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THE DETERMINANTS OF AUDITOR SWITCHING IN CHINA

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THE DETERMINANTS OF AUDITOR SWITCHING IN CHINA

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ABSTRACT

Auditor plays a crucial role in providing credibility of financial disclosure and mitigating the agency problems. However, there is a high trend of auditor switching in China. This could lead to a series of negative effects to both company and society. Although there were many past empirical studies examined the determinants of auditor switching, those studies were conducted in different countries with different national conditions which may not be appropriate and suitable to China context. Thus, it is necessary to conduct this study to investigate the determinants of auditor switching and to examine the relationship between determinants of auditor switching in China context. This study used data of A-share listed companies from Shanghai Stock Exchange. The sample of this study consists of 182 listed companies from the period of year 2012 to 2014. Moreover, this study employed Logistic Regression Model to examine the determinants of auditor switching. This study measured four determinants, which are going concern issue, ownership concentration, leverage, and big audit firm. The finding shows that big audit firm is significantly and negatively related to auditor switching. Therefore, this study recommended that based on the special national conditions of China, more variables could be investigated in the future research and the implications of auditor switching, such as implications of auditor switching on audit quality or audit independence, could be investigated.

Keyword: Auditor switch, going concern issue, ownership concentration, leverage, big audit firm
ABSTRAK


Kata kunci: Pertukaran juruaudit, isu yang melibatkan peninggalan, tumpuan pemilikan, keumpilan, firma audit yang besar
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LIST OF ABBREVIATIONS

CEO        Chief Executive Officer
CICPA      Chinese Institute of Certified Public Accountants
IAASB      International Auditing and Assurance Standards Board
ROA        Return on Assets
SOEs       State Owned Enterprises
CHAPTER ONE

INTRODUCTION

1.1 Introduction to the study

Business cannot run without money. Thus, companies need huge financial capital to support their business activities. There is a necessary for the companies to report their company performance and financial position in order to get easy access to their capital sources (Siegel and Shaughnessy, 2008). Based on this condition, there is an increased desire to acquire auditors with independence characteristic providing audit service in order to enhance credibility of the firm’s financial statements being prepared, as the justification and reliability added to the auditors’ opinions in the financial statements (Chadegani, Mohamed, and Jari, 2011). Reliable financial reports provide useful and valuable information to the managers, investors, creditors and government. Furthermore, those users of financial statement always rely on the financial information that only after the reliability of the information is confirmed by the independent auditor. Therefore, the reputable auditors are employed by firms to assure outside investors the credibility of financial disclosures and to mitigate the agency problems (Anderson, Kadous and Koonce, 2004).

The security market always plays an important role in the market economy development, especially in China. The efficient and safe security market needs to rely much on the disclosed accounting information. Therefore, it is important to know that the certified auditors always take responsibility for the true accounting information disclosure. Thus, auditor switching will affect the information disclosure
The contents of the thesis is for internal user only
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