

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



MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

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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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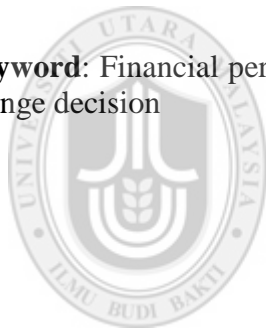
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ABSTRACT

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.

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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