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

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

BY

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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
ABSTRAK


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

CERTIFICATION OF THESIS WORK ................................................................. i
PERMISSION TO USE ................................................................................. ii
ABSTRACT ..................................................................................................... iii
ABSTRAK ...................................................................................................... iii
ACKNOWLEDGEMENT .............................................................................. iv
Table of Contents ..................................................................................... vi
LIST OF TABLES ....................................................................................... viii
LIST OF FIGURES ..................................................................................... ix
LIST OF ABBREVIATIONS ....................................................................... x
CHAPTER ONE .......................................................................................... 1
INTRODUCTION ......................................................................................... 1
1.1 Background of the Study ........................................................................ 1
1.2 Problem Statement ............................................................................... 3
1.3 Research Questions ............................................................................... 5
1.4 Research Objectives ............................................................................ 6
1.5 Significance of the Study ...................................................................... 6
1.6 Scope of the Study ............................................................................... 7
1.7 Organization of the Study .................................................................... 8
CHAPTER TWO ......................................................................................... 9
LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT ................... 9
2.1 Introduction .......................................................................................... 9
2.2 Issues of Auditor Change ..................................................................... 9
2.3 Theories of Auditor Change .................................................................. 11
2.3.1 Agency Theory ............................................................................... 11
2.3.2 Signalling Theory .......................................................................... 13
2.3.3 Information Suppression Hypothesis ........................................... 14
2.4 Corporate Governance around the World ......................................... 29
2.4.1 Background .................................................................................. 29
2.4.1.2 Definition of Corporate Governance .................................... 32
2.4.1.3 Corporate Governance in Malaysia ....................................... 33
2.4.2 Board of Directors Independence ............................................... 36
2.4.3 Chairman/CEO duality ................................................................. 41
2.4.4 Auditor Independence .................................................................. 42
2.4.5 Non-audit services (NAS) ............................................................. 45
2.5 Hypotheses Development ................................................................... 48
2.5.1 Board independence (nedbod) ..................................................... 49
2.5.3 Provision of Non-audit services .................................................. 53
2.5.4 Auditor independence (nasaudfee) .............................................. 55
2.6 Other Factors Influencing Auditor Change ....................................... 55
2.7 Summary .......................................................................................................................... 57

CHAPTER THREE .................................................................................................................. 58

RESEARCH METHODOLOGY ............................................................................................. 58

3.1 Introduction .................................................................................................................... 58

3.2 Initial Sample .................................................................................................................. 58

3.3 Data Cleaning Process ................................................................................................. 58

3.4 Framework and Model ................................................................................................. 60

3.5 Summary ....................................................................................................................... 63

CHAPTER FOUR .................................................................................................................... 64

RESULTS ................................................................................................................................ 64

4.1 Introduction .................................................................................................................... 64

4.2 Descriptive Statistics ................................................................................................. 64

4.3 Correlation Analysis ................................................................................................. 67

4.4 Test for Detecting Outliers ....................................................................................... 73

4.5 Model for Logistic Regression .................................................................................... 74

4.6 Additional Analysis .................................................................................................... 80

4.7 Summary ....................................................................................................................... 83

CHAPTER FIVE ...................................................................................................................... 84

SUMMARY RECOMMENDATION AND CONCLUSION ...................................................... 84

5.1 Introduction .................................................................................................................... 84

5.2 Summary ....................................................................................................................... 84

5.3 Implication of the Study ............................................................................................. 86

5.4 Limitation of the Study .............................................................................................. 86

5.5 Recommendation for Future Studies .......................................................................... 87

5.6 Conclusion .................................................................................................................... 87

REFERENCES ....................................................................................................................... 88
## LIST OF TABLES

| Table: 2.1 | Summary of literature review | 25 |
| Table: 3.1 | Summary of Data Screening | 57 |
| Table: 3.2 | Description of Independent Variables | 59 |
| Table: 4.1 | Descriptive Statistics | 64 |
| Table: 4.2 | Correlation Analysis | 69 |
| Table: 4.3 | New Descriptive Statistics | 70 |
| Table: 4.4 | Logistic Regressions | 73 |
| Table: 4.5 | Interactions between nedbod and NAS | 77 |
| Table: 4.6 | Interactions between Duality and NAS | 78 |
| Table: 4.7 | Fee Expenditure | 79 |
| Table: 5.1 | Summaries of Results | 82 |
LIST OF FIGURES

Figure: 3.1  Theoretical frameworks  58
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>MCCG</td>
<td>Malaysian Code on Corporate Governance</td>
</tr>
<tr>
<td>MESDAQ</td>
<td>Malaysian Exchange of Securities Dealing and Automated Quotation</td>
</tr>
<tr>
<td>MIA</td>
<td>Malaysian Institutes of Accountants</td>
</tr>
<tr>
<td>NAS</td>
<td>Non-audit services</td>
</tr>
<tr>
<td>NEDBOD</td>
<td>Board Independence</td>
</tr>
<tr>
<td>NEDs</td>
<td>Non-executive Directors</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
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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 ‘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.

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.
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REFERENCES


Listing Requirements of Bursa Malaysia Securities Berhad, available at www.bursamalaysia.com


