

A Study of Malaysian Audit Market Concentration

Lim Theng Yee

(Matric: 801478)

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A Study of Malaysian Audit Market Concentration

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By

Lim Theng Yee

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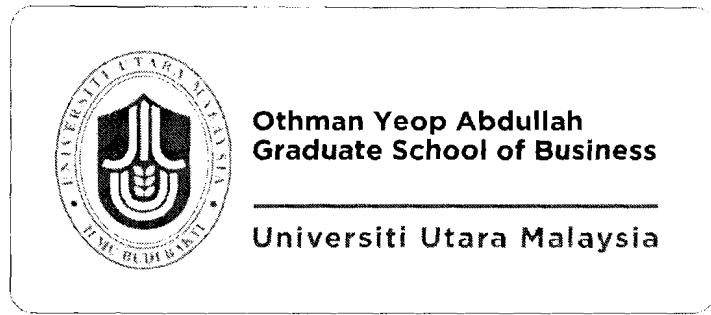
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Abstract

This study presents the extent and nature of audit market concentration of companies listed in KLSE in year 2008 and 2009. Given the current interest in auditor choice, this study also analyzed in detail at the individual audit firm level and by industry sector and market segments. Auditor concentration that measured in this study can use to determine current audit structure. The link between concentration measures with competitiveness is more complex than often assumed. In this study, I only focus on concentration measures and do not make any inferences about the competitive aspect of the market. The Big Four firms held more than 80% of the market share (based on audit fees) in both years 2008 and 2009. KPMG retained its position as a 'dominant firm' while Deloitte is the 'least dominant firm' among the Big Four firms. The Big Four hold 100% share of 3 sectors (fixed line telecommunications, life insurance and tobacco) in 2008 and increase to 4 sectors (bank, exchange traded funds, life insurance and tobacco) in 2009. The main concerns of auditor concentration are reduction in audit firm choice that will lead to increase of conflict of interest and issues concerning the governance and accountability of audit firms.

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Chapter One

Introduction

1.1 Background of the Study

During the early 1990s, there were concerns that the large firms were competing too aggressively. Excessive competing may result in ‘low-balling’ behavior and ‘opinion shopping behavior’. ‘Low-balling’ behavior is resulted from excessive price competition and leads the audit firm to cross-subsidization against non-audit services. Aggressive competing also encouraged ‘opinion shopping’ behavior by companies. Companies perceived a willingness on the part of audit firms to offer different accounting interpretations. According to Beattie (2003), these beliefs and perceptions does not support by any clear evidence.

During the late 1990s, a dominant Big Eight emerge in the audit market. However, subsequently it had been reduced through merger and firm collapse to a Big Four. Enron accounting and auditing scandal has caused the size of the dominant group to reduce. This scandal had impaired and damaged their auditor’s brand name that subsequently made Andersen to cease its operation. According to Beattie (2003), this event introduced a shock to the system, destabilizing the prevailing market ‘equilibrium’. The scandal associated with Andersen’s demise gave rise to a unique merger situation in which the demand for monitoring, which is costly, increased Chi (2006), using US data, finds that audit fees across all companies has generally risen following the Andersen event. Asthana, Balsam and Kim (2009) report that audit fees and the audit fee rate (as a percentage of total assets) of US companies rose markedly in 2002 following the Enron scandal, especially for larger, riskier clients.

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