers having no accounting background. Of consequence, it is necessary to further investigate the managers' intention in utilizing the accounting knowledge prior to making decision. Hence, the following hypothesis was proposed:

H3: Managers' perception towards audited financial statement significantly influences voluntary audit among the SMEs in Malaysia.

3. RESEARCH DESIGN

3.1. Sample Selection

The SMEs located in Kuala Lumpur and Selangor regions were selected as the sample study. The targeted respondents were from several of business that could generally be classified into manufacturer, services, agriculture, automotive, logistic and general trading which focused on SMEs business portfolio. These selections of respondents were in line with the survey conducted by Collins (2003) and Mustapha and Yaen (2013).

3.2. Research Instrument

The research instrument used in this study is the questionnaire survey. The questionnaire comprised of five parts. The first part of the questionnaire required the respondents to provide their demographic information such as gender, age, working experience, tenure of working at the particular company and education. This was then followed by all four variables studied in this research which were the improvement quality of financial statements of SMEs, effect of managerial ownership, perception of managers and influence factor in voluntary audits of SMEs.

The second part of the questionnaire required the respondents to provide their perception on the quality improving of financial statements and this second part intended to measure the improvement of financial statements prior to being audited and after being audited. There were six questions asked in this part. This part used a five point scale from '1' as strongly disagree to '5' as strongly agree.

The third part of the questionnaire required the respondents to provide their perception on effect of managerial ownership on the voluntarily audit in SMEs. There were six questions asked in this part. This part used a five point scale from '1' as strongly disagree to '5' as strongly agree.

The fourth part required the respondents to provide their perception on whether their existing managers were lacking or rebelled when companies decided to have voluntary audits. There were six questions asked in this part. This part used a five point scale from '1' as strongly disagree to '5' as strongly agree.

In the final part of the questionnaire the respondents were required to provide their perception on the factors influencing voluntary audits by SMEs. There were eight questions asked in this part. This part used a five point scale from '1' as strongly disagree to '5' as strongly agree.

3.3. Data Collection Procedure

To make the survey efficient, the online survey form by Google, electronic mail and direct, face-to-face approach were used as tools to gather all data feedback. A cover letter that explained the purpose and objective of the research as well as assurance that all information provided would be treated as confidential was also attached along with the distributed questionnaire. Apart from that, the link to the address for the Google online survey was also distributed through the *WhatsApp* application and electronic mail to make it easier for the respondents to answer the questionnaire. In distributing the questionnaire in the face-to-face approach, a snack was given as a token of appreciation to attract the respondents.

4. RESULTS

4.1. Descriptive Statistics

In this study, descriptive analysis was used to conduct data screening to ensure data was entered correctly and no values were missing since the data is considered incomplete when more than 40% of an item is missing. However, for this study, data was collected using Google Forms and hence there was no issue of missing data. The reliability test for this study was not conducted as the question to measure the dependent variable was adopted from Mustapha and Yaen (2013) while the question to measure the independent variables was adopted from Collins (2003).

Table 1 presents the details of the descriptive statistics and normality test for all constructs of influence factor of voluntary audits by SMEs. For the descriptive statistics, the table below provides the minimum and maximum value of the dependent variable, the number of non-missing value in the sample that is denoted as N, the mean score which indicated the average score for each measures and the standard deviation that measured the spread of the data from the mean.

The results showed a low mean score for overall dependent variables which constitute 4.05. This implied that the respondents had a low perception of influence factor on voluntary audits by SMEs. The item that has the lowest mean score was "apart from the shareholders normally other people received the company account too" and constituted only 3.89. "Apart from the shareholders and company, others person also received company account" might not be significant due to the nature of the company. The respondents might not value any impact of their personnel influence since the account is used for external information for loans or requirements by any stakeholder to see company account prior to an agreement. The majority of the respondents also disagreed that the company received any of the following services from external accountants with a mean score of 3.93 since the respondent believed each company incorporated should hire the accountants to monitor company finances.

The highest mean score for an influence factor of voluntary audits by SMEs were for "the views on the companies being audited is to improve internal controls" and "audited account will show positive effect on credit rating score" both with a score of 4.17 with a maximum of 5 scored by the respondents for both of them. However, the highest mean score is still considered to have a low score.

According to Tourangeau and Yan (2007) most respondents would not reveal sensitive information such as admitting their action on misappropriated company assets to avoid embarrassment with the researcher or to avoid consequences of giving a truthful feedback should the information become known to a third party. Hence this would lead to misreporting of information, which would explain the low mean score of asset misappropriation variable. The result also showed that the non-missing value; N 81 tallies with the number of respondents which indicated that there was no missing value in the sample.

Table-1. Descriptive statistics on voluntary audit.

List of Construct and Measures	N	Minimum	Maximum	Mean	SD
Skewness = -3.66 **Kurtosis = 13.57** 1. Whether company receive any of the following services from external accountants	70	2	5	3.93	0.598
2. Apart from the shareholders and company, normally other person received company's accounts too	70	1	5	3.89	0.860
3. The views on the companies being audited is to improve internal controls	70	2	5	4.17	0.564
4. Audited account will show positive effect on the credit rating score	70	3	5	4.17	0.481
5. The accounts to be audited in future although no legal reason for doing so	70	1	5	4.10	0.725
Valid N (listwise)	70				
Total				**4.05**	

Based on Table 1 the skewness shows a score of -3.66 in which it implied a slightly negatively skewed distribution of data. This implied that most of the respondents have a low level in influence factor of voluntary audits. However, the kurtosis score showed a value of 13.57 that indicated the data was slightly positively skewed with high scores at the lower end and also implied that a huge number of respondents have a low influence on voluntary audit. A positive kurtosis score also indicates that the distribution of data has a heavier tail and a sharper peak.

This result indicated that the influence factors for voluntary audits have the Cauchy distribution with a symmetric distribution with heavy tails and a single peak at the center of distribution. Due to heavier tails, kurtosis might be larger than a normal distribution since the skewness as only -3.66 while kurtosis was 13.57 so only standard deviation can be distorted in this event.

Table 2 presents the descriptive statistics as well as the normality test using skewness and kurtosis score for the improvement quality of SMEs' financial statements. For descriptive analysis, the table below shows the minimum and maximum value, mean, standard deviation and the non-missing value that represents the independent variable of perceived pressure. The results showed a low mean score of 3.76 for all the measures. This indicated that the majority of the respondents perceived themselves as having low pressure. The lowest mean score relates to "a person that handling company accounts having professional qualifications in accounting" with a score of 2.66 where the maximum value was 5. Hence most respondents disagreed that company accounts should be handled by people that have professional accounting qualifications.

The highest mean score was 4.26 for "whether company accounts are audited to improve the quality of financial statements" with a maximum value of 5 and a minimum value of 2. This showed that most of the respondents agreed that a company being audited may improve the quality of its financial statements. The result also showed that the non-missing value N 70 tallies with the number of respondents which indicated that there was no missing value of perceived pressure.

Table-2. Descriptive statistics on improved quality of financial statements.

List of Construct and Measures	N	Minimum	Maximum	Mean	SD
Skewness = -1.03 Kurtosis = 6.97 1. Shareholder and stakeholder usually use the account file as referral	70	3	5	4.14	.460
2. Bank or other providers of finance request audited accounts	70	3	5	4.14	.546
3. A person that handle company account have only vocational qualifications of accounting	70	1	5	3.61	.644
4. A person that handle company account have professional qualifications of accounting (E.g. ACCA or CPA)	70	1	5	2.66	.961
5. Whether company accounts are audited to improve the quality of financial statements	70	2	5	4.26	.695
Valid N (listwise)	70				
Total				3.76	

Based on Table 2, the skewness showed a score of -1.03 in implying a slightly negatively skewed distribution of data. This meant that the tail of distribution points slightly to the left or the distribution has a long left tail. For a negative skew, the median is larger than the mean and the mean is also located to the left of the peak. However, the kurtosis score showed a value of 6.97 that indicated the data was positive and the kurtosis score also indicated that the distribution of data has a heavier tails and a sharper peak. This result indicated that the improvement quality of SMEs' financial statements have the Cauchy distribution with the symmetric distribution with heavy tails and a single peak at the center of distribution. Due to heavier tails, kurtosis might be larger than a normal distribution since the skewness is only -1.03 while kurtosis in 6.97 so only standard deviation can be distorted in this event.

Table 3 presents the descriptive analysis and the normality test on the effect of managerial ownership. For descriptive analysis, the table shows minimum and maximum value, the mean score, the standard deviation and the non-missing value that constitute the effect of managerial ownership. The results showed that the mean score was 3.89 with an indication that the respondents have low perceived opportunity. The lowest mean score was for "manager that have to prepare the account if they are being appointed at the respondents workplace" with a score of 3.67 and maximum value of 5. It indicated that most of the respondents disagreed that managers have to prepare the account if they are being appointed. The highest mean score of 4.09 was for "trust being put by the company on managers is highly valuable" and most of the respondents agreed with that. The non-missing value N was 70 and this was in agreement with the number of respondents' feedback that indicated that there was no missing value in the sample.

Table-3. Descriptive statistics on managerial ownership.

List of Construct and Measures	N	Minimum	Maximum	Mean	SD
Skewness = -5.34 Kurtosis = 21.23 1. Family-owned business handles the company's accounts internally	70	1	5	3.76	.669
2. If managers are being appointed, their tasks include the preparation of accounts	70	1	5	3.67	.675
3. The trust being put by the company on managers is highly valuable	70	3	5	4.09	.474
4. Separation between owners and manager increases agency costs which allows for voluntary audit	70	3	5	3.97	.481
5. Whether company accounts are audited it will affect the trust between owners and management	70	1	5	3.96	.576
Valid N (listwise)	70				
Total				3.89	

Based on Table 3 the skewness result showed a score of -5.34 implying a slightly negatively skewed distribution of data. This meant that the tail of distribution points slightly to the left or the distribution has a long, left tail. For a negative skew, the median is larger than the mean and the mean is also located to the left of the peak. The value of kurtosis based on above results showed a value of 21.23 which indicated that the data was slightly positively skewed with high scores at the lower end which also implied that a huge number of respondents have a low effect on managerial ownership. A positive kurtosis score also indicated that the distribution of data has a heavier tails and a sharper peak.

Table 4 presents the descriptive analysis and normality test on perception of managers. For the descriptive analysis, the table shows the minimum and maximum value, the mean score and standard deviation as well as the non-missing value N that measure the rationalization variable. The results showed that the mean score was 3.68 which indicated that most of the respondents have low perception of managers. The measure with the lowest mean score of 2.61 with the maximum value 5 was for "managers that handle company accounts have professional qualification of accounts" where most of the respondents disagreed that managers that were appointed by the company and were given a task to handle company accounts have a background with relevant professional qualifications.

The highest mean score of 4.16 was for "manager must know how to interpret and read financial statements" where most of the respondents agreed that the company they are working in must have managers that know how to read or interpret the financial statements. The non-missing value also showed the value of 70 that tallies with the numbers of feedback received indicating that there was no missing value in the sample for rationalization variable.

Based on Table 4 the skewness result showed a score of .004 in which it implied a positively skewed distribution of data with the lower end as having a high score. It also indicated that the mean is situated to the right of the median or the mean score is greater than the median. A positively skewed data also shows that the distribution data tail is longer on the positive direction of the number line. The kurtosis score showed a value of 9.96 that indicated the data was slightly positively skewed with high scores at the lower end and implied that a huge number of respondents have a low opportunity. A positive kurtosis score also indicated that the distribution of data has heavier tails and a sharper peak.

Table-4. Descriptive statistics on managers' perception of voluntary audit.

List of Construct and Measures	N	Minimum	Maximum	Mean	SD
Skewness = .004 Kurtosis = 9.96 1. Manager that handle company accounts have only vocational qualifications of accounting	70	2	5	3.46	.674
2. Manager that handle company accounts have professional qualifications of accounting (eg. ACCA or CPA)	70	1	5	2.61	.906
3. Manager must have a strong background in accounting	70	2	5	4.04	.464
4. Manager must know how to interpret and read financial statements	70	2	5	4.16	.555
5. Manager must be able to proofread the accounts before surrendering to shareholder or stakeholder or auditor.	70	3	5	4.14	.546
Valid N (listwise)	70				
Total				3.68	

4.2. Preliminary Analysis

The preliminary testing results are depicted in Table 5. Based on Table 5 the skewness of the data is between -5.34 and 0.004 which are close to 1 and the Kurtosis values are between 6.97 and 21.23. Therefore, as large data set with a sample of more than 30, the data was considered a normal data set. According to George and Mallery (2010) the values for skewness and kurtosis that range between -2 and +2 are acceptable indicating a normal distribution. These results have also been discussed in Section 4.3 in which the normality test being conducted on each variable and the mean being presented indicated that the variables were fit to be further analysed using the regression analysis.

Table-5. Preliminary analysis.

Variables	Normality Test		
	Skewness	Kurtosis	Mean
Influence Factor of Voluntary Audit by SMEs	-3.66	13.57	4.05
Improvement Quality of Financial Statement SMEs	-1.03	6.97	3.76
Effect of Managerial Ownership	-5.34	21.23	3.89
Perception of Managers	0.004	9.96	3.68

Table-6. Pearson correlation coefficient matrix and level of significance.

Variable		DV	IV1	IV2	IV3
DV	Pearson Correlation	1	.152	.374**	.401**
	Sig. (2-tailed)		.210	.011	.001
	N	70	70	70	70
IV1	Pearson Correlation	.152	1	.129	.174
	Sig. (2-tailed)	.210		.286	.149
	N	70	70	70	70
IV2	Pearson Correlation	.374**	.129	1	.451**
	Sig. (2-tailed)	.001	.286		.000
	N	70	70	70	70
IV3	Pearson Correlation	.401**	.174	.451**	1
	Sig. (2-tailed)	.001	.149	.000	
	N	70	70	70	70

Note: **. Correlation is significant at the 0.01 level (2-tailed)
*. Correlation is significant at the 0.05 level (2-tailed).

Table 6 shows the correlation coefficient matrix as well as the significance value of the variables in this research. Based on Table 6, the results show that the Pearson's correlation coefficient, r, value was between 0.129 to

0.451, where the value of DV and IV1 was .152, DV with IV2 was .374, DV with IV3 was .401, IV1 with IV2 was .129, IV1 with IV3 was .174 and IV2 with IV3 was .451. This implies that there was no multicollinearity since no pair of independent variables with correlation coefficient value was greater than 0.8 or less than -0.8.

The above variables were defined as: DV = Influence factor of voluntary audit by SMEs; IV1 = Improvement quality of financial statement SMEs; IV2 = Effect of managerial ownership; IV3 = Perception of managers.

4.3. Simple Linear Regression Model

In the regression analysis, this study predicted the outcome of one variable from one or more variables to create the direction of the casualty. In regression also, the analyst would want to know and identify the relationship between variables and whether one variable causes the other. In this research, the simple linear regression model consisted of three independent variables presented by improvement quality of SMEs' financial statements, the effect of managerial ownership and the perception of managers. The simple linear regression was conducted based on the following model:

$$Yi = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + Ei$$

Where;

- Influence factor of voluntary audit by SMEs = β_0 + β_1Improvement quality of financial statement + β_2Effect of managerial ownership + β_3 Perception of managers + Ei
- β_0 indicates the estimated average value of Y (in this situation, the dependent variable which is influence factor of voluntary audit by SMEs) when the value of X (in this situation independent variable of improvement quality of financial statement) is zero.
- β_1 indicates the estimated change in the average value of the respondents' influence factor of voluntary audit by SMEs as a result of one unit change in the improvement quality of financial statement value.
- B_2 indicates the estimated change in the average value of respondents' influence factor of voluntary audit by SMEs as a result of one unit change in the effect of managerial ownership value.
- β_3 indicates the estimated change in the average value of respondents' influence factor of voluntary audit by SMEs as a result of one unit change in the perception of manager value.

In order to determine and identify the linear relationship's strength between the dependent variable and the independent variable, the correlation coefficient was derived from Pearson's correlation coefficient matrix analysed through SPSS.

Table-7. Pearson correlation coefficient matrix and level of significance.

Variable		DV	IV1	IV2	IV3
DV	Pearson Correlation	1	.152	.374**	.401**
	Sig. (2-tailed)		.210	.011	.001
	N	70	70	70	70
IV1	Pearson Correlation	.152	1	.129	.174
	Sig. (2-tailed)	.210		.286	.149
	N	70	70	70	70
IV2	Pearson Correlation	.374**	.129	1	.451**
	Sig. (2-tailed)	.001	.286		.000
	N	70	70	70	70
IV3	Pearson Correlation	.401**	.174	.451**	1
	Sig. (2-tailed)	.001	.149	.000	
	N	70	70	70	70

Note: **. Correlation is significant at the 0.01 level (2-tailed)
*. Correlation is significant at the 0.05 level (2-tailed).

The above variables were defined as: DV = Influence factor of voluntary audit by SMEs; IV1 = Improvement quality of financial statement SMEs; IV2 = Effect of managerial ownership; IV3 = Perception of managers.

The results that are presented in Table 7 indicated that the perception of managers variable was a significantly influencing factor of voluntary audits since the value was 0.001 which is less than 0.05 ($p<0.05$). The coefficient of correlation, ($r=0.401$) suggested that there was a positive low relationship between the perception of managers variable and influencing voluntary audits. The effect of managerial ownership was significantly correlated to voluntary audits since the value was 0.011 which is below 0.05. The relationship between the variables was positive low as the coefficient of correlation value was only 0.374.

However, the improvement quality of SMEs' SMEs' financial statementsvariable's significance value was 0.210 which indicated that the variable was not significant as the value is higher than 0.05 ($p>0.05$). The coefficient of correlation, ($r=0.152$) indicated that there was a positive relationship between the improvement quality of financial statements and voluntary audits, but that the relationship was very weak.

4.4. Factors influencing Voluntary Audit of Financial Statements

A simple linear regression analysis was used in this research to test the hypotheses of this research where each of the variables were tested separately to test the relationship between the SMEs' financial statements' improvement quality, the effect of managerial ownership and the perception of managers with their influence on voluntary audits. The results are explained for each variable below.

H_1 – Improved quality of financial statement significantly influences voluntary audit of financial statements among SMEs in Malaysia

Based on Table 8 the results explained the influence of improvement quality of SMEs' financial statements on the occurrence of voluntary audits. The results between improvement quality of SMEs' financial statements and influence on voluntary audit, indicates that the variable was not significant in affecting voluntary audits at the 95% confidence level as the value is higher than 0.05 at 0.210. Although the variable was not significant, there is a positive low relationship between improvement quality of SMEs' financial statements and voluntary audits with the level of coefficient of correlation at 0.152 ($R=0.152$) and positive value of B_0 ($B_0=0.057$).

Hence the first hypothesis is not achieved. This research however also implied that there is a low positive relationship between improvement quality of SMEs' financial statements and voluntary audits.

The result of 0.023 coefficient of determination ($R^2=0.023$) refers to 2.3% of the total variation in influence factors on voluntary audits being explained by improvement quality of SMEs' financial statements and the remaining 97.7% is explained by other factors. At the 0.05 level of significance, with degree of freedom *df* of 69 (N-2), the *t*-critical value is 2.000 while *t*-statistics value is 1.267. In this instance, since the *t*-statistics value (1.267) was lower than the *t*-critical value (2.000), we accepted the null hypothesis. This study concluded that there was no significant relationship between the improvement quality of SMEs' financial statements and any influence on voluntary audits. The p-value showing 0.210 was also greater than 0.05 ($p>0.05$) and as such, H_1 was supported. This research also implied that there was no significant linear relationship where the respondents' influence factor on voluntary audits were influenced by the improvement quality of SMEs' financial statements.

Table-8. Regression analysis result for improved quality of financial statement.

Variable	Influence factor in voluntary audit by SMEs				
	Sig.	**R**	**R^2**	**B_0**	***t***
Improvement quality of financial statement SMEs	0.210	0.152	0.023	0.057	1.267

H_2 –Managerial ownership significantly influences voluntary audit of financial statements among SMEs in Malaysia

Table 9 shows that the second objective was achieved since the independent variable effect of managerial ownership was significant at 95% where its significance value was equal to 0.001 which is below than 0.05 (p=0.001,

$p<0.05$). A positive on B_0 indicated that there was a positive relationship between both variables. However, the relationship between the variables was weak as the coefficient of correlation value was only 0.374 ($R=0.374$). Referring to the coefficient of determination 0.140 ($R^2=0.140$), 14% of the total variation in influence factor on voluntary audits can be explained by the effect of managerial ownership and the remaining 86% is explained by other factors. At the 0.05 level of significance, with degree of freedom *df* of 79 (N-2), the *t*-critical value was 2.000 while the *t*-statistics value was 3.321.

In this instance, since the *t*-statistics value (2.617) was greater than *t*-critical value (2.000), the null hypothesis was rejected. This study concluded that there is a positive significant relationship between the effect of managerial ownership and the influence factor in voluntary audit by SMEs. The p-value showing 0.001 was less than 0.05 ($p<0.05$) so the null hypothesis was rejected. As such, H_2 is supported. This research also implied that there was a significant linear relationship where the respondents' feel that voluntary audits are influenced by managerial ownership.

Table-9. Regression analysis result for effect of managerial ownership.

Variable	**Influence factor in voluntary audit by SMEs**				
	Sig.	**R**	**R^2**	**B_0**	***t***
Effect of Managerial Ownership	0.001	0.374	0.140	0.417	3.321

H_3 – Managers' perception significantly influences voluntary audit of financial statements among SMEs in Malaysia

Table 10 shows that the third objective was achieved since the independent variable perception of manager value was significant at 95% where its significance value was equal to 0.001 which is below than 0.05 ($p=0.001$, $p<0.05$). A positive on B_0 indicated that there was a positive relationship between both variables. However, the relationship between the variables was weak as the coefficient of correlation value was only 0.401 ($R=0.401$). By referring to the coefficient of determination 0.161 ($R^2=0.161$), 14% of the total variation in influence factor in voluntary audit in SMEs can be explained by the perception of manager value and the remaining 86% is explained by other factors. At the 0.05 level of significance, with degree of freedom *df* of 79 (N-2), the *t*-critical value was 2.000 while the *t*-statistics value was 3.611.

In this instance, since the *t*-statistics value (3.611) was greater than *t*-critical value (2.000), the null hypothesis was rejected. This study concluded that there was a marginally significant relationship between the perception of manager value and the influence on voluntary audits. The p-value showing 0.001 also was lower than 0.05 ($p<0.05$) so the null hypothesis was accepted. This study however implied that there was a low relationship between the perception of manager value and voluntary audits.

Table-10. Regression analysis result for managers' perception.

Variable	**Influence factor in voluntary audit by SMEs**				
	Sig.	**R**	**R^2**	**B_0**	***t***
Perception of manager value	0.001	0.401	0.161	0.398	3.611

5. CONCLUSION

The first objective of this research was to examine the improvement quality of SMEs' financial statements on the influence on voluntary audits. This study showed that the majority of the respondents had low confidence that the improved quality of financial statements influenced voluntary audits. The lowest mean score was related to the situation where the respondents believe that a person that handling the account company does not need to have a professional certificate. Additionally, the result also indicated that there was no linear relationship between the improvement quality of SMEs' financial statements and voluntary audits, and indicated that the variable was not significant as at the 95% confidence level the value was higher than 0.05. Hence the first hypothesis was not achieved. These results and findings are not in line with other studies such as Mustapha and Yaen (2013) and Collins (2003).

The second objective of this research was to examine the effect of managerial ownership on voluntary audits. This study showed that if managers are being appointed, their tasks include the preparation of accounts which was scored by respondents at 3.67. The main findings for effect of managerial ownership indicated that there was a significant linear relationship between the effect of managerial ownership and voluntary audits as the the significant value was equal to 0.001 the 95% confidence level where p was less than 0.05, indicating a significant relationship. As such, the second hypothesis was accepted. The result for the effect of managerial ownership likewise discovered that for every change, the influence factor of voluntary audits occurrences would increase by 0.417. The results of this research have its own implications. This study revealed that managerial ownership can influence voluntary audits.

The third objective of this research was to examine the influence of perception of manager on voluntary audit. The result showed that the mean score was 3.68 for all the measures which indicated that most of the respondents have a low perception of managers. The measure with the lowest mean score of 2.61 was for "the manager that handle company accounts have professional qualifications of accounting" where most of the respondents disagreed. The findings implied that there was a significant relationship between the perception of managers and voluntary audits where the p value was equal to 0.001, and was less than 0.05 indicating there was a significant relationship. Hence the third objective of this research is considered as achieved.

This study was not without limitations. The scope of this research was limited to only the SMEs located in Kuala Lumpur and Selangor. Thus, the sample in this research could not generalize for the entire Malaysian SME demographic. The number of respondents was also considerably low and a high number of respondents would lead to a more concrete analysis and findings. In addition, the design of the questionnaire may has its limitations in terms of the language which may somewhat be confusing. Other limitations include that the first objective was not achieved as discussed earlier where the results showed that improvement quality of SMEs' financial statements does not influence voluntary audits.

The third objective was not achieved perhaps due to a low number of respondents. Hence it is suggested that in the future, a larger number of respondents be involved allowing researchers to generalize for the entire population of a selected group of respondents. However, the limitations in this research do not affect the findings but rather are acknowledged to highlight possible future research opportunities.

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