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**THE DETERMINANTS OF AUDITOR SWITCHING IN  
CHINA**



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**Universiti Utara Malaysia**

**MASTER OF SCIENCE  
(INTERNATIONAL ACCOUNTING)  
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**THE DETERMINANTS OF AUDITOR SWITCHING IN CHINA**

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**Thesis Submitted to  
School of Accounting (SOA)  
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In Partial Fulfilment of the Requirement for the Degree  
Master of Science (International Accounting)**

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## ABSTRACT

Auditor plays a crucial role in providing credibility of financial disclosure and mitigating the agency problems. However, there is 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 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



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## ABSTRAK

Juruaudit memainkan peranan yang penting dalam menentukan kebolehpercayaan pendedahan kewangan dan mengurangkan masalah agensi. Namun begitu, terdapat kecenderungan yang tinggi berkaitan pertukaran juruaudit di negara China. Hal ini boleh memberikan kesan yang negatif terhadap syarikat dan masyarakat. Meskipun terdapat banyak kajian lepas berbentuk empirikal yang meneliti aspek penentu pertukaran juruaudit, namun kajian tersebut dilaksanakan di negara yang berbeza dengan keadaan negara yang tidak sama yang mungkin tidak sesuai dengan konteks di negara China. Oleh yang demikian, penting untuk kajian ini dilakukan untuk menyelidik penentu pertukaran juruaudit dan meneliti hubungan antara penentu pertukaran juruaudit dalam konteks di China. Kajian ini mengupayakan data daripada syarikat saham kumpulan A yang tersenarai dalam Bursa Saham Shanghai. Sampel kajian terdiri daripada 182 syarikat yang tersenarai dari tahun 2012 hingga 2014. Selain itu, kajian juga menggunakan Model Regresi Logistik untuk menyelidik penentu pertukaran juruaudit. Kajian ini mengukur empat penentu, khususnya isu yang melibatkan peninggalan, tumpuan pemilikan, keumpulan dan firma syarikat yang besar. Dapatan memperlihatkan bahawa firma audit yang besar mempunyai hubungan yang signifikan dan negatif dengan pertukaran juruaudit. Kajian ini menyarankan agar lebih banyak pemboleh ubah diteliti dalam kajian yang akan datang memandangkan keadaan negara China yang agak istimewa. Implikasi pertukaran juruaudit seperti implikasi pertukaran juruaudit terhadap kualiti audit atau kebebasan audit juga perlu dikaji.

**Kata kunci:** Pertukaran juruaudit, isu yang melibatkan peninggalan, tumpuan pemilikan, keumpulan, firma audit yang besar

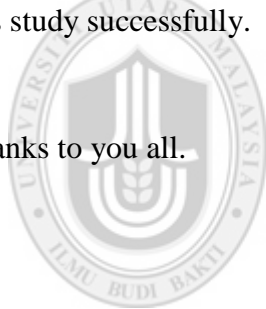
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## LIST OF ABBREVIATIONS

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

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