

SYSTEMATIC RISKS, UNSYSTEMATIC RISKS AND AUDIT PRICING:
AN ANALYSIS IN THE MALAYSIAN FINANCIAL INSTITUTIONS

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**Systematic Risks, Unsystematic Risks and Audit Pricing:
An Analysis in the Malaysian Financial Institutions**

**A dissertation submitted to the Faculty of Finance and Banking in partial
fulfillment of the requirements for the degree
Master of Science (Finance);
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by

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ABSTRAK

Banyak kajian empirikal mengenai yuran audit di pelbagai negara telah dibincangkan dan diterbitkan. Kebanyakan kajian ini tertumpu kepada faktor-faktor yang memberi kesan ke atas yuran audit. Walaubagaimanapun, kajian-kajian ini telah tidak memasukkan institusi-institusi kewangan dalam analisis mereka. Institusi-institusi kewangan adalah unik dibandingkan dengan jenis syarikat-syarikat yang lain kerana merupakan institusi-institusi penyimpan simpanan manakala syarikat-syarikat lain bukan institusi penyimpan simpanan. Oleh kerana keunikan semulajadi aktiviti mereka ini, satu kajian yang dapat mengenalpasti pembolehubah-pembolehubah yang memberi kesan ke atas yuran audit amatlah bertepatan terutama kajian-kajian yang lepas tidak begitu menekankan perkara ini. Tambahan lagi pengurusan risiko pada masa ini semakin penting bagi operasi institusi-institusi kewangan disebabkan perubahan dinamik di dalam pasaran kewangan.

Kajian ini telah menggunakan data panel analisis. Disamping itu, analisis sensitiviti telah dijalankan untuk memberi penjelasan yang lebih mendalam ke atas dapatan ini. Dapatan kajian menunjukkan bahawa faktor-faktor risiko adalah penting dalam menentukan yuran audit institusi-institusi kewangan. Ini menunjukkan bahawa yuran audit, pada satu tahap, bergantung kepada peniagaan dan kedudukan kewangan institusi-institusi kewangan, penting kepada institusi-institusi kewangan bagi menangani amalan pengurusan risiko dengan memberi perhatian serius kepada bahagian dan pendapat yang ditekankan oleh juruaudit didalam laporan-laporan audit.

ABSTRACT

Several empirical evidences on audit pricing across countries have been addressed and published. Most of these studies focused on the factors that have impact on the audit fees. However, these studies have not included financial institutions in their analyses. The financial institutions are unique compared to other types of companies because they are deposit-taking institutions whilst others are not. Because of this uniqueness of their nature activities, a study that investigates the variables that affecting audit pricing of the financial institutions is deemed very necessary, especially when it is not emphasised by researchers in the past. Furthermore risk management is increasingly important in financial institutions' operations today in light of dynamic changes in the financial markets.

This study utilises panel data analysis. Also, sensitivity analyses are done to provide further clarifications and explanations of the results. The results reveal that risk factors are important in determining financial institutions' audit pricing. These show that since audit pricing, to a certain extent, depends on business and financial institutions' financial conditions, it becomes important for financial institutions to enhance their risk management practices by taking seriously the areas and opinions highlighted by the auditors in their audit reports.

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CHAPTER ONE

INTRODUCTION

1.1 Chapter Overview

This chapter introduces an overview background of audit pricing studies, the motivation, problem statement, objective and justification of this study.

This chapter is divided into eight sections as follows; Section 1.2 introduces the previous studies on audit pricing in general, Section 1.3 describes Asian Financial Crisis (AFC) in mid 1997, Section 1.4 explains the role of external auditors in financial institutions' risks management. Section 1.5 briefly discusses the problem statement. Section 1.6, Section 1.7 and Section 1.8 describe the motivation, the objectives, and the significance of the study respectively. Section 1.9 summarises this chapter.

1.2 Background of Studies in Audit Pricing

Several empirical evidences on audit pricing across countries have been addressed and published. Most of these studies focused on the factors that have impact on the audit fees (see Firth, 1985; Simunic, 1980; Francis, 1984; Simon, 1985; Simon and Francis, 1988; Rubin, 1988; Low, Tan and Koh, 1990; Chan, Ezzamel and Gwilliam, 1993; Pearson and Trompeter, 1994; Pong and Whittington, 1994; Gerrard, Houghton and Woodliff, 1994; Craswell, Taylor and Francis, 1995; Butterworth and Houghton, 1995;

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