THE IMPACT OF CORPORATE GOVERNANCE AND THE PROVISION OF NON-AUDIT SERVICES ON AUDITOR CHANGE DECISION

ISHAKU VANDI ISHAYA

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BY

ISHAKU VANDI ISHAYA (817905)

UUM
Universiti Utara Malaysia

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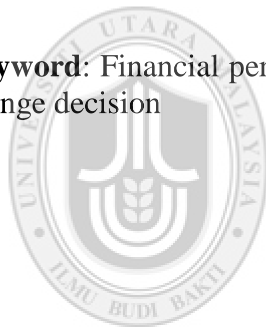
ABSTRACT

Auditing plays a crucial role in corporate governance process and it has been shown to increase the reliability and quality of an organization's financial performance. Hence, understanding the reasons why companies change their auditor is very important. In Malaysia, not much study has been conducted on auditor change. Thus, the study seeks to examine the impact of corporate governance and the provision of non-audit service on auditor change decision. The study used companies listed on Bursa Malaysia, as at 31st December, 2009 to 2011. Furthermore, the research used a sample size of 712 non-financial auditor change companies to test logistic regression Model of auditor change determinants. The results revealed that board independence, non-audit service, changes in management, size and big 4 are significant determinants of auditor change. The outcome of the study could improve corporate governance practices by management, and also increase the demand for audit quality in an organization. The study therefore, recommended that future studies should include additional corporate governance variables like audit committee, management ownership and ownership concentration. Lastly, a longer period of years could be covered so as to have a true reflection of the issue.

Keyword: Financial performance; corporate governance; non-audit services; auditor change decision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ABSTRAK

Pengauditan memainkan peranan penting dalam proses tadbir urus korporat dan ia telah dibuktikan dapat meningkatkan kebolehpercayaan dan kualiti prestasi kewangan organisasi. Oleh itu, memahami sebab-sebab mengapa syarikat menukar juruaudit adalah sangat penting. Di Malaysia, tidak banyak kajian telah dijalankan terhadap pertukaran juruaudit. Oleh itu, kajian ini memeriksa kesan tadbir urus korporat dan peruntukan bukan audit terhadap keputusan pertukaran juruaudit. Kajian ini menggunakan syarikat yang tersenarai di Bursa Malaysia pada 31 Disember 2009 hingga 2011. Di samping itu, penyelidikan ini menggunakan sampel sebanyak 712 syarikat bukan kewangan untuk menguji model logistik penentu perubahan juruaudit. Hasil kajian menunjukkan bahawa kebebasan juruaudit, perkhidmatan bukan audit, pertukaran pengurusan, saiz dan 'Big 4' adalah penentu pertukaran juruaudit yang signifikan. Hasil kajian itu boleh meningkatkan amalan tadbir urus korporat oleh pihak pengurusan, dan juga meningkatkan permintaan untuk kualiti audit dalam sesebuah organisasi. Oleh yang demikian, kajian ini mengesyorkan bahawa kajian masa depan perlu memasukkan pembolehubah tambahan tadbir urus korporat seperti jawatankuasa audit, pemilikan pengurusan dan penumpuan pemilikan. Akhir sekali, tempoh tahun kajian harus di panjangkan untuk mendapatkan gambaran sebenar tentang isu ini.

Kata kunci: Prestasi kewangan; tadbir urus korporat; perkhidmatan bukan audit; keputusan pertukaran juruaudit

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CFO	Chief Financial Officer
MCCG	Malaysian Code on Corporate Governance
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MIA	Malaysian Institutes of Accountants
NAS	Non-audit services
NEDBOD	Board Independence
NEDs	Non-executive Directors
OECD	Organization for Economic Co-operation and Development

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In Malaysia, more than 2000 audit firms currently supply audit services to domestic listed and unlisted companies (MIA webpage, 2011). Even with the high numbers of audit suppliers, the audit market is dominated by only a small number of large audit firms. The so called [1]'Big Four (B4)' dominance is especially true in the case of the audit market for public listed companies. Due to the excessive concentration of the Big Four's market, there is fear that it might result to the increase in the price of the audit services (Office of Fair Trading, 2002). This fear could be traced back to a particular development in the audit market.

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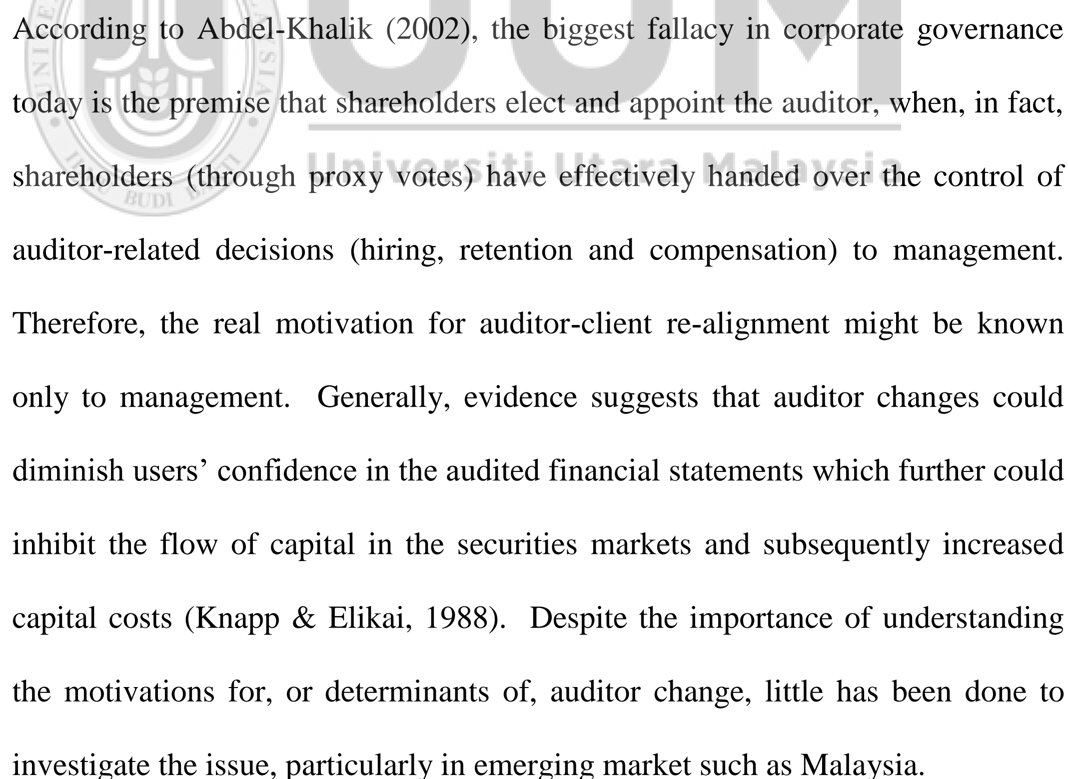
In the middle of year 2002, Andersen, one of the top five audit firms in the world, was convicted of obstruction of justice for shredding documents related to the failed US energy giant, Enron. Andersen ceased its business in August 2002 and its business was acquired by other firms. Andersen's demise and Enron's collapse have ignited intense debate regarding audit market competition and audit quality especially amongst regulators and academics and users of financial statements.

[1] The big4 companies comprises of the four largest international professional service networks offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance and legal services. The big4 perform most of the audit services for both public traded companies and private companies. The big4 are KPMG, Deloitte, PricewaterhouseCoopers and Ernst & Young.

Although the US Supreme Court reversed Andersen's conviction in 2005, however, the audit market environment and structure had already changed. New legislation and corporate governance codes were proposed and introduced worldwide. The main focus was on improving corporate governance, which also includes the auditor choice issue. However, the issue is not straightforward. The modern organization is characterized by the separation of ownership from control. In theory, a company's auditor acts as agent to the shareholders and should be independent from management. However, in practice, it is management that is often referred to as the 'audit client' and it is management that receives the letter of engagement (Abdel-Khalik, 2002).



According to Abdel-Khalik (2002), the biggest fallacy in corporate governance today is the premise that shareholders elect and appoint the auditor, when, in fact, shareholders (through proxy votes) have effectively handed over the control of auditor-related decisions (hiring, retention and compensation) to management. Therefore, the real motivation for auditor-client re-alignment might be known only to management. Generally, evidence suggests that auditor changes could diminish users' confidence in the audited financial statements which further could inhibit the flow of capital in the securities markets and subsequently increased capital costs (Knapp & Elikai, 1988). Despite the importance of understanding the motivations for, or determinants of, auditor change, little has been done to investigate the issue, particularly in emerging market such as Malaysia.

1.2 Problem Statement

In Malaysia, studies on auditor change can be considered scanty. The most recent studies; Nazri et al. (2006), investigated auditor choice issues, covering 18 years dataset period (1990-2000). The authors recommended that a study should be conducted on corporate governance characteristics so as to shed more light on this particular subject, and to include other variables that could affect auditor choice decision such as audit opinion, audit fees and client firm size. Similarly, Nazri et al. (2012) investigate the factors influencing auditor change and still covers 18 years period (1990-2008). However, despite the findings providing invaluable evidence on the issue of auditor change in the country, they still recommended a replication of their study with other determinants of auditor change such as: audit tenure, Non-audit services, board independence, auditor-client relationship and CEO duality. Ismail et al. (2008) covers the period from 1997-1998. The study examined major determinants of auditor change; however, corporate governance variables were not examined in the study as determinants of auditor change. Joher et al. (2000) covers a relatively old dataset (1986-1996). While providing invaluable evidence about the auditor change issue, the study focuses mainly on how the change could trigger market reaction.

Given so many major changes in Malaysia auditing environment since 1996 (which includes the introduction of corporate governance codes and regulations, restriction on the supply non-audit services (NAS) and various corporate scandals involving Malaysian companies and recommendations of prior studies, much remains to be investigated.

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And since prior studies do not address whether auditor-client realignment decision is a function of company's corporate governance practices or auditor independence threat arising from the supply of non-audit services, the present study extends the auditor change studies in two ways; first by examining the possible influence of internal corporate governance on auditor change and second, testing the role of non-audit service (i.e. Independence issues) on the propensity to switch auditor.

Furthermore, non-audit service provision studies have predominantly been conducted in developed countries like the US (Asare, Cohen & Trompeter, 2005; Bloomfield & Shackman, 2008, Beaulieu & Reinstein, 2010; Ahadiat, 2011, Albring, Robinson & Robinson, 2014; Brody, Haynes & White, 2014), New Zealand (Zhang & Emanuel, 2008; Alexander & Hay, 2013; Walker & Hay, 2013), U.K (Iyer, Iyer & Mishra, 2003; Chahine & Filatotchev, 2011), Germany (Dobler, 2014; Quick, Sattler & Wieman, 2013) and Spain (Guiral, Ruiz & Choi,2014).

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However, only a few studies have investigated NAS impacts on auditor change in emerging economies like Malaysia, even though NAS provision has critical implication on the credibility of financial statement. As stated by Fan and Wong (2005), the auditing environment in emerging economies are quite different from the developed ones and as well, have less developed equity markets. Hence, this

study will extend the NAS provision literature further from the developed markets to the emerging Malaysian capital market.

Lastly, despite the large number of studies on the effect of corporate governance on auditor change (O'Sullivan, 2000; Abbott et al., 2003; Carcello & Neal, 2003; Thevenot & Hall, 2009; Ismail et al., 2008; Nyakuwanika, 2014), and effects on NAS provision on auditor change (Burton & Roberts, 1967; Jubb, 2000; Shu, 2000), there is virtually no study that examined the role of corporate governance in the relationship between NAS provision and auditor change decision. With the MCCG emphasizing on the implication of NAS provision by the same auditor, and the role of corporate governance mechanisms like audit committee, board of directors and chairman/CEO duality on auditor change decision, more studies are needed to add to these ever growing issue. Thus, this study aims to the aforementioned literature.

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1.3 Research Questions

This study focuses on the impact of corporate governance and the provision of non-audit services on auditor change decision. This study attempts to answer the following research questions:

i. What is the effect of corporate governance on auditor change decision?

ii. What is the effect of the provision of non-audit services (NAS) on auditor change decision?

iii. What is the effect of auditor independence on auditor change decision?

1.4 Research Objectives

The following are the specific objectives of the present study:

i. To investigate the effects of corporate governance on auditor change decision.

ii. To investigate the effects of the provision of non-audit services (NAS) on auditor change decision.

iii. To investigate the effects of auditor independence on auditor change decision.

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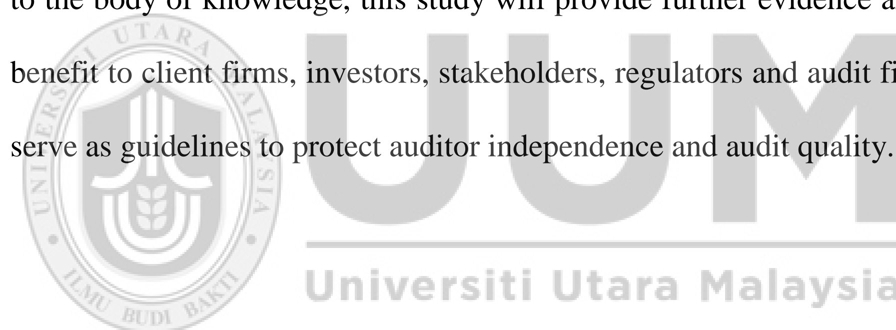
1.5 Significance of the Study

To date, research on auditor change determinants has largely been undertaken in the US (Copley & Douthett, 2002; Ettredge et al. 2007; Ebrahim 2010). Also, quiet a growing number of studies been undertaken in continental Europe and the UK (e.g Hudaib & Cooke, 2005; Lennox, 2000; Moizer & Porter, 2004). Most prior studies regarding auditor change decision in Malaysia have examined auditor change determinants like change in management, audit opinion, client size (Nazri et al. 2012; Ismail 2008). However, studies on corporate governance

determinants like board independence, CEO duality, are still lacking (Nazri et al. 2012). Hence, the present study attempts to address this issue. Given how important corporate governance is in recent years and the recent reforms in the corporate governance code, the study hopes that more valuable findings could be revealed to help enrich the level of corporate governance agenda.

There have been on-going debates as to whether audit firms should provide non-audit services (NAS) to client firms. Institutional investors and stakeholders advocate that this could threaten auditor's independence. Hence, as a contribution to the body of knowledge, this study will provide further evidence and will be of benefit to client firms, investors, stakeholders, regulators and audit firms, so as to serve as guidelines to protect auditor independence and audit quality.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Although, there are studies which have researched on the effects of corporate governance variables on auditor change decision, this study further investigated on the role of corporate governance in the relationship between provision of non-audit services (NAS) and auditor change decision.

1.6 Scope of the Study

The scope of the study is to investigate the impact of corporate governance and the provision of non-audit services on auditor change decision. The study outlines three aims it attempts to achieve: the effect of corporate governance on auditor

change decision, the effect of NAS provision on auditor change and lastly, the role of corporate governance in the relationship between NAS and auditor change decision. The study is limited to listed companies on Bursa Malaysia. The data for the study were collected from data stream for the period of 2007-2011.

1.7 Organization of the Study

The thesis is divided into five chapters. Chapter one discusses the background of the study, problem statement, research questions, research objectives, significance of the study and scope of the study. Chapter two reviews prior literatures on theories and discusses empirical findings on auditor change determinants, corporate governance variables, non-audit services and hypothesis development. Chapter three explains the conceptual framework and methodology used in the study. Chapter four highlights the results and discusses the findings of the study. Lastly, chapter five concludes the study by providing summary, implication, limitation and conclusion of the study.

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CHAPTER TWO

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Introduction

This chapter reviews past studies that has been done related to auditor change, theories of auditor change, corporate governance and auditor change, and non-audit services. Section 2.2 discusses on the issues of auditor change in an organization. Section 2.3 elucidates on the relevant theories of auditor change as discussed in past studies. Section 2.4 explains the factors influencing auditor change. Section 2.5 converses on the relationship between corporate governance variables and auditor change. Section 2.6 discusses on the relationship between non-audit services and auditor change. Section 2.7 presents the development of hypothesis. Section 2.8 addresses other factors influencing auditor change. Lastly, section 2.9 will present the summary of the chapter.

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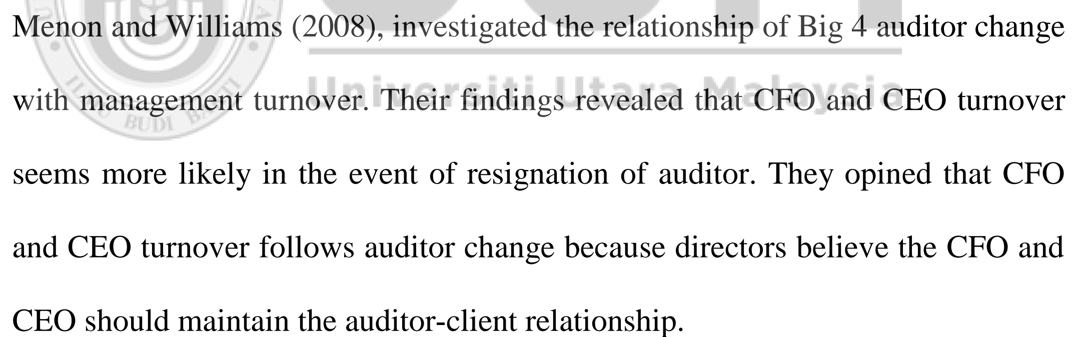
2.2 Issues of Auditor Change

The idea of changing auditor has been proven to have impacts on financial reporting credibility (Joher et al. 2000). As stated by Turner, Williams and Weirich (2005), auditor change entails the resignation and removal of auditor from a company. Ismail, Huson, Nassir and Abdulhamid (2008), stated that auditor change involves the change of incumbent auditor resulting in the choice of quality differentiated audit firms to realign the characteristics of the audit firm, with the growing need of clients under changing circumstances.

Auditor change/resignation has some consequences as shown in prior studies. Wells and Loudder (1997) studied on market reaction following auditor resignation announcement by US firms. The results showed a significant negative return on the first and second day of the announcement. This suggests that the negative return is highly dependent on the announcement day, signalling that the information has quickly affected stock prices. Furthermore, DeFond and Subramanyam (1998), investigated on auditor resignation. They study reported that market reacted negatively to auditor resignation announcement. Shu (2000) reported a consistent finding, asserting that there is a negative reaction to auditor resignation and such reaction could lead to higher client litigation risk. Management turnover is another cost of auditor change.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Menon and Williams (2008), investigated the relationship of Big 4 auditor change with management turnover. Their findings revealed that CFO and CEO turnover seems more likely in the event of resignation of auditor. They opined that CFO and CEO turnover follows auditor change because directors believe the CFO and CEO should maintain the auditor-client relationship.

Various studies have been conducted in different countries in the context of auditor change decisions. Prior studies have indicated that firms change auditors for various reasons. These includes; change in management (Huson et al., 2001; Woo and Koh, 2001; Branson and Breesch, 2004; Hudaib and Cooke, 2005; Nazri, Smith & Ismail, 2012 and Tu, 2012), audit opinion (Lennox, 2000; Geng

and Yang, 2001; Woo and Koh, 2001; Vanstraelen, 2003; Branson and Breesch, 2004; Hudaib et al. 2005;), audit fees (Branson and Breesch, 2004; Ettredge, Li and Scholz, 2007; Ismail et al. 2008; Ebrahim, 2010), client size and complexity (Willenborg, 1999; Copley and Douthett, 2002), financial distress (Weiss and Kalbers 2008), auditor-client disagreement/relationship (Hatfield, Agoglia and Sanchez 2008), improve in the credibility of financial report and audit quality (Weiss and Kalbers 2008), income/performance of the firm (Weiss and Kalbers (2008), leverage (Woo and Koh 2001; Weiss and Kalbers 2008; Ismail, Aliahmed, Nassir and Hamid 2008), financial statements (Calderon and Ofobike 2007), financing activities (Ismail, Aliahmed, Nassir and Hamid 2008).

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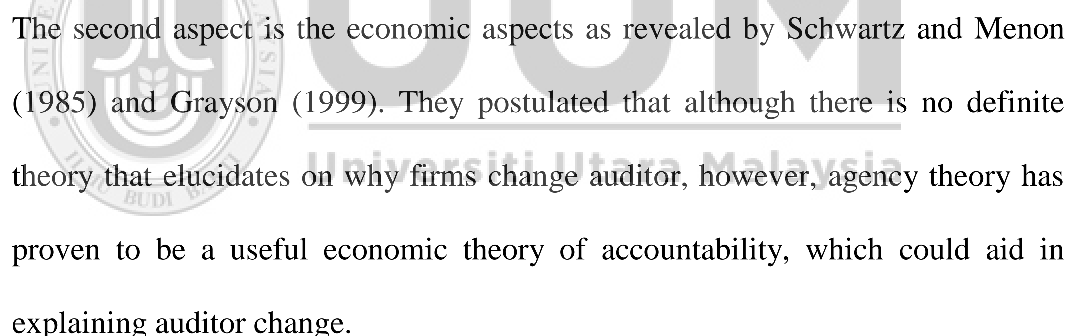
2.3 Theories of Auditor Change

This section highlights the relevant theories that depict reasons for changing auditor by a company. Although, according to Grayson (1999), there is hardly a specific theory that explains the reasons companies change auditor. Wallace (1984), further added that these theories seems to be overlapping one another. As such

2.3.1 Agency Theory

Audit demand studies have shown that agency theory could be used to explain auditor change. An agency relationship is an act whereby one or more principals (owner) engage another person as his/her agent (steward) to carry out a duty on

his/her behalf (Watts and Zimmerman, 1986). Agency theory is seen mainly from two perspectives i.e. behavioral aspects and economic perspective. The behavioral perspective of the auditor change steams from the fact that there is no general theory to elucidate auditor change. As such, as concluded by Schwartz and Menon, 1985 and Knapp and Elaikai, 1988, auditor change theory relies heavily on economic theory (e.g. agency theory). Beattie and Fearnley 1998, posits that economic theory only partially explain auditor change behavior. This is as a result of failure to integrate behavioral factors into theoretical explanations of the auditor change process. More so, the economic theory does not address the particular features of the chosen audit firm;



The second aspect is the economic aspects as revealed by Schwartz and Menon (1985) and Grayson (1999). They postulated that although there is no definite theory that elucidates on why firms change auditor, however, agency theory has proven to be a useful economic theory of accountability, which could aid in explaining auditor change.

Jensen and Meckling (1979) and Fama and Jensen (1983), stated that auditor change decision by client companies are as a result of conflict between the principal and the agent on ownership separation, control of firm, separation of risk bearing, decision making and control functions in firms. The issue of conflict of interest amidst information asymmetry appears to arise in the growth of modern firms today as a result of the owner’s absence, which has led to the daily

management of business operations by professional managers. The manager who is entrusting with the daily navigation of the company knows more about the true financial position and results of the operations of the company rather than the shareholders. Generally, the General Accepted Accounting Principles is followed when reporting this financial information to the owner.

2.3.2 Signalling Theory

Signalling in the context of auditor change, refers to the process by which managers may impart to the market additional information related to the organization and related to their own behaviour as well (Bar-Yosef and Livnat, 1984). In a normal setting, information asymmetry exist on the quality of goods sold, resulting to difficulty in differentiating between various quality goods. Producer's reputation is threatened in a market of this kind, as a result of two factors (moral hazard and adverse selection) which might conspire to high quality products availability (Moizer, 1992).

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Information asymmetry between stakeholders and managers regarding the future cash flows will result to undervaluation of that organization, especially when it comes to share valuation. Stockholders might require managers to disclose relevant information regarding future cash flows since their wealth is at stake. This is done by selecting an auditor. A higher quality auditor is likely to be engaged by managers that are optimistic about their company's future cash flows,

in order to signal to stakeholders that their interest is being well monitored (Titman and Trueman, 1986).

Signalling theory states that "clients switch auditors when they want to convey or signal to the public the quality or reliability of their financial statements and they do this through the type of auditor they engage" (Bagherpour, Monroe and Greg, 2010).

2.3.3 Information Suppression Hypothesis

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The information suppression hypothesis also explains why firms changes auditor. The hypothesis asserts that management initiate change of auditor so as to subdue problematic financial information. Managers sometimes have information asymmetry regarding the existence of bad news. Knowing that the auditor can decide to disclose the bad news even before management is ready as a result of relationship, management might decide to change the auditor so as to delay the release of some unfavourable information, as this move seems to be the last resort (Kluger and Shields, 1991; Grayson 1999). Kluger and Shield (1991), further stated that management might compromise on their decision to change the auditor if the auditor will comply with management's proposal on information suppression. However, refusal to comply might result to the auditor's dismissal.

Grayson (1999), highlighted some of the information management keeps away from public. This information includes: net losses/lower net income, expectations that should be revalued and events leading to extraordinary charges on income statement. He further connotes that some firms have no intention of changing auditor to stop the market from learning of the situation. Hence, there is no point in delaying the disclosure of the news.

Schwartz and Menon (1985), advocates that the existence of a company is threatened when the company is in financial distress. Hence, such a firm might attempt subduing the release of negative information or adopt a method that can cover the issues. This however, could be objected by the auditor expressing a sense of disagreement. Additionally, auditor could give a qualified opinion to firms with negative financial condition, which might not be accepted by management. Qualified opinion could hamper the ability of a firm in raising adequate resources and reduce the price of the firm's securities. Firth (1980) further asserts that the lending decision of a bank could be influenced by the disclosure of uncertainties in the report of the auditor. Auditor-client relationship could deteriorate when there is disagreement over accounting methods and audit qualification opinion, as such, results to the idea of auditor change (Schwartz and Menon, 1985).

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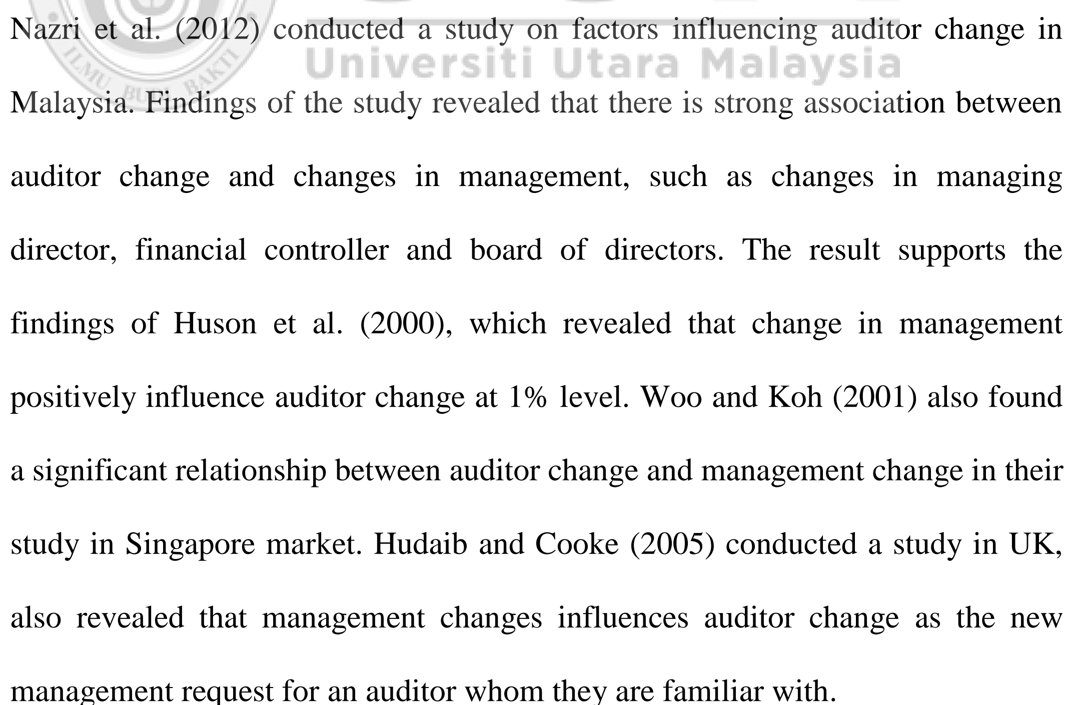
2.4 Factors Influencing Auditor Change

Past literatures conducted on auditor change has highlighted various factors the influence the decision to switch auditors. This section reviews prior studies on those factors. Among the numerous factors influencing auditor change is changes in management. Shareholders normally capitalise on the failure of management as the reason as to why an organization is in a messy situation. This might lead to changes in management in a bid to arrest the ailing situation. Newly appointed management might demand auditor change as it might not be satisfied with the quality of the former auditor. The new management might bring in an auditor whom they are familiar with so as to show favourable financial results (Nazri, Smith & Ismail, 2012).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Nazri et al. (2012) conducted a study on factors influencing auditor change in Malaysia. Findings of the study revealed that there is strong association between auditor change and changes in management, such as changes in managing director, financial controller and board of directors. The result supports the findings of Huson et al. (2000), which revealed that change in management positively influence auditor change at 1% level. Woo and Koh (2001) also found a significant relationship between auditor change and management change in their study in Singapore market. Hudaib and Cooke (2005) conducted a study in UK, also revealed that management changes influences auditor change as the new management request for an auditor whom they are familiar with.

In a similar study by Tu (2012), the study investigated on the relationship between controller changes and auditor changes in China. Using listed firms in China's A-share market from 1997 to 2009, the findings revealed that controller changes influences auditor change, with auditor change being more likely when there are controller changes extensively. In a similar vein, Branson and Breesch (2004) found similar result in a Belgium market study; the findings revealed that change in management/shareholder is a driver of auditor change. Although, the researchers further stated that auditor change is not mostly as a result of dissatisfaction with the present auditor, but due to the bond existing between the previous management and the previous auditor. In consistent with the above findings, Aghaei- Chadegani, Mohamed and Jari (2011), conducted a similar study on the determinant factors of auditor change in Tehran market. Using a sample consisting of 182 firms listed in the Tehran Stock Exchange, their study revealed that change in management is positively related to auditor change.

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Beattie, Goodacre and Masocha (2006), on a study on the determinants of auditor changes in the voluntary sector in the UK market, documented contradicting findings. Using the large database of 276 UK charity organizations, they documented that change in management does not effects auditor change decision in the charity industry. Audit fee dispute is believed to be a factor influencing auditor change among firms. Researchers opined that if a company recognizes that lower audit fees can get them same level of service, the company might resort to an auditor who charges low fee (Woo and Koh, 2001).

In a study by Ettredge, Li and Scholz (2007), on the relationship between auditor change and audit fees in US, the findings revealed that clients with an increase in audit fees are expected to change their auditor. Small clients are expected to change from big audit firm to non-big audit firms. Calderon and Ofobike (2007) seemingly found consistent evidence that fees is significantly related with auditor change. According to Ismail et al. (2008), in a study on why Malaysian second board companies switch auditors, he found a significant relationship between audit fees and auditor change. The study opined that companies might want to minimize cost during period of financial crisis by changing to lesser-expensive audit services. Ebrahim (2010) conducted a study on the effect of Sarbanes-Oxley (SOX) Act on audit fee premium and auditor change, the findings shows that audit fees influences auditor change.

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It also shows that client who is experiencing less audit fees increase changed from big audit firm to non-big audit firm. Branson and Breesch (2004) found similar results, showing that audit fees are an agent of auditor change. They posit that audit fee influences auditor change in the Belgium market due to the strong regulations present. Companies appoint auditors because it is a legal requirement and not because they want to. A study by Thevenot and Hall (2009) on auditor switches in the post-SOX era, revealed that audit fees positively influenced auditor change decision. The study suggested that as a result of a firm facing internal control problems, the firm might fire its auditor when paying high fees due to its desire to reduce its audit cost. Magri and Baldacchino (2004) found consistent result in a similar study in the Malta market.

In contrast, Daugherty and Tervo (2008) in their study of investigating executive's satisfaction level with their current and predecessor auditor, found no relationship between audit fees and auditor change. Past studies have revealed that client firms tend to change their auditor after receiving qualified opinions (Geng & Yang, 2001). Vanstraelen (2003), found a significant relationship between audit opinion and auditor change. He opined that management believe that once an auditor is changed, the company could hire a more flexible auditor whose views would be aligned with that of the management.

Hudaib and Cooke (2005) and Lennox (2000), also found consistent findings in their respective studies, stating that auditors opinion increases the likelihood of audit changes. Thevenot and Hall (2009) found similar evidence, indicating that audit opinion increases the probability of firms changing auditor. They document that following the adverse of internal control over financial reporting (ICOFR) opinion, coupled with a number of material weaknesses, firms tends to change their auditors.

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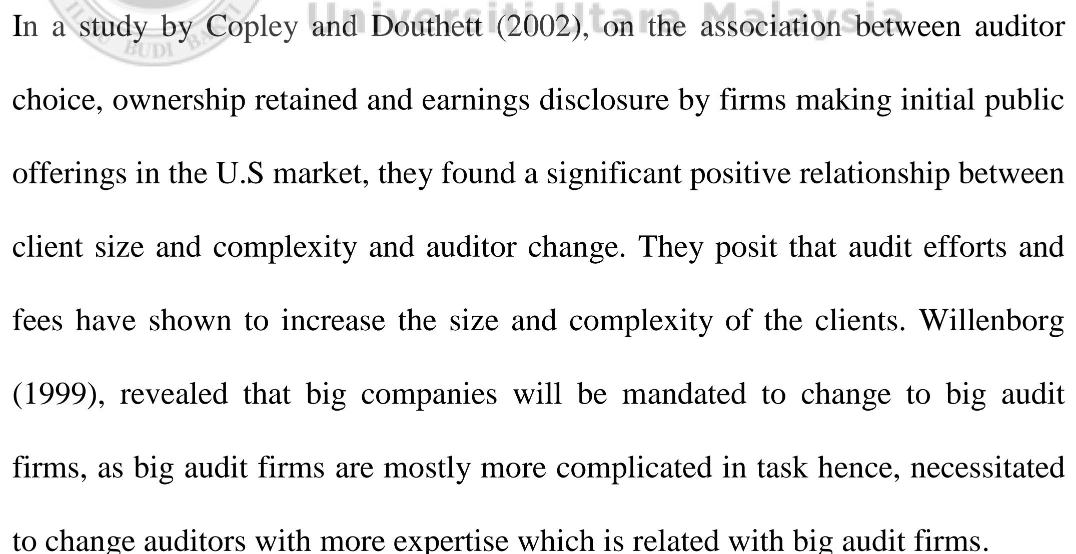
In contrast, Branson and Breesch (2004), in a Belgium market study, documented that audit opinion does not influence auditor change companies in Belgium. Instead, the choice of auditor change in subsidiary firms is influenced mostly at the parent level. Woo and Koh (2001), also document that there is a negative relationship between audit opinion and auditor change.

Calderon and Ofobike (2007) found consistent results also, indicating that audit opinion is not statistically significant at conventional significance level. In the Malaysian market, Ismail et al. (2008), findings is consistent with the above stated opinions that there is no significant relationship between qualified audit report and subsequent auditor change. Thahir, Wahid, Nazri and Hudaib (2006) conducted a study on auditor-client relationship; they investigated on the factors influencing auditor change. Using logistic regression analysis, they evaluated the influence of different independent variables on changing behavior and audit tenure. They results of the study revealed that there is a relationship between auditor change and client firm. The study revealed that retention of an auditor hangs on the client size based on level of financial risk, total assets and auditor type, but not by changes in operating income and market value.



In a study by Copley and Douthett (2002), on the association between auditor choice, ownership retained and earnings disclosure by firms making initial public offerings in the U.S market, they found a significant positive relationship between client size and complexity and auditor change. They posit that audit efforts and fees have shown to increase the size and complexity of the clients. Willenborg (1999), revealed that big companies will be mandated to change to big audit firms, as big audit firms are mostly more complicated in task hence, necessitated to change auditors with more expertise which is related with big audit firms.

In contrast, Magri and Baldacchino (2004) in their study on factors contributing to auditor changes in Malta market, argued that the size of the firm does not contribute to auditor change decision. It is the bond of relationship between the firm and auditor that makes the difference. In a similar vein, Ahgaei-Chadegani et al. (2011), also found negative relationship between client size and auditor change in Tehran market.

Past studies has shown that long lasting engagement with an auditor is related to having sound knowledge of the client's operating environment. A firm's annual report is affected by negotiation between the client and the auditor, which is further affected by the client-auditor connection. This entails that the decision to change auditor is affected by the relationship between the auditor and the client (Antle and Nalebuff 1991; Hatfield et al. 2008).

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A study by Beneish et al. (2005) assessing the conditions under which auditor resignations reduce uncertainty regarding the quality of financial reporting. The analysis was based on a sample of 109 auditor resignations in the period of 1994-1998. The study documented that disagreement over accounting treatment influence auditor change. The findings of Calderon and Ofobike (2007), is consistent with the above opinion, showing that disagreements is significantly associated with auditor change. Magri and Baldacchino (2004), investigated on the factors contributing to auditor change in Malta. Questionnaires were distributed and interviews were conducted with firms that changed their auditor.

The study revealed that the relationship between the client and the auditor affects auditor changes. They attested that behavioral concerns in auditor-client association are the most dominant factor that influences auditor change in Malta. They further posit that a less stable relationship between top management and auditor, irrespective of firm size and the auditor type is the determinant factor. However, Thevenot and Hall (2009) contradicted this opinion; their results revealed that the length of auditor-client relationship is negatively associated with auditor change.

Weiss and Kalbers (2008), conducted a study on the causes and consequences of auditor change in the US market. The study uses realignment, opinion shopping and litigation risk to investigates the determinants of auditor changes, for sample firms. The findings revealed that clients seem more likely to change auditor when the past auditor does not have the required industry expertise, thus, the quality of the audit might not be standard. In a similar study by Daugherty and Tervo (2008), they examined executive's level of satisfaction with their predecessor and current auditor. The study was conducted during the period of dismissal of Anderson and the enactment of changes set by Sarbanes-Oxley. The study surveyed Audit Committee Chairpersons, CFOs and CEO's of the S&P 500. The results of the study revealed that audit quality significantly affects auditor change. They attested that executives switching auditor are mostly less contented with the professional services rendered by their current auditors. Similarly, Beattie and Fearnley (1995) investigate on the importance of audit company characteristics and the factors influencing auditor change based on questionnaire responses from

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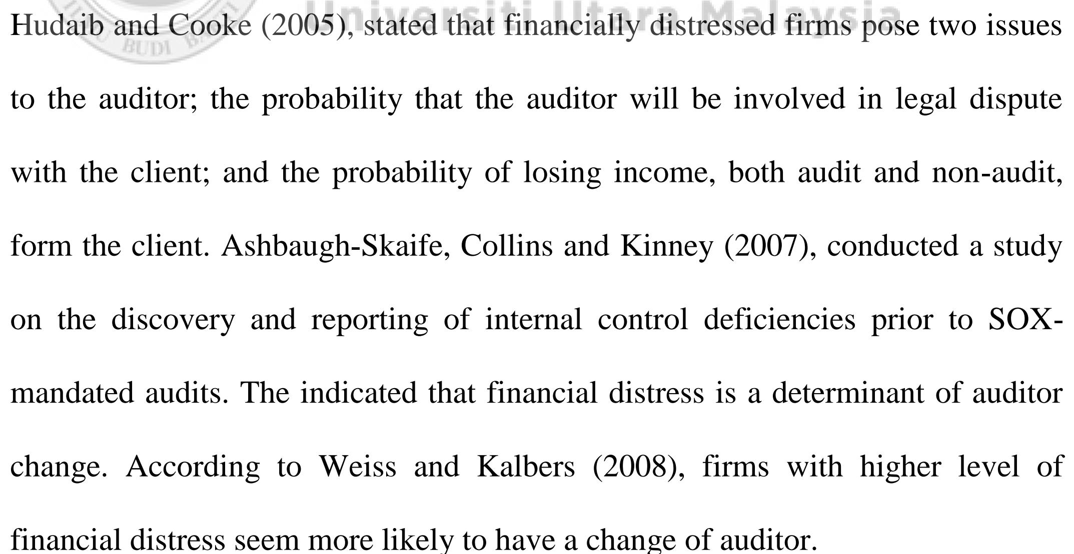
a random sample of 210 (70% response rate) listed and USM firms. The findings revealed that audit quality is a significant factor in auditor change decision.

In Weiss and Kalbers (2008) study, they documented that a firm's income influences auditor change. They posit that firms with income-increasing performance adjusted discretionary seem likely to change auditors. Furthermore, the greater the probability of income-decreasing accruals, the greater the possibility of an auditor change. Chao et al. (2011), on a study on auditor change, analyst forecasts and executive stock options in Taiwan market, revealed that firm's performance influences auditor change. They postulate that managers might change auditor when the performance of the firm deteriorates.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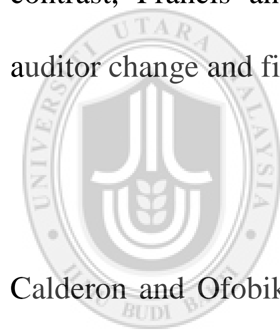
Hudaib and Cooke (2005), stated that financially distressed firms pose two issues to the auditor; the probability that the auditor will be involved in legal dispute with the client; and the probability of losing income, both audit and non-audit, form the client. Ashbaugh-Skaife, Collins and Kinney (2007), conducted a study on the discovery and reporting of internal control deficiencies prior to SOX-mandated audits. The indicated that financial distress is a determinant of auditor change. According to Weiss and Kalbers (2008), firms with higher level of financial distress seem more likely to have a change of auditor.

Thahir et at. (2006) found similar results, revealing that financially distressed firms are mostly likely to change auditor as compared to non-distressed large firms. Aghaei-Chadegani et al. (2011) conducted a similar study in Tehran market; his findings also revealed that there is a positive relationship between financial distress and auditor change in Tehran. Schwartz and Menon (1985), posits that the incentives for failing companies to change auditor may not be the same as for financially healthy firms. Auditor change in healthy firms may be influenced by factors such as the client's need for additional services or auditor's industry expertise. In financially distressed firms, auditor change may be caused by the presence of reporting disputes or the anticipation of a qualified opinion. In contrast, Francis and Wilson (1988), found a negative relationship between auditor change and financial distress.



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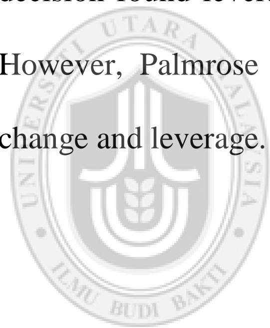
Calderon and Ofobike (2007), conducted a study on the determinants of client-initiated and auditor-initiated auditor changes in the US. The authors classified factors into client-initiated and auditor-initiated categories and then developed a hypothesis that aligned with the classification. The findings of the study revealed that financial statement are significantly related with auditor changes. They authors further posit that financial statements may be accompanied by other issues like internal control and audit opinion concerns. These issues might mask the effect of the financial restatement variable.

Ismail, Aliahmed, Nassir and Hamid (2008) conducted a study on the major determinants of auditor change among listed firms on Second Board of Bursa Malaysia for the period of 1997-1999. They study uses logistic regression model to investigate the determinants of auditor change. The results of the study revealed that there is a positive significant relationship between leverage and auditor change in Malaysia. Woo and Koh (2001) conducted a similar study in Singaporean market. They results revealed that there is a positive relationship between the ratio of long term debt and auditor change. However, there was no significant relationship between leverage and the direction of changes found. Past studies that examined the relationship between leverage and auditor change decision found leverage to be related with auditor change (e.g. DeFond, 1992). However, Palmrose (1984) found no significant relationship between auditor change and leverage.



Woo and Koh (2001), using the ratio of the proceeds of publicly issued stocks and debt in the year after the auditor change to the book value of assets at the beginning of the year of auditor change, are also unable to find a relationship between auditor change and new financing. Defond (1992), also found no significant relationship using similar measurement. Francis and Wilson (1988) documented no relationship with auditor change using the total of publicly issues stock two years after the auditor change. Only Johnson and Lys (1990) found significant relationship. They results revealed that changes in debt equity issued to total assets, are significant to explain the choice of successor auditor in terms of size.

Table 2.1

Summary of literature review

Author	Study	DV	IV	Methodology	Results
Nazri et al. (2012)	Investigates factors influencing auditor change (Malaysia)			400 listed firms on Bursa Malaysia from 1990-2008. Logistic regression was used.	The results documents that client firm size, changes in management and complexity influence auditor change. However, audit opinion is found not to be a determinant factor
Tu (2012)	Examine the relationship between auditor change and controller changes (China).			Listed companies in China's A-share market from 1997-2009	Auditor changes are influenced by changes in controlling shareholders, the main business, the chairman and the CEO.
Branson and Breesch (2004)	Examine the relationship between auditor change and audit characteristics (Belgium).			Data was collected from the national database of the Belgian national bank, using membership list of all auditors as of Dec 1995 – Dec 1996. 4000 companies were selected, elimination of doubles resulted in a sample of 3555 companies.	Main drivers of auditor change were changes in management, audit fees and limited supply of NAS. However, no evidence to show that Belgian firms changes auditors.
Aghaei-Chadegani, Mohamed and Jari (2011)	To explore the main determinants of auditor change in Tehran (Iran)	Auditor change	Qualified audit opinion, audit quality, change in audit fees, change in management and financial distress	The sample consists of 182 firms listed on Tehran stock exchange. Out of the 182 firms, 91 firms had auditor change during 2003 -2007 and 91 firms without auditor change.	Logistic regression analysis has shown that only audit quality is significantly related to auditor change in TSE. The study also documents that there is no significant association between receiving qualified audit opinion and auditor change.
Beattie, Goodacre and Masocha (2006)	To examine the generalizability of auditor change determinants (UK).	Auditor change	Management change, change in finance, audit quality and audit fees.	The study developed a logit regression model of the auditor change determinants using a large dataset of 276 UK charities (138 that changed auditor between 1999 – 2003).	The study indicates that charities are more likely to change auditor if the incumbent auditor is top tier, if the new auditor has greater

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					expertise in the charity sector, if the charity income has fallen significantly and if the charity has an audit committee. However, audit fee is not a determinant.
Weiss and Kalbers (2008)	Causes and consequences of auditor changes (US).	Auditor change	Opinion shopping, realignment and litigation risk.	Audit analytics database identifies 15,108 auditor changes that occurred between Jan 1, 2000- Dec 31, 2007. 2,237 is the sample size from the Compustat North America Industrial Annual database.	The study documents that non-accelerated filers have important differences from accelerated filers both in the determinants of auditor changes and the market reactions to those changes. Non-accelerated filers appear to be less prone to opinion shopping and have lesser realignment issues driving changes than their accelerated counterparts. Both accelerated and non-accelerated filers have auditor changes and particularly auditor resignations, related to litigation risk. However, the pattern of significant individual litigation risk variables is different and more pronounced for non-accelerated filers.
Ismail et al. (2008)	To identify the major determinants of auditor change among listed firms on Bursa Malaysia (Malaysia).	Auditor change	Management changes, rapid growth, change in financing activities, qualified audit opinion, financial distress, audit fees, client size, change in company name, longevity of	The names of changed firms, date of auditor change and financial data were extracted from minutes of AGM, firm's financial reports and annual firm's handbook for the period 1997 - 1999. The study uses logistic regression model	The study found that growth turnover, audit fees, leverage, financing activities and longevity of audit engagement were the significant determinants of auditor change.

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			audit engagement.		
Thahir et al. (2006)	To investigate auditor-client relationship and the factors affecting it (Malaysia).	Auditor change	Book value of equity, market value of equity, client size, changes in total assets, changes in sales, types of audit firm, changes in income from continuing operations, financial distress and audit tenure.	297 sample size listed companies on KLSE were used over a period of 11 years from 1990 – 2000.	The results shows evidence on the relationship between auditor change and audit tenure, client size, client growth, client financial risk. It also reveals that retention of audit companies depends on the size of clients based on total assets, level of financial risk and type of audit firm but not by changes in operating income and market value.
Magri and Baldacchino (2004)	Seeks to elicit on factors influencing auditor change decisions (Malta).	Auditor change		250 companies were selected for the study. Questionnaires were emailed and responded by 97 Maltese companies. The findings were accompanied by 15 interviews with companies that actually changed their auditors.	The study indicates that behavioural forces provide the principal motivators of auditor changes in Malta. Also, deterioration in the working relationship with the auditor and lack of accessibility feature as foremost concerns.
Ebrahim (2010)	To provide more comprehensive analysis of the effects of SOX Acts on both auditor change and audit fee premium (US).	Auditor change	Audit fee, non-audit fee, assets turnover, client size, extraordinary items, inventory, leverage, loss, ROA, receivables and foreign sales	The study limit the sample only to the data availability of the items necessary to conduct the analysis and run the models above in both audit analytics and compustat database between the period of 2000-2006.	The study documents a significant shift in audit fee premium in the immediate years of SOX adoption for small accelerated filers. Such shift started going down during 2006 after the initial application of SOX requirement. Clients who changed from big to non-big auditors have experienced a slower increase in their audit fees.
Daugherty and Tervo (2008)	Examines executives reported			Questionnaires were emailed to 500 executives of	The results shows that respondents experiencing

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	satisfaction level with their current and predecessor independent auditor (US)			companies in 2003. A total of 83 questionnaires were returned by these executives	recent auditor change are mostly less satisfied with the professional services rendered than respondents not experiencing a change. Also, there was no difference regarding value for fees.
Thevenot and Hall (2009)	Examine factors affecting auditor change (US)	Auditor change	Material weaknesses, entity reasons, total fees, tenure, big 4 auditor, average market capilization	Sample used were collected from audit analytics and includes companies that received an adverse internal control opinion in one reporting year, followed by an unqualified opinion in the next year. The period was from 2004 -2007. Total sample size of 765 companies.	Findings revealed that severity of internal control problems, the length of auditor-client relationships, auditor-related fees and presence of big 4 auditor affects the probability that a company changes auditor.
Calderon and Ofobike (2007)	Determinants of client-initiated and auditor-initiated auditor changes	Auditor changes	Client size and complexity, audit firm size, going concern, control environment, accounting disagreements, financial statements, audit opinion concerns risk management decisions, scope limitations and fee related reasons.	Data were collected from audit analytics auditor change database from 2001 – 2006. Sample size consist of 6,510 auditor changes.	Issues of going concern to the auditor, risk management, internal controls, proportion of audit fees to total fees and scope limitations negatively affect the alliance between auditors and their clients and evidently lead to separation.

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2.4 Corporate Governance around the World

2.4.1 Background

The collapse of Enron in 2001 in the US has played a crucial role in increasing the significance of corporate governance in the US and the world at large. Three

issues were highlighted as a result of the incident. First, the firm had a culture which encourages staff to influence public policy-makers regarding the privatization of deregulation of the energy sector in the US. Second, the firm influences its accounting firm into carrying out dubious financial transactions, which would latter result to Enron collapse and ended Anderson as an independent company. Third, the Enron debate has led the US financial market into chaos and highlights the necessity for radical reformation that most certainly would not have been made had the firm continued operating (Clark and Demirag, 2002).

Levitt (2000), stated that effective governance is crucial for improving the long-term value of stakeholders in the business world. Effective corporate governance is an indispensable component of market discipline; it is more than good business practice in this new technology-driven information age. Cohen et al. (2002), further stated that recent demands of investors and others, for greater accountability from corporate boards and audit committees will most likely improve managerial stewardship quality and probably result to more effective capital markets.

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Fund is a pre-requisite in running a business. Once the funds are available, managers might try to take advantage of the shareholders and the public as well. That is the issue in separation of ownership and control, which is being termed as the “agency problem of the relationship between the principal and the agents”.

Theoretically, board of directors are elected by shareholders to protect their interests. However, managers tend to subvert this process. Then, if boards are ineffectual, what are other ways that can help (Weston et al. 2001)? Corporate governance tries to answer the above questions.

Generating profits to owners is the major objective of every organization. Although, the relation between economic performance and the forms of governance is debated, effective corporate governance in an organization gives a crucial framework for a timely response by a corporation's board of directors to situation which might affect stockholder value. Corporate governance exists to serve as a purpose through which the provision of a structure by which management, stockholders and directors can pursue the objectives of that organization. Lack of corporate governance may imply vulnerability even in an organization that is financially well for stockholders because the organization might not be positioned optimally, to tackle management or financial challenges that might arise (Business Roundtable, 2005).

A focused state of mind is required for strong corporate governance on the part of the CEO, directors and senior management, which must all be committed to the organization's success through maintenance of the highest standards of ethics and responsibilities. Even the most well-drafted procedures and policies are destined to fail if management and directors are not committed to adopting them in practice. An effective corporate governance is a "working system for principled

goal setting, effective decision-making and appropriate monitoring of compliance and performance, through which the CEO, the management team and the board of directors can interact effectively and respond quickly to changing circumstances within a framework of solid corporate values, to provide enduring value to the stockholders who invest in the enterprise (Business Roundtable, 2005).

The OECD in 1999 issued a set of corporate governance guidelines and standards to assists government in evaluating and improving regulatory, institutional and legal framework for corporate governance in their various countries, and also to provide guidelines and suggestions for investors, stock exchanges and other parties that plays a role in corporate governance development process (OECD, 1999). After publication of these guidelines and standards, almost every country issued its own corporate governance standards.

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2.4.1.2 Definition of Corporate Governance

Corporate governance has various definitions. The most widely used definition is issued by the OECD, which stated that "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure

through which the company objectives are set and the means through which those objectives and monitoring performance are attained" (OECD, 1999).

Other definitions taken from different studies include: "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer and Vishny, 1997). The Encyclopedia definition of corporate governance stresses more on the economic health of the society. It asserts that "corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return". Oman (2001) stated that "corporate governance comprises a country's private and public institutions (both formal and informal) which together govern the relationship between the people who manage corporations (corporate insiders) and all others who invest resources in corporations in the country.

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2.4.1.3 Corporate Governance in Malaysia

Corporate governance reformation was brought to the spotlight in the aftermath of the 1997/1998 Asian economic meltdown. The government of Malaysia reacted swiftly by improving on its principles and guidelines requirement of companies. The ministry of Finance instituted the High Level Finance Committee

on Corporate Governance to re-evaluate the effort of the country in meeting up with the demand of the current capital market. In that same period, the Malaysian Institute of Corporate Governance was established, comprising of different professional bodies: Malaysian Association of the Institute of Chartered Secretaries and Administrators, Malaysian Association of Certified Public Accountants, Malaysian Institute of Directors and Malaysian Institute of Accountants. In February 1999, the High Level Committee laid the foundation for drafting the Malaysian Code of Corporate Governance (MCCG) through its report.

The MCCG (2012) defined corporate governance as "the process and structure used to direct and manage the business and affairs of the company, towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value while taking into account the interests of other stakeholders". Cadbury Committee (1992, p. 15) defined it "as the system by which companies are directed and controlled".. Majorly, corporate governance caters for issues like (a) reliability of financial reporting; (b) effectiveness and efficiency of operations; (c) safeguarding of assets, and (d) compliance with laws and regulations.

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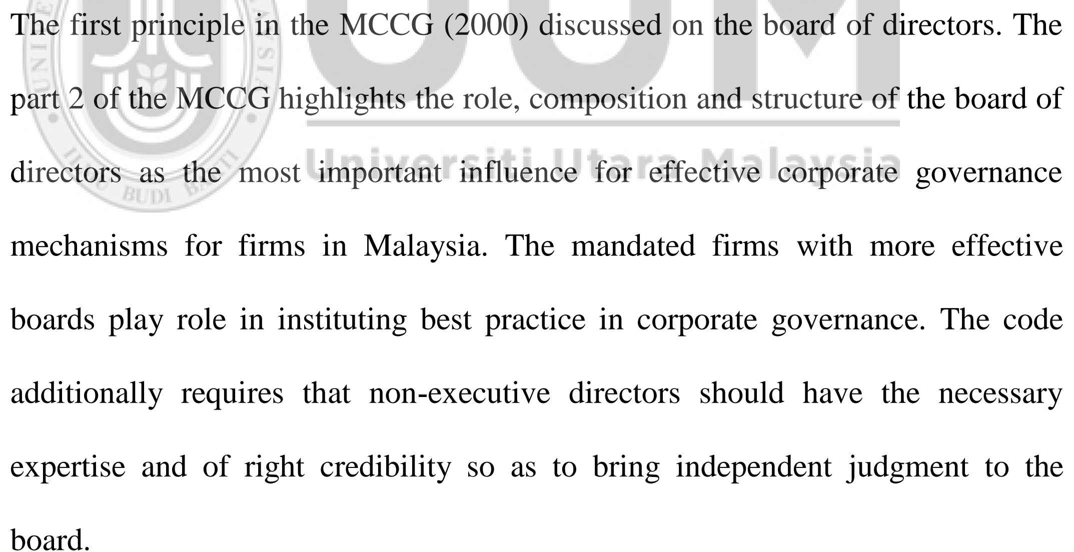
The code became effective through the revamped listing requirements of the KLSE in January 2001. Listed companies with a financial year ending after 30th of June, 2001 were mandated to include a composition of the board of directors, a

statement of corporate governance, and composition of audit committee, a statement of internal control and quorum of audit committee so as to enhance transparency of public listed firms in Malaysia. This mandatory requirement of compliance with the code has enabled shareholders and the public to ascertain corporate governance standards by listed firms. The code comprises of four sections; principles of corporate governance, best practices in corporate governance, principles and best practices for other corporate participants and the explanatory notes. The principles underlying the code focus on four areas, including; board of directors, director's remuneration, shareholders and accountability and audit.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The first principle in the MCCG (2000) discussed on the board of directors. The part 2 of the MCCG highlights the role, composition and structure of the board of directors as the most important influence for effective corporate governance mechanisms for firms in Malaysia. The mandated firms with more effective boards play role in instituting best practice in corporate governance. The code additionally requires that non-executive directors should have the necessary expertise and of right credibility so as to bring independent judgment to the board.

Agency theory asserts that agency cost arises when there is a conflict of interest between managers and shareholders. Fama and Jensen (1983), postulated that the

right corporate governance structure will aid in minimizing agency costs, thereby enhancing the performance of an organization.

Past studies have revealed different governance mechanisms that improve shareholders monitoring ability so as to make management act in the interest of the organization. Those mechanisms are classified into two categories – external and internal governance mechanisms. External governance mechanisms entails controls that are being driven by the market, where internal mechanisms entails the controls that rely on internal parts of the organization to provide incentives to managers as well as to minimize managerial discretion. Examples of internal governance mechanisms includes: ownership concentration, board of directors and executive compensation. External mechanism include: market for corporate control.

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2.4.2 Board of Directors Independence

Kim et al. (2007), stated that a board refers to the number of external directors sitting on the board of a company, and is regarded as a proxy of board independence. Board independence should consist of majorly directors who are neutral or unbiased so as not to hamper their ability to investigate and criticize management (Felton & Watson, 2002). External directors are independent of management and more effective at decision control (Garcia-Meca & Sanchez-Ballesta, 2010).

Board independence significance is best explained by agency theory (Fama and Jensen, 1983). As stated by Hashim and Devi (2008), the theory postulates that board independence is used as a tool for monitoring executive opportunistic behavior since the have the mandate to hire fire and compensate senior management. Board independence is a representative of a company's shareholders interest as it sets up goals, policies and strategies that maximizes the wealth of shareholders.

Bursa Malaysia requires all listed companies to comply with the following requirements: (a) A listed issuer must ensure that at least two directors or 1/3 (one third) of the board of directors of a listed issuer, whichever is higher, are independent directors; (b) If the number of directors of the listed issuer is not there or a multiple of three, then the number nearest 1/3 must be used; (c) In the event of any vacancy in the board of directors, resulting in non-compliance with subparagraph (a) above, a listed issuer must fill the vacancy within 3 months.

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Generally, conflict of interest tends to arise when internal director is included on the board. Thus, agency theory asserts that the presence of external directors will aid in resolving issues which might arise, and also serves to protect the stockholder's wealth (Peasnell et al., 2003). Further, Jensen and Meckling (1976), posits that boards consisting of majority external directors will aid in easing agency problem through controlling and monitoring management opportunistic

behavior. More so, Fama and Jensen (1983), stated that a board's ability to protect stockholder's wealth and monitor management will be enhanced by the presence of majority external directors. Independent directors will aid in dismissing non-performing CEOs (Pettigrew & McNulty, 1995), and also minimize management depletion of perquisites (Brickley & James, 1987).

Past studies have investigated the impact of board composition in corporate reporting and disclosures. Dechow et al. (1996) documented that external directors are adversely associated to accounting actions, stating that a board with a majority of external directors is seen as a way of enhancing the quality of financial reporting. In a similar vein, Beasley (1996), indicated that a company consisting of a majority of external directors minimizes fraud incidence likelihood. He further revealed that board effectiveness in monitoring management is enhanced by the presence of external directors. Furthermore, Beasley et al. (2000) examined corporate governance mechanism and fraudulent financial reporting in care, health and technology sectors. They results of the study revealed that companies in these sectors with fraud reporting are less likely to have independent directors on their boards. Uzun, Szewczyk and Varma (2004), found a consistent result indicating that fraud companies seem to have less independent directors than non-fraud companies.

Prior studies have also been conducted to ascertain the role played by independent non-executive directors in protecting shareholders wealth. Siagian

and Tresnaningsih (2011) and revealed that board independence significantly influences transparency of executive compensation disclosure and earnings quality of Indonesian and Canadian listed companies. They further revealed that independent board members are very crucial in monitoring corporate management despite the presence of concentration ownership, hence, increasing a company's integrity. Consistently, Kao and Chen (2004), examined the relationship between earnings management and external directors in Taiwanese market. They findings revealed that a high number of external directors is associated with less earnings management.

In contrast, Cho and Kim (2007) revealed that due to the influence of large shareholders, external directors have minimum influence on company performance in Korean firms. Similarly, Park and Shin (2004) found no relationship between independent board members and earnings management, where ownership is largely concentrated in Canadian market. Gillan, Hartzell and Starks (2006), stated that there is hardly any demand for overseeing role when a company is open to the market for corporate control.

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Studies in the Malaysian context have revealed mixed findings regarding the role of board independence. Zalailah et al. (2006) investigated on the significance of board's independence in respect to the role of monitoring and strengthening of quality of audit. They indicated that there is a significantly positive relationship between independent directors and high audit quality, proxied by audit fees.

Ismail and Abdullah (1999) documented a positive significant relationship between board independence on earnings quality, proxied by earnings response coefficient. He further postulated that independent directors are effective monitoring and control tool in a company’s financial reporting process.

However, prior studies by Vethanayagam, Yahya and Haron (2006), Hassan Che-Haat et al. (2008) and Nahar et al., (2010) found no relationship between Malaysian firms and board independence. More to that, Nasir and Abdullah (2004) and Saleh et al., (2005), found no significant relationship between independent board and earnings management. Kamardin and Haron (2011) revealed that there is a negative effect of independent non-executive directors on the dimensions of management monitoring roles. However, their findings revealed that non-independent non-executive directors have monitoring incentive in overseeing and assessing management roles. Naimi et al., (2010) found that the number of independent members seems to aggravate audit lag. Naimi et al., (2010) and Kamardin and Haron (2011) findings is consistent with the assertion by Bursa Malaysia that evaluating independent directors quality is crucial to improve their monitoring role.

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Akhtaruddin et al. (2009), found positive relationship between independent directors and voluntary disclosure. They asserted that the number of independent directors on a board enhances the degree of voluntary disclosure. Similarly, Donnelly and Mulcahy (2008) and Samaha and Dahawy (2010) documented

positive relationship between corporate voluntary disclosure and board independent directors. They supported the opinion that properly instituted boards enhance effective governance, hence, enhancing transparency and timeliness of these companies with regards to disclosure (Abdullah, 2006).

Wan-Hussin (2009) and Allegrini and Greco (2013) found insignificant relationship between corporate reporting transparency and board independence. Ghazali and Weetman (2006), investigated the impact of independent board members on the voluntary disclosure information of Malaysian listed companies in the aftermath of the 1997/1998 financial crisis. They found no significant relationship between extend of voluntary disclosure and board independence. Consistenly, Anum (2010) found similar results regarding board independence.

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2.4.3 Chairman/CEO duality

The MCCG (2001) suggests that Malaysian companies should clearly outline the roles and responsibilities in an organization between the chairman and CEO. This is to ensure that power and authority in an organization is balanced such that no individual can abuse his/her power. In an organization where the roles are joint, there should exist an independent strong element on the board. The reason behind the combining of these roles should be publicly explained. Splitting of these two roles makes check and balance over senior management's performance possible and easier. Hashim and Devi (2008), reported that publicly traded companies should split the two roles so as to ensure a balance of authority and power

resulting to more independent boards, as recommended by the Cadbury report. As stated by Davidson et al., (2005), Standard Australian International 2003 guideline advocates that the monitoring ability of the board will be tamed if the chairman of the board is the same person as the CEO.

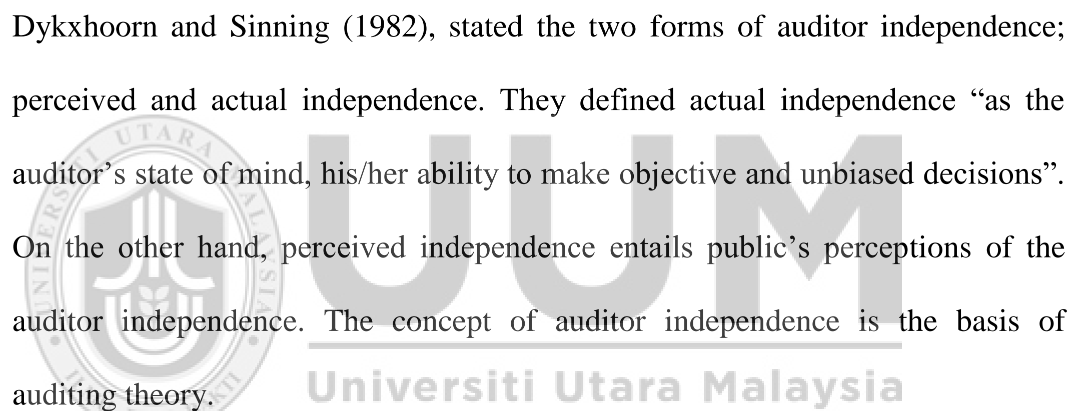
Agency theory asserts that splitting of the two roles enhances board's effectiveness over corporate management through checking evidence against the possibility of over-ambitious plans by the CEO (Gul & Leung, 2004). Abdullah (2004) further added that when the two roles are vested on a single individual, he at the expense of the others might decide to pursue his own interest. Bliss, Muniandy and Majid (2007), stated that when the two roles are combined, board's effectiveness will be hampered due to absence of independence since the CEO monitors his own activities and decisions. It sounds irrational to accept that the CEO/chairman will assess himself impartially (Petra, 2005). Hence, effective monitoring of the board is improved when the two roles are separated (Zulkafli, Adul-smad & Ismail, 2005).

2.4.4 Auditor Independence

Arens and Loebbecke (1984) defined auditing independence "as taking unbiased viewpoint in the performance of audit tests, the evaluation of results and the issuance of audit reports. It includes the qualities of integrity, objectivity and impartiality". Bakar, et al., (2005), posits that an audit report will be useful and crucial in making decision only when the auditors are perceived to be

independent. Without objectivity, integrity and independence, an audit report will not be significant when taking decisions. Hence, there is a crucial bridge linking audit report usefulness, auditor's independence and importance attached to the audit report. Pany and Reckers (1983) postulated that auditor independence concept originates from the reason for the existence of auditing itself. They reckon that the need for a reliable financial information led to the rational for the independent audit.

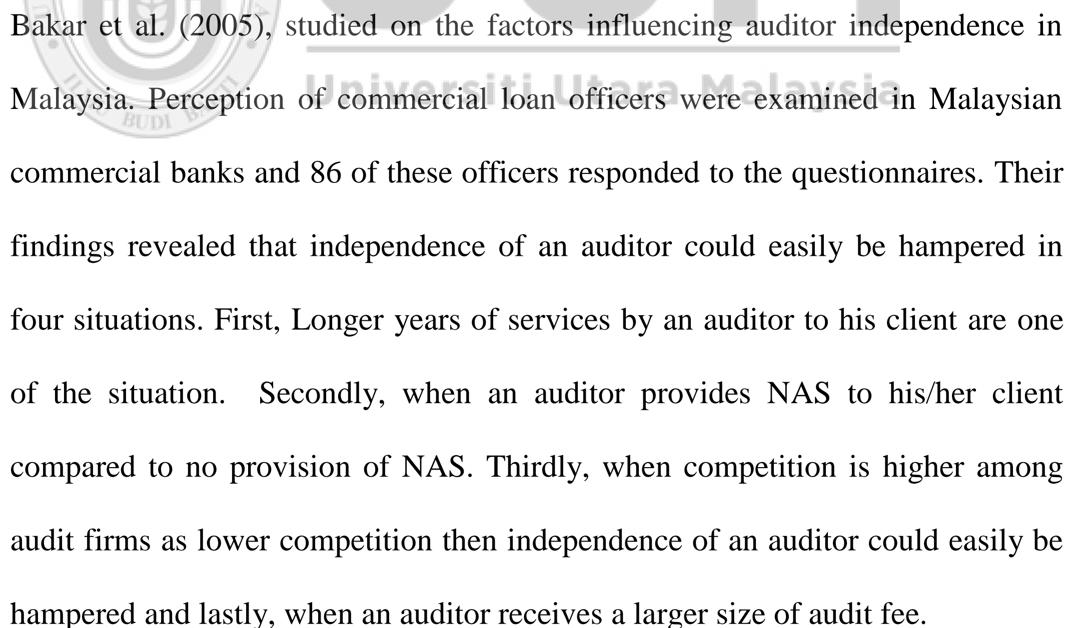
Dykxhoorn and Sinning (1982), stated the two forms of auditor independence; perceived and actual independence. They defined actual independence "as the auditor's state of mind, his/her ability to make objective and unbiased decisions". On the other hand, perceived independence entails public's perceptions of the auditor independence. The concept of auditor independence is the basis of auditing theory.



Prior studies on auditor independence have shown that financial statement credibility hinges on external auditor perceived independence of financial statement users (Firth, 1980). He further asserts that users will seemingly have less confidence in the annual reports of a firm if the auditor is perceived not to be independent; hence, auditor's opinion regarding the firm's annual report will be of no value. Auditor's credibility does not only depend on facts, but as well, on its independence. Pany and Reckers (1980), reckons that for that benefit of public

confident, both perceived and actual auditor independence are important in the profession of auditing.

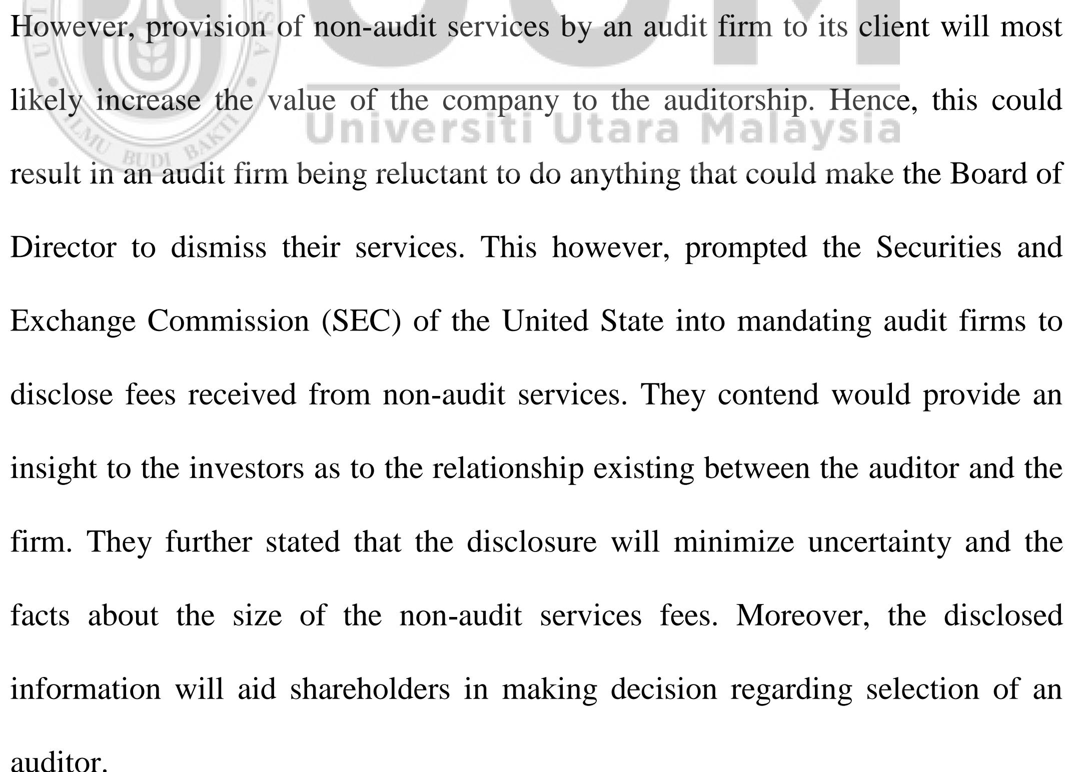
Prior studies identifying situations which might lead to an auditor being perceived as not independent has shown mixed findings. A study on the effects of tenure, NAS, competition and audit firm size by Shockley (1981), regarding the risk that audit independence may be hampered. They findings documented that companies providing NAS, audit firms operating in highly competitive environments and smaller audit firms stand a greater risk of losing independence, though, the audit firm's tenure revealed not significant.



Bakar et al. (2005), studied on the factors influencing auditor independence in Malaysia. Perception of commercial loan officers were examined in Malaysian commercial banks and 86 of these officers responded to the questionnaires. Their findings revealed that independence of an auditor could easily be hampered in four situations. First, Longer years of services by an auditor to his client are one of the situation. Secondly, when an auditor provides NAS to his/her client compared to no provision of NAS. Thirdly, when competition is higher among audit firms as lower competition then independence of an auditor could easily be hampered and lastly, when an auditor receives a larger size of audit fee.

2.4.5 Non-audit services (NAS)

According to Beattie and Fearnley (2002), the level of non-audit services (NAS) over the past few years, provided by audit firms to their clients has been on the rise. Evidence has shown that non-audit fees received by big companies exceed fees received for audit services. To that, some companies re-moulded themselves as providers of professional services as oppose to audit firms. In the Malaysian context, measures have been put in place by the Malaysian Accounting Standard Board to improve these standards and enhance the enforcement of these standards through firms. This is a very crucial step as it serves as a reference against which audit firms exercise their judgment.



However, provision of non-audit services by an audit firm to its client will most likely increase the value of the company to the auditorship. Hence, this could result in an audit firm being reluctant to do anything that could make the Board of Director to dismiss their services. This however, prompted the Securities and Exchange Commission (SEC) of the United State into mandating audit firms to disclose fees received from non-audit services. They contend would provide an insight to the investors as to the relationship existing between the auditor and the firm. They further stated that the disclosure will minimize uncertainty and the facts about the size of the non-audit services fees. Moreover, the disclosed information will aid shareholders in making decision regarding selection of an auditor.

Besides that, consistently, Quick, Sattler and Wiemann (2013), asserts that provision of NAS by an auditor to its clients might result in loss of independence over time. Quick et al. (2013), further revealed that this reduces creditor and investor trust in auditor's opinion, which apparently is a disadvantage to the auditor. However, it is most likely that investors do not believe that provision of both NAS and audit will reduce auditor independence, due to the fact that big audit firms split their assurance and advisory services into different sections. To that, investors might appreciate the gains of such both provisions due to the potential for knowledge spill overs.

Consistently, Albring, Robinson and Robinson (2014), advocates that provision of NAS could impair auditor's independence and the resultant audit opinion. They found that companies with higher tax to audit fee ratios, companies with tarnished reputation resulting from past indiscretion and companies with unqualified opinions are more likely to change from the use of auditor for tax work. Ahadiat (2011), supported the above argument, revealing that there is evidence that when there is high level provision of NAS to the British and Australian audit clients, the potential for the impairment of auditor independence exists. Thus, auditors will be less likely to give a qualified opinion on an organization's financial reports since the level of NAS is higher.

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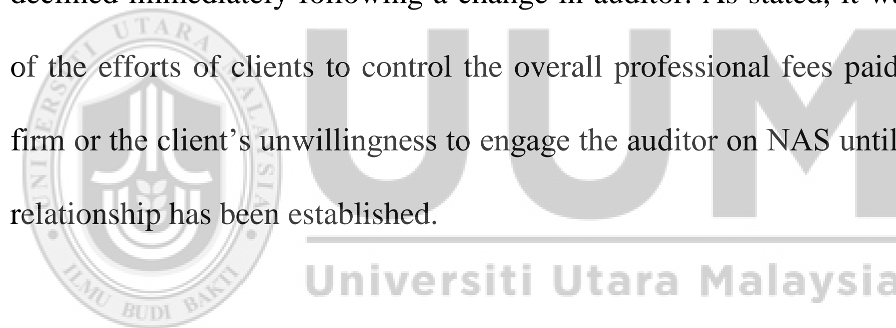
The provision of Non-audit services (NAS) is expected to influence auditor change decision, as audit firm may attempt to retain high non-audit services

purchasers as clients (DeBerg, Kaplan and Pany, 1991). They assert that NAS provision is profitable to the audit firm and the auditor will be motivated to sustain clients that purchases such services. On the other hand, bonding might increase because clients benefits from the NAS, as it will give the auditor additional knowledge about the firm which can be used to anticipate problems. However, DeBerg et al. (1991), found no evidence of any relationship existing between auditor change and non-audit services. Hence, this opposes the opinion that audit firms will most likely want to retain non-audit service purchasers as clients. However, they found significant differences in the level of NAS purchased immediately after changing auditor. It reveals that the level of NAS declined immediately following a change in auditor. As stated, it was as a result of the efforts of clients to control the overall professional fees paid to the audit firm or the client's unwillingness to engage the auditor on NAS until an on-going relationship has been established.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Palmrose (1986), using a sample of 298 public listed companies from 12 various industries shows that provision of NAS increases the economic bonds between the audit firm and the client. She attested that "based on the widespread use of incumbents for NAS, it appears that clients perceived they were generally better off with the joint supply of audit and NAS".

According to the agency theory, the provision of NAS together with audit services may lead to moral hazard problems. Opportunistic auditors may interpret

accounting information in line with the perceptions of the management, so as to assure potential business for the organization. Such activities are usually hidden to regulating authorities, investors and other stakeholders (Arrow, 1985). Ewert (1999), stated that there is possibility that the management of an organization may give side-payments to the auditor in exchange for an unqualified audit opinion. Besides, such payments could be legitimized through advisory contracts (Antle, 1984, p. 16).

This opportunistic behavior is being counteracted by the mandatory disclosure of fees through allowing the public to assess the activities of the auditor. Concurrently, independence is strengthened the more by a high degree of transparency when managers' demand for NAS is fewer (Stefani, 2002). As stated by Antle (1984), any doubt regarding the independence of an auditor resulting from unexpected fees, can impair an auditor's reputation, hence, reducing the usefulness of the audit to investors.

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2.5 Hypotheses Development

In this section, specific hypotheses for each of the corporate governance variables in relation to auditor change are developed. In addition, hypothesis on how auditor reputation loss could affect change decision was also constructed.

2.5.1 Board independence (nedbod)

The distribution of power among corporate managers, shareholders and directors is set when shareholders nominate a board of directors to represent and protect their interest (O'Neill et al., 1998). A major role of a company board is its control function (Pound, 1995), which includes monitoring top management actions to ensure that executives fulfil their responsibilities to the company (Fama, 1980; Fama and Jensen, 1983).

It is believed that the effectiveness of the board in monitoring the decisions of managers is often associated with its composition. Board composition refers to the distribution of members according to their primary allegiance, which may be either to the shareholders (outside) or to the managers (inside). Outside directors generally are viewed as professional referees who unbiasedly protect the shareholders' interests (Agrawal and Knoeber, 1996), helping to prevent or detect any management opportunistic behavior (Fama and Jensen, 1983). NEDs who are independent from management could limit the opportunity of the board to become 'an instrument of top management' by serving to limit top management's discretionary decisions (Beasley and Petroni, 2001). Thus, the larger the proportion of independent NEDs on the board, the more effective it will be in monitoring managerial opportunism (Leftwich et al., 1981; Fama and Jensen, 1983).

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Empirical studies (e.g. Beasley, 1996; Dechow et al., 1996) have shown that when boards of directors are more independent, they tend to act in the best interests of shareholders. Beasley (1996) finds that the likelihood that a company experiences management fraud decreases if it has a larger percentage of NEDs on the board, while Pincus et al. (1989) find a direct relationship between the proportion of NEDs and the voluntary existence of audit committees.

Prior research has argued that non-executive directors have the same objective as independent auditors in identifying and rectifying reporting errors (deliberately or otherwise) made by managers (O'Sullivan, 2000). NEDs are expected to place a greater emphasis (than executive directors) on the extent and quality of the audit rather than on its cost, thereby seeking to reduce informational asymmetries between themselves and inside (executive) directors (Beasley and Petroni, 2001). The presence of NEDs is expected to increase auditor independence since the external auditor is able to discuss matters arising from the audit process with non-executive directors free from managerial influence. The development of audit committees has further enhanced the role of NEDs in this respect, and audit committee composition may now be a more useful corporate governance indicator.

Two studies considered the relationship between board characteristics and audit quality during the period when the role of the audit committee was not well developed. O'Sullivan (2000) examines the impact of board composition and

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ownership in the UK prior to the adoption of the Cadbury Report and finds that the proportion of non-executive directors has a significant positive impact on audit fee (his proxy for audit quality). Beasley and Petroni (2001) find that the likelihood of employing a higher quality (i.e. industry-specialist) auditor increases for firms having a greater proportion of NEDs on the board.

In light of the above arguments, it is expected that, in the event of auditor change, companies with a greater proportion of NEDs on the board would select a higher quality auditor as replacement. Board characteristics have not been included previously in studies of auditor change. However, arguments similar to those presented above for audit committee composition relate to (i) reputational capital enhancement or preservation and, (ii) director liability concern propositions raised by Abbott et al. (2003). These imply that the proportion of NEDs on the board is likely to be negatively associated with the probability of auditor change.

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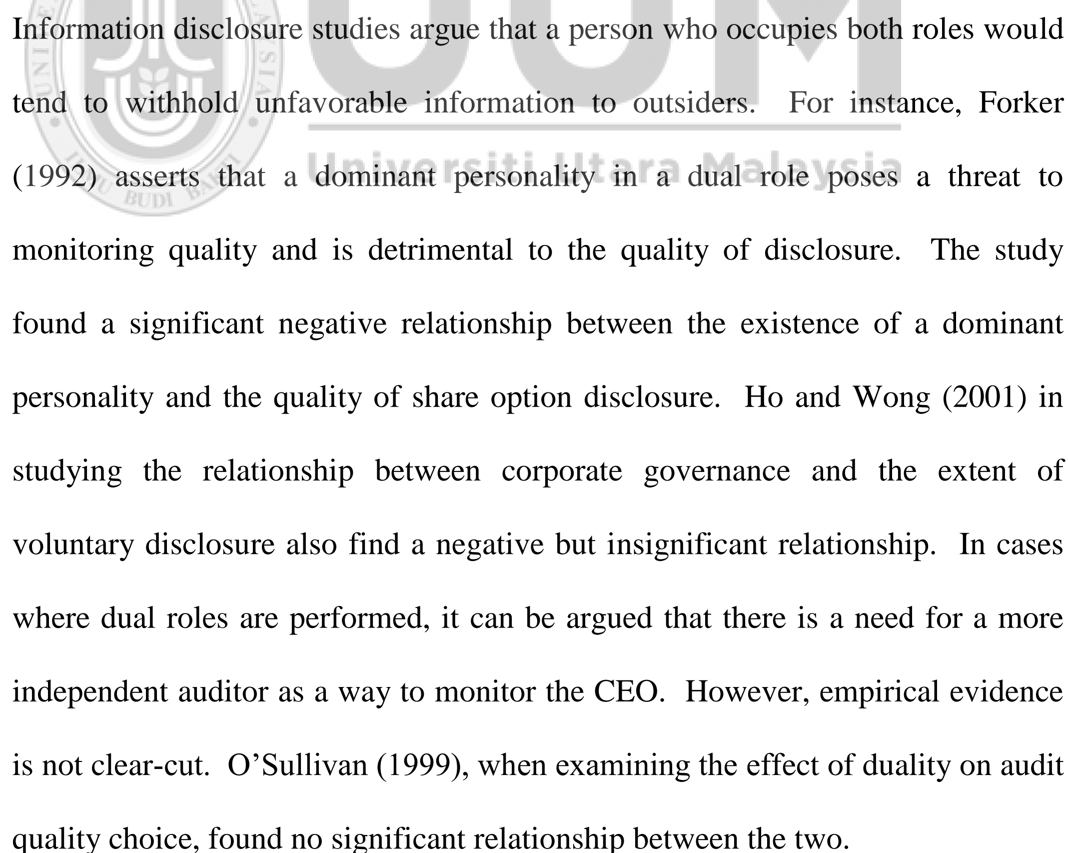
H1: Board of directors' independence is negatively associated with auditor change.

2.6.2 The existence of a dominant personality (dual)

Besides the composition of outside directors on the board, the separation of the roles of the chairman of the board and the chief executive officer (CEO) can also affect the independence of the board. Jensen (1993) advocates that the functions of the chairman of the board are to run the board meetings and oversee the

process of hiring, firing, evaluating and compensating the CEO. Both the Cadbury Report (1992) and the Combined Code (2003) suggest that the roles of the chairman and CEO should be separated. A separate chairman, who is more likely to monitor the interests of the shareholders, can countervail CEO power. Whenever the same person acts as both chairman and CEO (i.e. duality), the CEO will have greater stature and political influence over board members and this has the potential to undermine the independence of the board (Boyd, 1995; Jubb, 2000). As the duality implies influence by an insider on the board, then it can be expected that auditor change would be more likely in the presence of chairman and CEO duality than in its absence.



Information disclosure studies argue that a person who occupies both roles would tend to withhold unfavorable information to outsiders. For instance, Forker (1992) asserts that a dominant personality in a dual role poses a threat to monitoring quality and is detrimental to the quality of disclosure. The study found a significant negative relationship between the existence of a dominant personality and the quality of share option disclosure. Ho and Wong (2001) in studying the relationship between corporate governance and the extent of voluntary disclosure also find a negative but insignificant relationship. In cases where dual roles are performed, it can be argued that there is a need for a more independent auditor as a way to monitor the CEO. However, empirical evidence is not clear-cut. O’Sullivan (1999), when examining the effect of duality on audit quality choice, found no significant relationship between the two.

In light of the above discussion, it is expected that the presence of a dual chairman/CEO is positively associated with the propensity to change auditor. Further as duality decreases the level of a board's independence, it is expected that the presence of dual chairman/CEO is negatively associated with higher quality new auditor selection.

H2: The presence of a dual chairman/CEO is positively associated with auditor change.

2.5.3 Provision of Non-audit services

The demand for additional services was found by Burton and Roberts (1967) to be a primary reason for auditor changes among Fortune 500 clients that were included in their survey. Bedingfield and Loeb (1974) also report that companies over time might require purchasing NAS as a result of changes that take place within the organization. Jubb (2000) asserts that the ability of the auditor to provide NAS is known to influence auditor choice. However, as not all auditors offer NAS, or are capable of offering a specific NAS, companies may need to change auditor in order to suit their current needs.

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A further issue with NAS concerns the potential for NAS provision to taint the perception of auditor independence (Pany and Reckers, 1988; DeBerg et al., 1991; Parkash and Venable, 1993; Wines, 1994). The latest accounting scandal of Enron may also indicate that the actual independence is also impaired (Co-

ordinating Group on Audit and Accounting Issues, 2003). Over time there has been increasing pressure on companies to improve the perception of auditor independence by engaging separate auditors and consultants (see for example: Mitchell et al., 1993). In the Malaysia, a company is required to report the NAS fee paid to its auditor (only), so stakeholders (i.e. academics, public and regulators) have used the level of NAS fee paid to the auditor and its relation with audit fees as indicators of perceived auditor independence.

The few empirical studies that have examined the relationship between the provision of NAS and auditor change, especially prior to the passing of the Sarbanes-Oxley Act, have not documented any significant association. For example, DeBerg et al. (1991) investigating the effects of NAS provision on the auditor-client relationship, find that the decision to change auditors and NAS provision are unrelated, mitigating concerns that auditors may attempt to retain high NAS clients by compromising their independence.

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In Malaysia, the Malaysian Institute of Accountants (MIA) By-Laws (revised 2002) recommend that audit companies should not accept any appointment if the provide NAS to client because that could threaten their independence, integrity and objectivity (Che Ahmed et al, 2006). Kleinman et al (1998), further asserts that NAS provision impairs the independence of an auditor because the auditor might end up auditor his/her own work. Palmrose (1998), also noted that the joint provision of audit and non-audit services will result to a rise in economic rents

which might create incentives for audit firms to compromise their objectivity to retain audit. Ashbaugh (2004) also revealed similar finding in his study positing that provision of NAS threatens the independence of an auditor.

H3: NAS provision negatively is associated with auditor change.

2.5.4 Auditor independence (nasaudfee)

The pressure to respond to apparent impairment of auditor independence as a result of auditor provision of NAS is likely to be lower for companies that use the auditor heavily to provide NAS. Bakar et al. (2005) reckons that auditor's independence is impaired when the auditor receives bigger size of audit fee. Similarly, Shockley (1981), indicates that companies providing NAS has a greater risk of losing independence. Quick et al. (2013), further added that loss of independence reduces creditor's and investor's trust in audit opinion which is detrimental to an auditor. Ahadiat (2011), also revealed that high degree of NAS provision to a client has the potential to hamper the auditor's independence.

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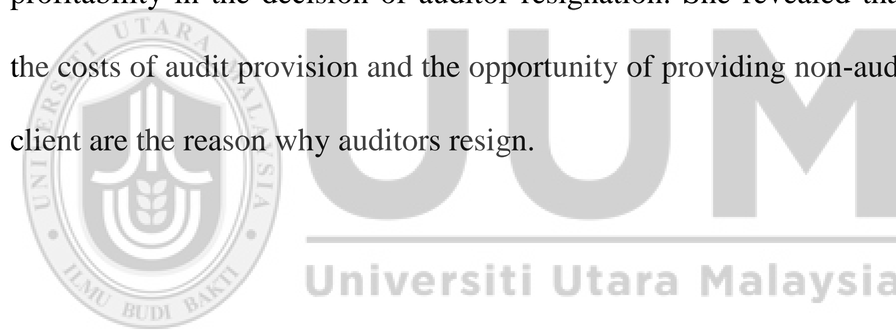
Thus, the likelihood of auditor change is expected to be higher for companies with a high level of NAS (i.e. low auditor independence) provided by the auditor relative to the audit fee.

H4: Low auditor independence is positively associated with auditor change.

2.6 Other Factors Influencing Auditor Change

Auditor change could be influenced by other factors apart from the factors highlighted earlier in this section. Client characteristics are among the causes of client auditor change. Schwartz and Soo (1995), investigated on the impacts on financial distress on auditor change. The results indicated that auditors seem likely resign from financially distressed clients than from non-distressed clients. Audit firm legal liability could be another factor. An analytical framework was developed by Bockus and Gigler (1998), to provide a theory regarding change of auditor in respect to legal liability. They reported a positive relationship between auditor change and legal liability. Audit firm profitability is also a cause of auditor change. Shu (2000) investigated the on the significance of audit company profitability in the decision of auditor resignation. She revealed that changes in the costs of audit provision and the opportunity of providing non-audit services to client are the reason why auditors resign.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Beattie and Fearnley (1998), stressed on changes in management as one of the reasons firms change auditor. They opined that new management might want to work with an auditor that that best reflects the will of the organization's shareholders. Furthermore, firms change auditor in order to avoid receiving qualified opinion and other related costs (Lennox, 2000). He noted that the concern of a manager regarding reduced compensation is an incentive to avoid qualified opinion. Also, firms seek to evade share prices losses since they intend to maximize the firm value. Hence, they try to evade qualified opinions. Accordingly, Woo and Koh (2001), posit that an increase in the size of a firm will increase the firm's complexity, thereby making it difficult in monitoring

managers. Audit fee was another determinant that was identified by prior literatures. Managers tends to change auditors when they do not feel comfortable with the audit fees, in a bid to find a better offer.

2.7 Summary

Three theories have been used in this section to explain auditor change. These theories includes: agency theory, signalling theory and the information suppression hypothesis. Although, there is no specific theory for auditor change, agency theory best explain it. Furthermore, past studies on auditor change have been reviewed in this section. Studies have revealed mixed findings, showing that some variables are positively related to auditor change while others are negative. Corporate governance variable are also explained in this section, which is the moderator for the study. Lastly, the section explains the development of hypothesis.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research design for the study. Section 3.1 introduces the chapter. Section 3.2 explains the initial sampling for the study. Section 3.3 talks about the data cleaning process. Section 3.4 presents the framework and model for the study.

3.2 Initial Sample

Initial annual listings of all companies were obtained from official list of companies listed on Bursa Malaysia, for the period from 31st December 2009 to 2011. The year 2011 was selected because most of the data were available. This source contains comprehensive entries of all companies and securities listed on the Main Market or ACE Market (prior to 2010, the list includes Second Board and MESDAQ market).

3.3 Data Cleaning Process

As extracted from datastream on 2nd September, 2015, 763 companies were continuously listed on bursa Malaysia from the period of 2009 to 2011. 25 companies were excluded from the total population due to incomplete data (annual report not available). Furthermore, 26 companies were similarly excluded due to the fact that the said companies changed auditor more than once during

that period. This method has been used in prior studies of auditor change. For example, Lennox (2000), Woo and Koo (2001) and Hudaib and Cooke (2005). This is especially more important in small sample studies. The total sample size became 712 companies which included 191 auditor changed companies, and 521 non-auditor changed companies.

Table 3.1

Summary of data screening

Sample	Numbers
Number of companies listed on Bursa Malaysia (continuously from 2007-2011)	763
Incomplete data (annual report not available)	25
	738
Companies changed auditor more than once	26
Total sample size	712
Auditor changed companies	191
Non-auditor changed companies	521

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3.4 Framework and Model

The following Figure presents the variables included in the present study

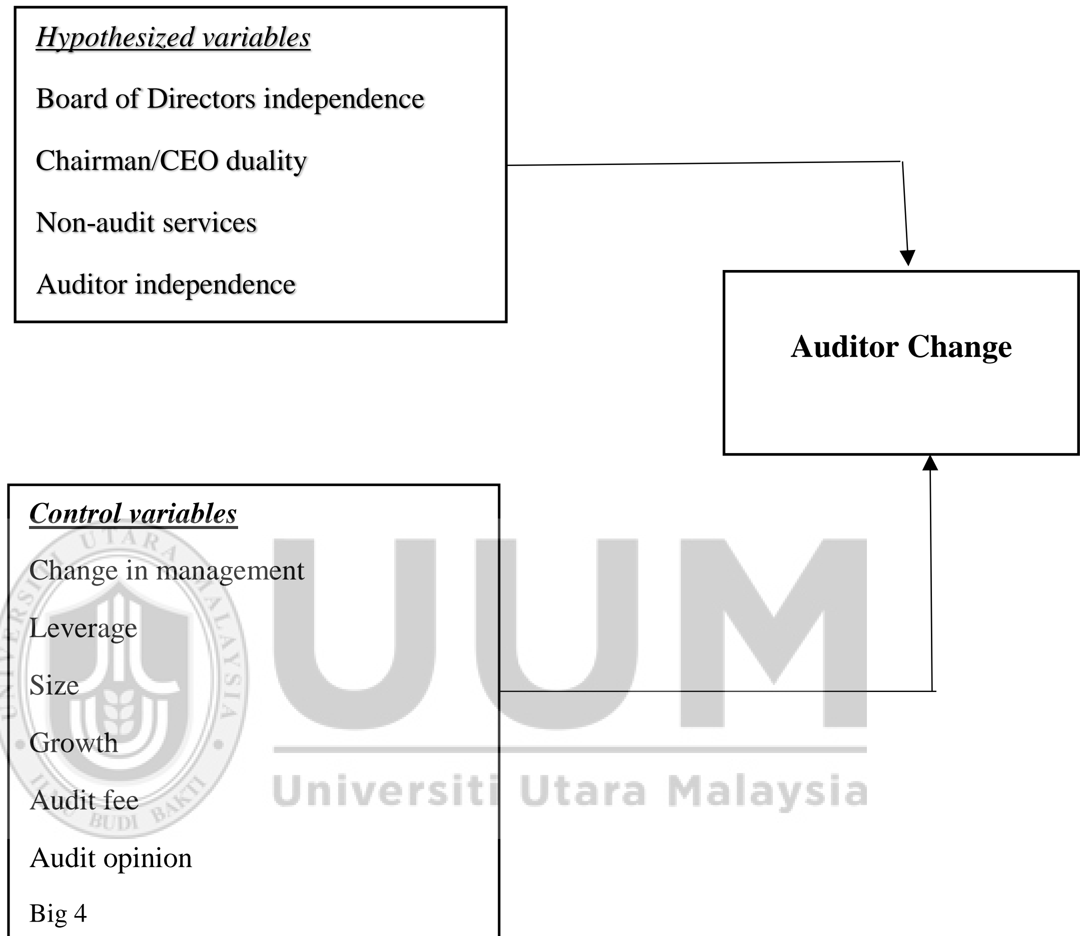

Figure 3.1: Theoretical Framework

The dependent variable in the auditor change model is dichotomous, being coded '1' to represent auditor change cases and '0' to represent non-auditor change cases. Therefore, taking into account the explanatory variables discussed, the general form of the auditor change model can be summarized as follows:

P(audchg=1) = ƒ(nedbod, dual, nas, nasaudfee, other control variables)

Where the dependent variable:

P (audchg=1) = the estimated conditional probability of auditor change

And the independent variables are as listed in Table 3.1

Table 3.2

Description of Independent variables amd Sources of Data

Variables	**Label**	**Description**	**Main Sources**
Board of directors independence	*nedbod*	A proxy for BODs independence as measured by the percentage of non-executive directors on BODs. Equal '1' if the ratio of NED on BODs equal or higher than the sample median, '0' otherwise.	Annual reports
Chairman/CEO duality	*dual*	Equals '1' if the chairman is also the MD/CEO during the year preceding auditor change or '0' otherwise.	Annual reports
Non-audit service	*nas*	Equal '1' if NAS provided to client is higher the sample median or '0' otherwise.	Annual reports
Auditor independence	*nasaudfee*	Ratio of non-audit services fee paid to the auditor to the total audit fee during the year of auditor change.	Thompson Worldscope / Annual report
Management change	*mgtchg*	Equals '1' if the company had change managing director or CEO during the year of auditor change or '0' otherwise	Annual report
Leverage	*levtdta*	Total debt/ Total assets at year t_{-1}	Thompson Worldscope
Size	*sizeasset*	Natural log of total assets	Thompson Worldscope
Growth	*growth*	Percentage change in sales	Thompson Worldscope
Audit fee	*Lgaud fee*	Preceding year's audit fee to auditor change year's audit fee	Thompson Worldscope
Audit opinion	*opinion*	A qualified opinion indicator variable, coded '1' if the company was issued with other than clean audit opinion during the year of auditor change or '0' otherwise	Annual Report
Big4	*Big4*	Equals '1' if the company's auditor was the Big Four during the year preceding auditor	Annual Report

		change or ‘ 0’ otherwise	

To estimate this model, logistic regression analysis will be used since the binary nature of the dependent variable violates the assumption of Ordinary Least Squares (OLS) regression. Logistic regression predicts the possibility of an observation falling into two categories of a dichotomous dependent variable, depending on one or more variables which can be continuous or categorical (*See*: Statistics Solution, 2015).

More so, as seen on Statistics Solution portal, logistic regression does not follow the assumptions of linear model and linear regression which are generally based on ordinary least squares algorithms. It handles different forms of relationship since it applies a non-linear log transformation to the predicted odds ratio. Also, independent variables do not have to be multivariate normal in logistic regression, even though it provides a more stable solution. For logistic regression to be heteroscedastic, it does not need variances for each level of the independent variable. It can as well, handle both nominal and ordinal data as independent variables. The independent variables do not have to be metric (interval or ratio).

Further assumptions of logistic regression is that it is important that the independent variable is coded accordingly since it assumes that P(Y=1) is the probability of an event happening. In other words, the factor level of 1 of the

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independent variable should stand for the desired outcome for a binary regression. Logistic regression desires each observation to be independent; the error terms need to be independent. This entails that the data-point should independent of any sample design like, matched pairings or before-after measurements. There should be little or no multicollinearity, with independent variable being independent from each other.

Logistic regression assumes linearity of independent variables and log odds. It desires a linear relationship of independent variables with log odds even though dependent and independent variable are not required to be linearly related. Lastly, logistic regression requires a large sample sizes. This is because maximum likelihood estimates are less powerful than ordinary least squares (See: Statistics Solution, 2015).

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3.5 Summary

This chapter outlines the sample size of the study and the data cleaning process of how the size was arrived. The chapter further presents the framework of the study where all variables are presented. Lastly, the chapter explains the logistic regression to be used in the study

CHAPTER FOUR

RESULTS

4.1 Introduction

Chapter 4 presents the results of determinants of auditor change study in Malaysia. The chapter seeks to give answers to the earlier proposed research questions: what are the effects of corporate governance and non-audit services on auditor change decision and the role of corporate governance in the relationship between provision of NAS and auditor change decision. The chapter is organised as follows: 4.2 presents the descriptive statistics, followed the presentation of correlation analysis, which is 4.3. 4.4 explain on how outliers are treated, then 4.5 describes the model for the logistic regression. 4.6 and 4.7 talks about the logistic regression results and the additional analysis run in the study respectively. 4.8 is the summary of the chapter.

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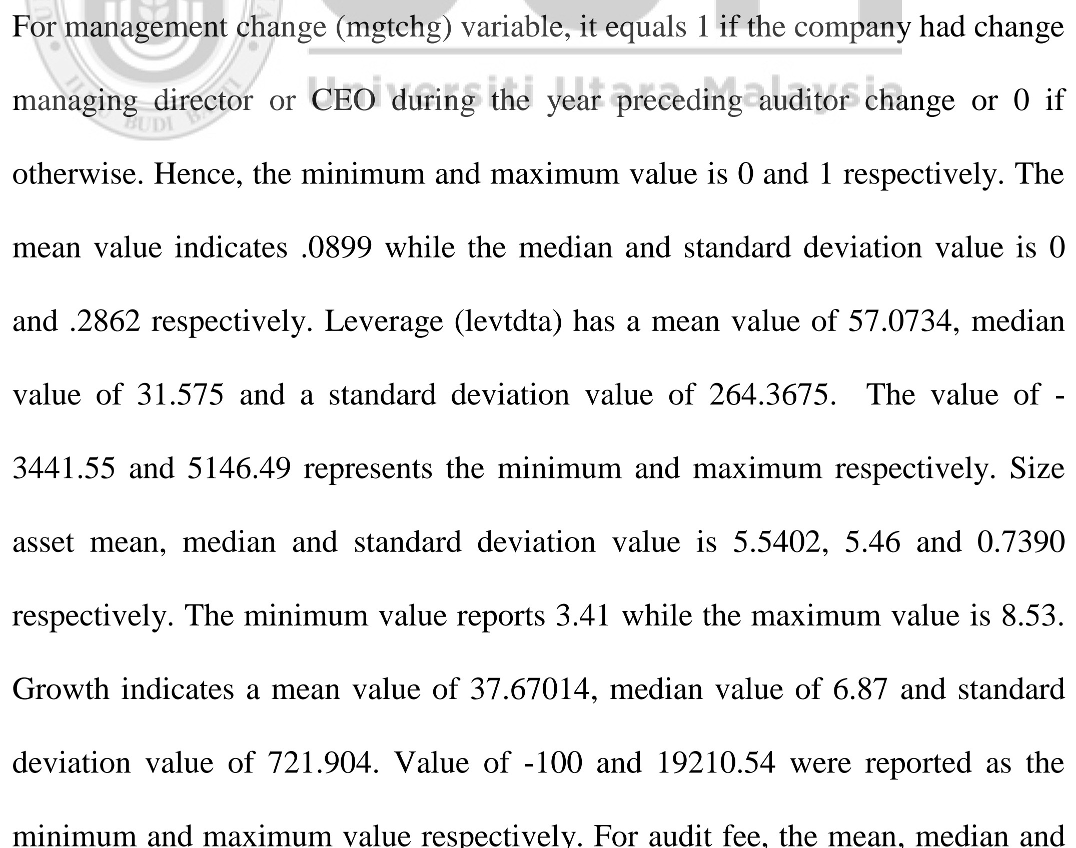
4.2 Descriptive Statistics

Table 4.1 presents descriptive statistics of variables that influenced auditor change decision in Malaysia. The result is presented in terms of mean, median, standard deviation, minimum and maximum values of each construct. As can be seen from the table below, auditor change propensity has a mean value of .2683 with a median and standard deviation of 0 and .4434 respectively. As a dummy variable, if there is a change of auditor, such situation is considered as 1, if there is no change of auditor, it will be represented by 0.

With regards to nedbod, it is measured by the percentage of non-executive directors on the board. The minimum and maximum value is 0 and 1 respectively. The mean and median value is .4404 and 0.43 respectively, with a standard deviation of .1248. For duality, 1 is labelled if the chairman is also the CEO during the preceding year of auditor change, then 0 otherwise. Hence, the minimum value is 0 and maximum value is 1. Value of .1713, 0 and 0.37771 will be the mean, median and standard deviation. In respect to nas, the mean, median and standard deviation value is .5183, 1 and .5000. Minimum value is 0 while the maximum value is 1. In terms of nasaudfee, the mean value indicates 0.8572; median value indicates .09, while standard deviation value is 15.8386. It shows a minimum value of -0.24 while the maximum value indicates 422.68.



For management change (mgtchg) variable, it equals 1 if the company had change managing director or CEO during the year preceding auditor change or 0 if otherwise. Hence, the minimum and maximum value is 0 and 1 respectively. The mean value indicates .0899 while the median and standard deviation value is 0 and .2862 respectively. Leverage (levtdta) has a mean value of 57.0734, median value of 31.575 and a standard deviation value of 264.3675. The value of -3441.55 and 5146.49 represents the minimum and maximum respectively. Size asset mean, median and standard deviation value is 5.5402, 5.46 and 0.7390 respectively. The minimum value reports 3.41 while the maximum value is 8.53. Growth indicates a mean value of 37.67014, median value of 6.87 and standard deviation value of 721.904. Value of -100 and 19210.54 were reported as the minimum and maximum value respectively. For audit fee, the mean, median and

standard deviation value are 2.1230, 2.05 and 0.4476 respectively; while the minimum value is 0.6 and maximum value is 4.2.

For audit opinion, 1 is coded if the company was issued with qualified audit opinion during the year preceding auditor change or 0 if otherwise. Therefore, 0 and 1 are reported as the minimum and maximum value. The mean value is 0.0253, median represents 0 and standard deviation value is 0.1571. Similarly, in regards to big 4, it is coded 1 if the company's auditor was the big four during the year preceding auditor change or 0 if otherwise. The minimum value is 0 while the maximum value is 1. Mean, median and standard deviation values are 0.5548, 1 and 0.4973 respectively.

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Table 4.1
Results of descriptive statistic

Variable	**Mean**	**Median**	**Std.Dev**	**Min**	**Max**
chg_co	0.2683	0.00	0.4434	0	1
nedbod	0.4404	0.43	0.1248	0	1
dual	0.1713	0.00	0.3771	0	1
nas	0.5183	1.00	0.5000	0	1
nasaudfee	0.8572	0.09	15.8386	-0.24	422.68
mgtchg	0.0899	0.00	0.2862	0	1
levtdta	**57.0734**	**31.575**	**264.3675**	**-3441.55**	**5146.49**
lgsizeasset	5.5402	5.46	0.7390	3.41	8.53
growth	**37.6701**	**6.87**	**721.9040**	**-100**	**19210.54**
lgaud_fee	2.1230	2.05	0.4476	0.60	4.20
opinion	0.0253	0.00	0.1571	0	1
big4	0.5548	1.00	0.4973	0	1

4.3 Correlation Analysis

According to Asteriou and Hall (2007), correlation analysis describes the level by which one variable is related to another. Logistic regression assumes that independent variables are not a linear combination of each other. The degree of linear combination is known as multicollinearity. It reflects the degree of linear relationship between two variables, ranging from +1 to -1. A correlation of +1 implies that a perfect positive association exists among the variables. The analysis includes all the variables included in regression model.

The table 4.2 below shows that the correlation between board independence and auditor change is significant at a value of 0.0686 (6.86%). Also, duality and auditor change shows a significant correlation at 0.0145 (1.45%). There is also a positive significant correlation between duality and board independence at 0.0802 (8.02%). Non audit service has negative correlation at -0.1776 (-1.7%) with auditor change. A positive significant correlation exists between non audit service and board independence at 0.0478. Furthermore, the correlation between non audit service and duality is negatively weak at -0.0390 (-3.90%).

Auditor independence and auditor change shows a negative weak correlation at -0.0253 (-2.53%), while a very strong positive correlation exists at 0.0011 between auditor independence and board independence. There is a negative correlation between auditor independence and duality at -0.0168 (1.68%), while a positive significant correlation exists between auditor independence and non-audit

services at 0.0486 (4.86%). A positive significant correlation exists between management change and auditor change at 0.0757 (7.57%). Similarly, management change and board independence shows a positive correlation at 0.0770 (7.70%). A strong positive significant correlation also exists between management change and duality at 0.0135 (1.35%). There is a negative correlation between management change and non-audit services at -0.0213 (-2.13%), while a similar weak negative correlation exist between management change and auditor independence at -0.0113 (1.13%).

Leverage and auditor change has a very strong positive significant correlation at 0.0059, while a negative weak correlation exists between leverage and board independence at -0.0639 (-6.39). In a similar vein, a weak correlation at -0.0566 (-5.66%) exist between leverage and duality. In regards to leverage and non-audit services, a positive significant correlation exist at 0.0295 (2.95%). Similarly, 0.0181 (1.81%) significant correlations exist between leverage and auditor independence. A positive significant correlation similarly exist between leverage and management change at 0.0635(6.35%). Continually, a negative weak correlation exist between asset size and auditor change at -0.2030 (-2.03%) while a positive correlation exist between asset size and board independence at 0.0109 (1.09%). Contrastingly, there is a negative significant correlation between asset size and duality at -0.1139 (-11.39%). A strong positive relationship exists between asset size and non-audit services at 0.3527 (35.27%). Similarly, asset size and auditor independence showed a positive correlation at 0.1360 (13.60%). A positive correlation exist between asset size and management change at 0.0237

(2.37%) and a similar positive significant correlation exist between asset size and leverage at 0.1260 (1.26%).

In respect to growth, there exists a positive significant correlation with auditor change at 0.0569 (5.69%), while a similar positive correlation exists between growth and board independence at 0.0482 (4.82%). A negative correlation is established at -0.0140 (-1.4%) between growth and duality. Moreso, growth is positively and significantly correlated at 0.0369 (3.69%) with non-audit services, while a negative correlation exist between growth and auditor independence at -0.007. Continually, growth is positively correlated with management change at 0.1202 (12.0%) and a negative correlation exist between growth and leverage at -0.0073. A negative correlation was found between growth and asset size at -0.0131.

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Furthermore, a negative correlation was established between audit fee and auditor change at -0.1160 (11.60%), while a positive and significant correlation exist at 0.0434 (4.34%) between audit fee and board independence. More to that, it was revealed that audit fee and duality are negatively correlated at -0.0423 (4.23%) while a positive strong and significant correlation exist between audit fee and non-audit services at 0.3351 (33.51%). A further positive weak correlation was found between audit fee and auditor independence at 0.0975 (9.75%), while a positive correlation of 0.0265 (2.65%) was revealed between same audit fee and management change. In respect to audit fee and leverage, there exists a positive

and significant correlation of 0.0638 (6.38%). Audit fee and asset size revealed a significant and positive correlation of 0.7123 (71.23%), while a negative correlation was established between audit fee and growth at -0.009.

A positive correlation was established between audit opinion and auditor change at 0.0842 (8.42%), while same audit opinion and board independence revealed a weak positive correlation of 0.0720 (7.20%). Similarly, audit opinion and duality showed a positive significant correlation of 0.0217 (2.17%) and a weak negative of -0.0775 (-7.75%) was established between audit opinion non-audit services. Also, audit opinion and auditor independence showed a negative correlation between of -0.0076 while a positive correlation of 0.0432 (4.32%) exists between audit opinion and management change. Furthermore, audit opinion and leverage revealed a positive correlation of 0.0381 (3.81%) while a negative correlation is established between audit opinion and asset size at -0.1520 (15.20%). A negative correlation was established between audit opinion and growth at -0.0045, while a similar negative correlation exists between audit opinion and audit fee at -0.0759.

For big 4, a negative correlation was revealed with auditor change at -0.3059 (30.59%), while a very strong positively significant correlation exists between same big 4 and board independence at 0.005. In regards to big 4 and duality, a negative correlation of -0.0351 (3.51) was found, while a positive correlation of 0.3297 (32.97%) was revealed between big 4 and non-audit services. Big 4 and auditor independence revealed a positive and significant correlation of 0.0388

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(3.88%) between them, while a weak positive correlation was established between big 4 and management change. A very strong positive and significant correlation also exist between big 4 and leverage at 0.0049 and a similar positive correlation of 0.0452 (4.52%) was established between big 4 and asset size. Big 4 and growth showed a strong positive correlation of 0.4254 (42.54%), while a negative correlation of -0.0454 (-4.54%) exists between same big 4 and audit fee. Big 4 and audit opinion revealed a positive correlation of 0.3341 (33.41%) and lastly, a negative correlation was revealed between big 4 and audit opinion at -0.1078 (10.78%).

Table 4.2
Correlation analysis

	chg_co	nedbod	dual	nas	nasaud~e	mgtchg	levtdta	lgsize~t	growth	lgaud_~e	opinion	big4
chg_co	1.0000											
nedbod	0.0686	1.0000										
dual	-0.0145	0.0802	1.0000									
nas	-0.1776	0.0478	-0.0390	1.0000								
nasaudfee	-0.0253	0.0011	-0.0168	0.0486	1.0000							
mgtchg	0.0757	0.0770	0.0135	-0.0213	-0.0113	1.0000						
levtdta	0.0059	-0.0639	-0.0566	0.0295	0.0181	0.0635	1.0000					
lgsizeasset	-0.2030	0.0109	-0.1139	0.3527	0.1360	0.0237	0.1260	1.0000				
growth	0.0569	0.0482	-0.0140	0.0369	-0.0007	0.1202	-0.0073	-0.0131	1.0000			
lgaud_fee	-0.1160	0.0434	-0.0423	0.3351	0.0975	0.0265	0.0638	0.7123	-0.0009	1.0000		
opinion	0.0842	0.0720	0.0217	-0.0775	-0.0076	0.0432	0.0381	-0.1520	-0.0045	-0.0759	1.0000	
big4	-0.3059	0.0005	-0.0351	0.3297	0.0388	0.0049	0.0452	0.4254	-0.0454	0.3341	-0.1078	1.0000

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4.4 Test for Detecting Outliers

As stated by Pedhazur (1997), an outlier is a data point distinct or deviant from the rest of the data. The presence of outliers can affect result significantly, hence, must be considered for treatment. There are a number of ways to identify outliers. For the purpose of this study, boxplot was used to detect outliers. A boxplot is a convenient way of graphically depicting groups of numerical data through their quartiles. Once an outlier was detected, the value was being replaced by the mean of that variable.

Table 4.3
New descriptive statistics after replacing outliers

Variable	Mean	Median	Std.Dev	Min	Max
chg_co	0.2683	0	0.4434	0	1
nedbod	0.4404	0.43	0.1248	0	1
dual	0.1713	0	0.3771	0	1
nas	0.5183	1	0.5000	0	1
nasaudfee	0.8572	0.09	15.8386	-0.24	422.68
mgtchg	0.0899	0	0.2862	0	1
levtdta	57.2411	32.15	264.3484	-3441.55	5146.49
lgsizeasset	5.5402	5.46	0.7390	3.41	8.53
growth	37.7191	6.915	721.9028	-100	19210.54
lgaud_fee	2.1230	2.05	0.4476	0.6	4.2
opinion	0.0253	0	0.1571	0	1
big4	0.5548	1	0.4973	0	1

The table above presents the summary of all the variables and outliers that were replaced. Compared with table 4.1, it suggests that some two variables (leverage and growth) were slightly distorted by outliers. The distorted variables are identified in bold. Leverage became the first variable that was distorted in the new descriptive. It new means value is 57.2411, which is slightly higher than the previous (57.0734). The median value increases to 32.15, as compared to the former (31.575). The

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standard deviation dropped slightly to 264.3484 as compared to 264.3675 of the prior. The minimum and maximum values remained undistorted at -3441.55 and 5146.49 respectively.

Lastly, growth was also distorted after replacing outliers. The new mean revealed a value of 37.71911, which is slightly higher than the previous at 37.67014. The median value increases to 6.915 in comparison to the previous (6.87). There was a drop in standard deviation to 721.9028 as compared to the former which was 721.904. The minimum and maximum value also remained unchanged indicating same value as the previous. Other variables in the study remained undistorted.

4.5 Model for Logistic Regression

The model for the auditor change study was developed to include potential determinant variables. The model is detailed below.

P(*audchg=1*) = *f(nedbod, dual, nas1, nasaudfee, mgtchg, levtdta, sizeasset, growth, lgaud fee, opinion and big4).*

Where the dependent variable:

P(*audchg=1*) = The estimated conditional probability of auditor change and the dependable variables are:

Nedbod = A proxy for BODs independence as measured by the percentage of non-executive directors on BODs. Equal '1' if the ratio of NED on BODs equal or higher than the sample median, '0' otherwise.

Dual = Equals '1' if the chairman is also the MD/CEO during the year preceding auditor change or '0' otherwise.

Nas = Equal '1' if NAS provided to client is higher the sample median or '0' otherwise.

Nasaudfee = A proxy auditor independence as measured by the ratio of non-audit services fee paid to the auditor to the total audit fee during the year of auditor change.

Mgtchg = Equals '1' if the company had change managing director or CEO during the year of auditor change or '0' otherwise.

Levtdta = Total debt/total assets at t1

Sizeasset = Natural log of total assets

Growth = Percentage change in sales

Lgaud fee = Preceding year's audit fee to auditor change year's audit fee

opinion = A qualified opinion indicator variable, coded '1' if the company was issued with qualified audit opinion during the year of auditor change or '0' otherwise

Big4 = Equals '1' if the company's auditor was a big4 during the year preceding auditor change or '0' otherwise

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The study conducted a logistic analysis to identify factors influencing auditor change propensity. Table 4.4 indicates the regression results for the auditor change model.

Table 4.4
Results of Logistic Regression

chg_co	Coef.	Std. Err.	z	P>z
nedbod	***1.3275***	***0.7390***	***1.8000***	***0.0720***
dual	-0.2977	0.2471	-1.2100	0.2280
nas	***-0.3945***	***0.1990***	***-1.9800***	***0.0470***
nasaudfee	-0.0077	0.0422	-0.1800	0.8550
mgtchg	***0.5336***	***0.3017***	***1.7700***	***0.0770***
levtdta	0.0003	0.0003	0.8200	0.4110
lgsizeasset	***-0.4884***	***0.2016***	***-2.4200***	***0.0150***
growth	0.0001	0.0002	0.6200	0.5350
lgaud_fee	0.4928	0.3060	1.6100	0.1070
opinion	0.2785	0.5268	0.5300	0.5970
big4	***-1.1852***	***0.2056***	***-5.7600***	***0.0000***
_cons	0.7607	0.8666	0.8800	0.3800

Logistic regression	Number of obs	=	712
	LR chi2(11)	=	89.57
	Prob > chi2	=	0.0000
Log likelihood = -369.25745	Pseudo R2	=	0.1082

Bold *= Significant at 1%, 5% and 10%*

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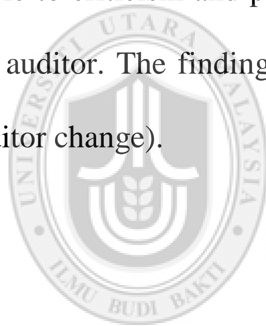
Board of director's independence: Based on the results of this study, board independence is a determinant of auditor change at a p value of 0.072 (7.2%). The finding failed to support H1 (nedbod is negatively associated with auditor decision). This suggests that the greater the percentage of independent board members, the more likely a company will change auditor. This is contradicting the findings of Archambeault and Dezort (2001), who found a negative significant association between board of director's independence and auditor change.

Chairman/CEO duality: CEO duality was found to be not significant at a p value of 0.228 (22.8%). This finding does not support H2 which stated that the presence of dual chairman/CEO is positively associated with auditor change. The result supports

the findings of O’Sullivan (1999), which revealed that there is no significant relationship between the two variables. Hence, in respect to the above assertion, a company that is being run by a chairman who is also the Chief Executive Officer (CEO) does not seem to influence auditor change decision.

Non-audit services: The finding revealed a negative but significant association between NAS and auditor change decision at a p value of 0.047 (4.7%). This suggests that companies with a higher ration of NAS to audit fee tend to change when auditor independence is perceived to be compromised, rendering the auditee liable to criticism and pressure from public and regulators over the independence of the auditor. The finding supports H3 (NAS provision is negatively associated with auditor change).



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Auditor independence: Auditor independence was found to be not significant. It revealed a p value of 0.855 (85.5%), signifying that there is no association between auditor independence and auditor change decision. Therefore, the propensity to change auditor does not increases even when perceived auditor independence is potentially compromised. The result, thus, does not support H4 (auditor independence is positively associated with auditor change).

Change in management: The findings document a p value of 0.077 (7.7%), indicating that management changes (such as changes in managing directors,

financial controllers or board of directors) could influence auditor change decision. The result is supported by the findings of Nazri et al. (2012), Hudaib and Cooke (2005) and Huson et al. (2000). However, Ismail et al. (2008) contradicts this finding. Their results revealed that management change is not a factor influencing auditor change.

Leverage: The result indicates that leverage is insignificant at a p value 0.411 (41%). This is consistent with the findings of Ismail et al. (2008), Lennox (2000) and Hudaib and Cooke (2005). In contrast, Woo and Koh (2001) documented a very weak significance in Singapore market.

Size: The study documents a p value of 0.015 (1.5%), signifying that there is a strong association between size and auditor change decision. This finding is supported by prior studies like Nazri et al. (2012), Ismail et al. (2008), Hudaib and Cooke (2005) and Huson et al. (2000). In contrast, Jaffar and Alias (2002) revealed an insignificant relationship between client size and auditor change.

Growth: Growth was found to be insignificant. The p value of the regression is 0.535 (53.5%), indicating that growth is not a determinant of auditor change. The finding contradicts the findings of Ismail et al. (2008) and Nazri et al. (2012). Hence, the variable suggests that companies do not change their auditor in anticipation of future growth.

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Audit fee: Audit fee was found to be insignificant also. The p value revealed a weak insignificant p value of 0.107 (10.7%) indicating that there is no relationship between the two variables. This result is supported by Ismail et al. (2008), who documented a similar finding.

Audit opinion: For this study, qualified audit opinion does not influence auditor change decision. The p value is 0.597 (59.7%), signifying that there is no association between audit opinion and auditor change decision. By implication, it does not seem likely that a company might change auditor over accounting disagreement. The finding is consistent with the findings of Nazri et al. (2012), but contradicts the findings of Ismail et al. (2008) who documented a positive association between the two variables.

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Brand name auditor (Big4): Big 4 was found to be negatively significant revealing a p value of 0.000, indicating that there is a negative association between the two variables. A company does not seems likely to change auditor if its current auditor is one of the big 4.

4.6 Additional Analysis

Section 4.7 presents the additional interactions of variables that were tested in the study. For the purpose of testing, each interactive variable was originally added to the original model.

Table 4.5
Logistic regression showing the interaction between board independence and non-audit service

chg_co	Coef.	Std. Err.	z	P>z
nedbod	0.7887	1.0015	0.7900	0.4310
dual	-0.2937	0.2466	-1.1900	0.2340
nas	-0.9173	0.6899	-1.3300	0.1840
nasaudfee	-0.0075	0.0411	-0.1800	0.8560
mgtchg	0.5488	0.3019	1.8200	0.0690
levtdta	0.0003	0.0003	0.8600	0.3900
lgsizeasset	-0.5003	0.2020	-2.4800	0.0130
growth	0.0001	0.0002	0.5900	0.5520
lgaud_fee	0.4970	0.3058	1.6300	0.1040
opinion	0.3063	0.5265	0.5800	0.5610
big4	-1.1762	0.2060	-5.7100	0.0000
nbodxnas	*1.1683*	*1.4731*	*0.7900*	*0.4280*
_cons	1.0436	0.9367	1.1100	0.2650

Logistic regression	Number of obs	=	712
	LR chi2(12)	=	90.2
	Prob > chi2	=	0
Log likelihood = -368.94288	Pseudo R2	=	0.1089

Bold = Significant at 1%, 5% and 10%

Table 4.5 presents the results of the interaction between board independence and non-audit service (nbodxnas). The interactive variable was found to be insignificant at a p value of 0.4280 (42.8%). The coefficient and standard deviation values are 1.1683 and 1.4731 respectively. This suggests that board independence does not influence the relationship between non-audit service and auditor change decision.

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Table 4.6

Logistic regression showing the interaction between duality and non-audit service

chg_co	Coef.	Std. Err.	z	P>z
nedbod	1.3294	0.7381	1.8000	0.0720
dual	-0.1377	0.3107	-0.4400	0.6580
nas	-0.3274	0.2144	-1.5300	0.1270
nasaudfee	-0.0078	0.0423	-0.1800	0.8530
mgtchg	0.5038	0.3040	1.6600	0.0970
levtdta	0.0003	0.0003	0.7900	0.4290
lgsizeasset	-0.4802	0.2019	-2.3800	0.0170
growth	0.0001	0.0002	0.6200	0.5360
lgaud_fee	0.4802	0.3072	1.5600	0.1180
opinion	0.2791	0.5266	0.5300	0.5960
big4	-1.1891	0.2061	-5.7700	0.0000
dualxnas	*-0.4342*	*0.5236*	*-0.8300*	*0.4070*
_cons	0.7170	0.8693	0.8200	0.4090

Logistic regression	Number of obs	=	712
	LR chi2(12)	=	90.27
	Prob > chi2	=	0
Log likelihood = -368.90507	Pseudo R2	=	0.109

Bold = Significant at 1%, 5% and 10%

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Table 4.6 is logit regression result of the interaction between duality and non-audit service. The new introductory variable, duality and non-audit services (dualxnas) were found to be insignificant at a p value of 0.4070 (40.7%). It reveals a value of -0.4342 and 0.5236 for coefficient and standard err respectively. The analysis thus, suggests that duality does not influence the relationship between non-audit services and auditor change propensity.

Table 4.7
Showing the feeexpen

chg_co	Coef.	Std. Err.	z	P>z
nedbod	1.2212	0.7507	1.6300	0.1040
dual	-0.2846	0.2491	-1.1400	0.2530
nas	-0.3773	0.1987	-1.9000	0.0580
nasaudfee	-0.0068	0.0373	-0.1800	0.8550
mgtchg	0.5004	0.3056	1.6400	0.1010
levtdta	0.0002	0.0003	0.7200	0.4690
lgsizeasset	0.8551	0.6594	1.3000	0.1950
growth	0.0001	0.0002	0.6200	0.5330
lgaud_fee	-2.9561	1.6847	-1.7500	0.0790
opinion	0.2192	0.5358	0.4100	0.6820
big4	-1.2006	0.2056	-5.8400	0.0000
feeexpen	***18.9190***	***9.3265***	***2.0300***	***0.0430***
_cons	-6.5454	3.6214	-1.8100	0.0710

Logistic regression	Number of obs	=	712
	LR chi2(12)	=	93.25
	Prob > chi2	=	0
Log likelihood = -367.41703	Pseudo R2	=	0.1126

Bold = Significant at 1%, 5% and 10%

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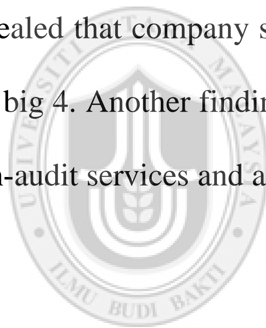
Companies change auditor so as to save audit fee. To that, a new variable was introduced; audit expense (feexpen). The variable is measured as the amount of audit fee paid for every RM1 of asset. A new regression was explored to test the significance of the variable.

Table 4.7 is a representation of fee expensiveness variable. As tested in the analysis, the result indicate a positive significant p value at 0.0430 (4.3%), while the coefficient and standard error value were revealed to be 18.9190 and 9.3265 respectively. This suggests that the feeexpen significantly moderates and strengthen the relationship between non-audit service and auditor change propensity.

4.7 Summary

The chapter investigates the factors influencing auditor change decision in Malaysian market using a matched-paired dataset of 712 companies taken form the period of 2008 to 2011. The chapter estimates auditor change model using logistic regression. The factors influencing auditor change model were developed from prior auditor change literatures and corporate governance. The results indicate that the greater the independence of board, the more likely a company will change auditor. It also documents that companies with higher ration of nas to audit fee tend to change when auditor independence is perceived to be compromised. Changes in management of a company was also found to be a determinant of auditor change and lastly, the result revealed that company seems likely to change auditor if its current auditor is one of the big 4. Another finding was that feeexpen does moderate the relationship between non-audit services and auditor change decision.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CHAPTER FIVE

SUMMARY RECOMMENDATION AND CONCLUSION

5.1 Introduction

This chapter presents the summary and conclusion of the findings gotten from the analysis. It also presents the limitations of the study and as well as the recommendations for future studies.

5.2 Summary

The study investigates 712 companies listed in Bursa Malaysia for the period of 2009 to 2011. The main objective of the study is to investigate the effects of corporate governance on auditor change decision in Malaysia. For the purpose of the study, corporate governance variables are represented by board independence and CEO duality to determine the influence it has on the decision to change auditor. Based on the results obtained, the study indicates that board independence is associated with auditor change decision, hereby opining that the greater the number of independent board members, the more likely a company will change auditor. However, the dual role of chairman and CEO does not seem to influence a company's decision to change auditor.

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Other variables which include: changes in management, leverage, size, growth, audit fee, audit opinion and big 4 were also investigated. The study documents a significant association between management changes and size with the decision to

change auditor. Leverage, growth, audit fee, audit opinion and big4 were not found to be determinants of auditor change. The study also examines the effects of provision of non-audit services and as well as the effect of auditor independence on auditor change decision. NAS provision was not found to be a determinant of auditor change and the independence of an auditor also does not seem to influence auditor change decision.

Lastly, the study conducted additional interaction of variables to test its influence on auditor change decision. An interaction of variables was done in the study: board independence interacted with NAS provision; duality interacted with NAS provision and feeexpen. Nbodxnas and dualxnas interactions were found to have no relationship with decision to change auditor, while feeexpen was found to be a determinant of auditor change.

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Table 5.1
Summary of results

	Hypotheses	Results
H1	Board of directors independence is negatively associated with auditor change decision	Not supported
H2	The presence of dual chairman/CEO is positively associated with auditor change	Not supported
H3	NAS provision is negatively associated with auditor change	Supported
H4	Low auditor independence is positively associated with auditor change	Not supported

5.3 Implication of the Study

This study examines the impact of corporate governance and the provision of NAS on auditor change decision. The findings of the study would provide invaluable insight to the government, stock market, auditing and accounting regulators and auditing and accounting professional bodies, as to the extent to which codes of corporate governance decrees, regulators, resolutions, and laws are implemented by both the auditee and auditor. Furthermore, the study will provide knowledge to the government and regulators when making new policies or deliberating on issues regarding corporate governance, NAS and auditing. Hence, the result of the study could improve corporate governance practices by management, and also improve the demand for audit quality in an organization.

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5.4 Limitation of the Study

Studies on auditor change are quiet few in the Malaysian market. Most of the empirical studies referenced in this study were studies conducted in developed countries. However, due to the differences in culture and environment between these countries and Malaysia, results of these studies might not be appropriate and suitable to apply in the Malaysian setting. Some of the data used in this study was collected from datastream. Even though the datastream is source of data collection, it still provides missing data of some certain companies. Thus, this results to smaller size of sample for the study. Lastly, the study only covers dataset period for three years period, 2009 to 2011.

5.5 Recommendation for Future Studies

To improve on the model of this study, future studies should include additional corporate governance variables like audit committee, management ownership, ownership concentration and board size. Also, the data for this study covers the period from 2009 to 2011. Hence, future studies maybe conducted to cover a longer period of time so as to have a fair and more accurate reflection of results Perhaps, to include more recent years, 2013 and 2014 as well.

5.6 Conclusion

The research objective of the study, which is to investigate the impact of corporate governance and the provision of non-audit services on auditor change decision, has been accomplished. The study investigates the relationship between eleven independent variables (board of directors' independence, chairman/CEO duality, non-audit services, auditor independence, management changes, leverage, size, growth, audit fee, audit opinion and big 4) and a dependent variable (auditor change). In accordance with the outcome of the logistic regression, three variables (board of directors' independence, management changes and size) were found to be associated with auditor change.

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