

**FACTORS AFFECTING AUDITOR CHANGE DECISION IN
YEMEN: A SURVEY**

ADEL ALI AL-QADASI

UNIVERSITI UTARA MALAYSIA

2010

**FACTORS AFFECTING AUDITOR CHANGE DECISION IN YEMEN:
A SURVEY**

**A dissertation submitted to the College of Business (COB) in partial fulfillment
of the degree of Master of Science (International Accounting)**

University Utara Malaysia

By

ADEL ALI AL-QADASI

PERMISSION TO USE

In present this thesis in partial fulfillment of the requirement for a post graduate degree from University Utara Malaysia, I agree that the University Library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisors or, in their absence, by the Assistant Vice Chancellor, College of Business. It is understood that any copying, publication or use of this thesis for financial gain and any other non-scholarly purpose shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to University Utara Malaysia from any material in my thesis.

Request for permission to copy or to make use of materials in this thesis, in whole or in part, should be addressed to:

Assistant Vice Chancellor

College of Business

University Utara Malaysia

06010 Sintok

Kedah Darul Aman

ABSTRACT

Auditor changes are alarmingly high in Yemen and have been rising of late and the driving factors in this regard could be particular to Yemen. This study examines the motivations for public firms in Yemen to change auditors. In this paper, a questionnaire instrument is used to elicit perceptions of behavioral, economic or other factors that influence auditor-client realignments in Yemen.

The study concludes primarily that economic factors provide the principal motivators of auditor changes in Yemen. Behavioral forces albeit influential factors of auditor change, come only secondary in importance. Dissatisfaction with audit quality, use of inexperienced audit engagement staff feature and poor working relationships with audit partner/staff feature as foremost concerns.

Underlying this, there is evidence of significant associations between the reasons for change and type of change. Also, there is a significant relationship between the auditor change and size of companies. In particular, larger and medium companies, and companies changing from a non-Big Four to Big Four firm, were more likely to change due to dissatisfaction with audit quality, and the need for a wider range of services.

ACKNOWLEDGEMENT

All praise to Allah s.w.t., the leader of the world, blessing and peace upon our prophet Muhammad s.a.w. for giving guidance, courage and spirit to me in order to complete this project as expected.

I would like to thank all people who have helped and inspired me during my master study.

I especially would like to express my deep and sincere gratitude to my supervisor; Dr. Shamharir Abidin. His wide knowledge and his logical way of thinking have been of great value for me. In addition, he was always accessible and willing to help his students with their research. As a result, research life became smooth and rewarding for me.

I owe my loving thanks to my wife. She has lost a lot due to my research abroad. Without her encouragement and understanding it would have been impossible for me to finish this work. My special gratitude is due to my brothers, my sisters and my family for their loving support. I am indebted to my father, Ali Abdo, for his care and love. As a typical father, he worked industriously to support the family and spare no effort to provide the best possible environment for me to grow up and attend school. My deepest gratitude goes to my mother, she is simply perfect. I have no suitable word that can fully describe my everlasting love to her. I remember many sleepless nights when she was suffering from cancer. She is forever remembered. Mother, I love you.

TABLE OF CONTENTS

	Page
PERMISSION TO USE	i
ABSTRACT	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi

CHAPTER ONE: BACKGROUND OF STUDY

1.1 Introduction	1 – 2
1.2 Problem Statement	3
1.3 Research Questions	4
1.4 Significance of the Study	5
1.5 Scope and Limitations of the Study	6
1.6 Organizations of the Study	6

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction	7
2.2 Decision of auditor change	7 - 13

CHAPTER THREE: METHODS

3.1 Introduction	14
3.2 Sampling procedures	14 – 15

3.3	Questionnaire Design	16
3.4	Survey Feedback and Data Screen	17
3.5	Data Analysis	18

CHAPTER FOUR: RESULTS

4.1	Introduction	19
4.2	Results	19
4.2.1	Sample Profiles	19 - 21
4.2.2	The perception of Respondents Toward the Factors of Auditor Change	22 - 24
4.2.3	The Association between Auditor Change and Company Sector and Size	25 - 27
4.2.4	Association between Factors of Auditor Change and type of Change	27 - 30
4.3	Summary	31

CHAPTER FIVE: SUMMARY AND CONCLUSION

5.1	Introduction	32
5.2	Result Summary	32
5.3	Discussion	33 - 34
5.4	Recommendations and Further Research	35 - 36

REFERENCES	37 - 41
-------------------	---------

APPENDIXES	42
-------------------	----

LIST OF TABLES AND FIGURES

	Page
Table 3.1: Response Rates	18
Table 3.2: Response Rate by Cities	18
Table 4.1: The Sample Profiles	21
Table 4.2: Respondents' Perception toward the Factors of Auditor Change	24
Table 4.3: Incidence of Auditor changer and non-auditor changer within random sample over past five years period by size of company	26
Table 4.4: Incidence of change Auditor and non-auditor within random sample over past five years period by sectors of company	26
Table 4.5: Incidence of change Auditor within random sample over past five years period by type of change	27
Table 4.6: The Association between Factors of Auditor Change and type of Change	30

CHAPTER ONE

BACKGROUND OF STUDY

1.1 Introduction

This study aims to identify the factors that influence the decision of auditor changes among Yemeni companies. An increasing concern over auditor independence makes auditor changes an important area of research. Many different users depend on the external auditor's reports in their decisions making, such as stockholders, investors, suppliers and government authorities. However, the confidence of owners and investors in the financial statements may decrease if they notice negative connotations in the change and hence question the auditor's independence. The decline in the confidence of users in the independence of the auditor will lead to weaken in the purpose of audit and undermine the credibility of the audit function. Moreover, it can also prevent the flow of capital in the stock markets and increase the costs of capital (Woo & Koh, 2001).

Internationally, in recent years, the interest of phenomenon of auditor changes has growing among both academics and practitioners. In the US ,for example the Securities and Exchange Commission (SEC) has expressed concern over auditor switching in a number of Accounting Series Releases , which required increased disclosure as a means for discouraging corporate management from changing CPA firms to obtain an unqualified audit opinion or more favorable accounting treatment (Schwartz & Menon, 1985).

The contents of
the thesis is for
internal user
only

References

Abidin, S. (2006). Audit market concentration and auditor choice in the UK.

Al-Ahmadi, W. (2008, November 2). Companies' transformation from limited public companies to unlimited public companies. *Algomhoriah*, 14243, 12-13.

Abo-Alhassan, M. (1993). Possible reasons for the change of external auditor: Empirical study in Kingdome of Saudi Arabia. *Public Management*, 77(1), 39-76.

Al-Tamimi, M. S., & Zeidan, M. (2004). Developing the profession accounting and audit in the Republic of Yemen. *Aden Journal for social science*, 7, 43-78.

Basodan, Y., Mostafa, S., & Almotaz, I. (2004). An empirical study of factors that affect auditor change at public companies in the Kingdom of Saudi Arabia. *Public Management*, 44(1), 137-187.

Beattie, V., & Fearnley, S. (1994). The changing structure of the market for audit services in the UK-a descriptive study. *The British Accounting Review*, 26(4), 301-322.

Beattie, V., & Fearnley, S. (1995). The importance of audit firm characteristics and the drivers of auditor change in UK listed companies. *Accounting and Business Research*, 25(100), 227-239.

Beattie, V., & Fearnley, S. (1998a). Auditor changes and tendering. *Accounting, Auditing & Accountability Journal*, 11(1).

Beattie, V., & Fearnley, S. (1998b). Audit market competition: auditor changes and the impact of tendering. *The British Accounting Review*, 30(3), 261-289.

Carpenter, C., & Strawser, R. (1971). Displacement of auditors when clients go public. *Journal of Accountancy*, 131(6), 55-58.

Chow, C., & Rice, S. (1982). Qualified audit opinions and auditor switching. *The Accounting Review*, 57(2), 326-335.

Citron, D., & Taffler, R. (1992). The audit report under going concern uncertainties: an empirical analysis. *Accounting and Business Research*, 337-337.

Darem, F. (2007 May 5). Yemen is fiscally ready for stock market. *Observer*. Retrieved from <http://www.yobserver.com/business-and-economy/10012152.html>

DeAngelo, L. (1981). Auditor size and audit quality. *Journal of accounting and economics*, 3(3), 183-199.

DeFond, M. (1992). The association between changes in client firm agency costs and auditor switching. *Auditing: A Journal of Practice and Theory*, 11(1), 16-31.

Francis, J., & Wilson, E. (1988). Auditor changes: A joint test of theories relating to agency costs and auditor differentiation. *The Accounting Review*, 63(4), 663-682.

Gregory, A., & Collier, P. (2006). Audit fees and auditor change; an investigation of the persistence of fee reduction by type of change. *Journal of Business Finance & Accounting*, 23(1), 13-28.

Gul, F., & Lai, K. (2000). Evidence of Opinion Shopping: An Analysis of Lateral Auditor Switches.

Haskins, M., & Williams, D. (1988). Corporate Mergers and Auditors' Client Portfolios. *Accounting Horizons*, 2 (1), 77-87.

Johnson, W., & Lys, T. (1990). The market for audit services: Evidence from voluntary auditor changes. *Journal of accounting and economics*, 12(1-3), 281-308.

Knapp, M., & Elikai, F. (1988). Auditor changes: a note on the policy implications of recent analytical and empirical research. *Journal of Accounting, Auditing and Finance*, 3(1), 78–86.

Krishnan, J. (1994). Auditor switching and conservatism. *Accounting Review*, 69(1), 200-215.

Krishnan, J., & Stephens, R. (1996). The simultaneous relation between auditor switching and audit opinion: an empirical analysis. *Accounting and Business Research*, 26, 224-236.

Magri, J., & Baldacchino, P. (2004). Factors contributing to auditor-change decisions in Malta. *Managerial Auditing Journal*, 19(7), 956-968.

Miswak, H. A. (2008). *Factors affect on the decision of auditor choice: theoretical study in the Republic of Yemen*. Unpublished Master Thesis, Assiut University, Assiut.

Mohamad, S., & Joher, H. (2001). Auditor Change During Listings: Effect on IPO Premiums. *PerLanika J. Soc. Sci. & Hum*, 9(2), 113-121.

Moizer, P., & Turley, S. (1987). Surrogates for audit fees in concentration studies. *Auditing: A Journal of Practice and Theory*, 7(1), 118-123.

Palmrose, Z. (1984). The demand for quality-differentiated audit services in an agency-cost setting: an empirical investigation. *Auditing Research Symposium (University of Illinois)*, 229-252.

Pong, C. & Whittington, G. (1994). The determinants of audit fees: some empirical models. *Journal of Business Finance and Accounting*, 21(8), 1071-1095.

Richardson, A. (2006). Auditor switching and the great depression. *Accounting Historians Journal*, 33(2), 39-62.

Sekaran, U. (2003) Research Methods for Business: A Skill Building Approach, Fourth Edition.

Sarhan, M., Frank, G., & Fisher, S. (1991). Switching independent auditors: an empirical investigation. *Akron Business and Economic Review*, 173-183.

Schwartz, K., & Menon, K. (1985). Auditor switches by failing firms. *The Accounting Review*, 60(2), 248-261.

Schwartz, K., & Soo, B. (1996). Evidence of Regulatory Noncompliance with SEC Disclosure Rules on Auditor Changes. *The Accounting Review*, 71(4), 555-572.

Woo, E., & Koh, H. (2001). Factors associated with auditor changes: a Singapore study. *Accounting and Business Research*, 31(2), 133-144.

Yemeni Chartered Accountant journal (2009) renews licenses of Yemeni auditors, 7, 52-53.