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**NETWORK GOVERNANCE AND AUDIT PRICING:
EVIDENCE IN MALAYSIA**



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EVIDENCE IN MALAYSIA**



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(International Accounting)



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ABSTRACT

The aim of this study was to examine the relationship between network governance represented by senior government officers of the audit committee (SGOAC) and audit fee. Knowledge distribution, economic returns, effective enforcement and compliance with environmental regulations can be acquired based on the social network theory. Hence, lower audit fees may be charged by the auditors to the company with the presence of a higher SGOAC as the information and knowledge gathered are based on their good network government connection. Analyses were conducted using data from 690 listed companies in the Bursa Malaysia in 2014. The Ordinary Least Square (OLS) regression method was applied to estimate the relationships between SGOAC and audit fee. The result shows that SGOAC has significant negative relationships with audit fee. Further analyses of the Big 4 auditor also show that lower audit fee charged in the number of SGOAC. It shows that it is not because of lower audit quality that resulted in the negative relationship between the SGOAC and audit fee. The evidence suggests that lower audit fees were charged by the auditor due to network governance, thus, network governance has a good impact on the company. Hence, the results provide initial evidence on the relationship between SGOAC and audit fees in business prospects in Malaysia.

Keywords: Senior Government Officers of the Audit Committee (SGOAC), audit fee, social network theory and Malaysia.



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ABSTRAK

Tujuan kajian ini dijalankan adalah untuk mengenalpasti hubungan antara rangkaian tadbir urus korporat yang diwakili oleh Pegawai Kanan Kerajaan bagi Jawatankuasa Audit (SGOAC) dan yuran audit. Pengedaran pengetahuan, pulangan ekonomi, keberkesanan penguatkuasaan dan pematuhan kepada peraturan alam sekitar boleh diperolehi melalui Teori Rangkaian Sosial. Oleh itu, yuran audit yang lebih rendah mungkin dicaj oleh juruaudit kepada syarikat dengan kehadiran SGOAC yang lebih ramai sebagai maklumat dan pengetahuan yang diperolehi melalui hubungan baik mereka dengan pihak kerajaan. Analisis yang telah dijalankan dengan menggunakan data daripada 690 buah syarikat yang tersenarai di Bursa Malaysia pada tahun 2014. Kaedah regresi *Ordinary Least Square* (OLS) telah digunakan untuk menganggar hubungan antara SGOAC dan yuran audit. Keputusan menunjukkan bahawa SGOAC mempunyai hubungan negatif yang signifikan dengan yuran audit. Analisis tambahan pada sampel juruaudit Big 4 juga menunjukkan bahawa yuran audit yang lebih rendah dicaj dengan bilangan SGOAC yang ramai. Hal ini menunjukkan bahawa ia bukan disebabkan oleh kualiti audit yang rendah yang mengakibatkan hubungan negatif antara SGOAC dan yuran audit. Penemuan ini mencadangkan agar yuran audit yang rendah akan dicaj oleh juruaudit kepada tadbir urus rangkaian, hal ini kerana ia memberi kesan yang baik kepada syarikat. Justeru, dapatan ini menunjukkan bukti awal tentang hubungan antara SGOAC dan yuran audit dalam prospek perniagaan di Malaysia.

Kata kunci: Pegawai Kanan Kerajaan bagi Jawatankuasa Audit (SGOAC), yuran audit, Teori Agensi, Teori Rangkaian Sosial dan Malaysia.

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List of Abbreviations

GLCs	Government Linked Companies
Non-GLCs	Non-Government Linked Companies
OLS	Ordinary Least Square
SGO	Senior Government Officers
SGOAC	Senior Government Officers of the Audit Committee
SPSS	Statistical Package for Social Science
UUM	Universiti Utara Malaysia
VIF	Value inflation Factor



CHAPTER 1

INTRODUCTION

This chapter discussed the research interest, background, problem statement, research question and research objectives, significance and organisation of the study.

1.1 Research Interest

A distinctive feature of Malaysia includes the close bond between big company and government. Senior government Officers (SGO) represents the characteristics of network governance (Hamid, 2011), which argued implement a critical agenda that drives the economic growth of the nation. Their appointment as directors in many Malaysian public listed companies, whether in GLCs and Non-GLCs signifies those characteristics. Their close connection with regulators such as lawmakers or government influenced network governance characteristics.

On the other hand, Malaysia is a country that different from most other countries where there is intertwining between multicultural ethnicities and economic interest in Malaysia landscape. Gomez and Jomo (1999) stated that close relationships between economic function and racial have shaped the capital market in Malaysia. Stenson (1980) found that the Chinese monopolise on the business sector, although the Malays dominated the political context in the country. In another point of view, the Chinese led Malaysian economic wealth, though the political influence is distributed collectively amongst ethnic groups (Abdul-Wahab, Mat Zain & James, 2011). This inequality of capital distribution has driven by the introduction of the New Economic Policy (NEP) in 1970 and government link companies later in 1980's. Earlier, from the time of race riot in May 1969, the government has supported certain Chinese and

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