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GENDER, ETHNICITY AND AUDIT FEES IN MALAYSIA



By

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ABSTRACT

The objective of this paper is to examine the relationship between the gender and ethnicity of the auditor and the audit fees in Malaysia and to investigate the effect of Big 4 auditors, auditee size, profitability, complexity and riskiness in determining audit fees for companies in Malaysia. Factors that are hypothesized to have significant influences on audit fees are gender, ethnicity, Big 4 auditors, auditee's size, auditee's complexity, auditee's financial risk and auditee's profitability. Multiple regression analysis was used to analyze data from annual reports of 100 listed companies in Malaysia for financial year ended 2015. The main finding of this study is that only size of auditee and Big 4 auditors has a significant impact on audit fees for companies. However, there is no strong evidence to support gender, ethnicity, firm's profitability, firm's complexity, and auditee's financial risk having any relationship with audit fees.

Keywords: audit fees, gender, and ethnicity.



ABSTRAK

Objektif kertas ini adalah untuk mengkaji hubungan antara jantina dan etnik juruaudit dengan yuran audit di Malaysia serta untuk menyiasat kesan juruaudit “Big 4”, saiz firma, keuntungan, kerumitan dan risiko kewangan dalam menentukan yuran audit bagi syarikat-syarikat di Malaysia. Faktor-faktor yang telah dihipotesis mempunyai pengaruh besar ke atas yuran audit adalah jantina, etnik, saiz firma, kerumitan firma, risiko kewangan firma, dan keuntungan bagi firma yang diaudit itu. Analisis regresi berganda telah digunakan untuk menganalisis data daripada 100 laporan tahunan syarikat yang tersenarai di Malaysia bagi tahun kewangan berakhir 2015. Dapatan utama kajian mendapati hanya saiz firma yang diaudit dan juruaudit “Big 4” mempunyai kesan besar ke atas penentuan yuran audit bagi firma-firma. Namun, tidak ada bukti yang kukuh untuk menyokong jantina, etnik, keuntungan firma, kerumitan firma, dan risiko kewangan firma mempunyai apa-apa hubungan dengan yuran audit.

Kata kunci: yuran audit, jantina, dan etnik.



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LIST OF ABBREVIATIONS

MIA	Malaysian Institute of Accountants
ROA	Return of Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROI	Return on Investment



CHAPTER 1

INTRODUCTION

1.1 Introduction to the study

Auditing is a process of assessing financial statement of the companies, performed by auditors. Issues relating to how audit fees are determined and how auditor decided the amount of audit fees to be charged to auditee firm has been debated commonly in accounting and auditing literature. Audit fees is a fees that company must pay to an external auditor in exchange of performing an audit. This type of fees represent reputation of quality of audit services and represent cost to companies. Under requirement by law, it is compulsory for companies to provide their audited account at reasonable fees and emphasizes on audit quality. According to Sekhar and Fatima (2013), in order to maintain audit services at a satisfactory level, auditors expected to receive appropriate fees for their services.

Under MIA By-Law guidelines, it is stated that companies should not be charged too low audit fees because it can affect the quality of audit performed. Che Ahmad and Houghton (1996), argue that the determination of audit fees is important to market regulator as previous studies have shown the audit fees charged does not match with the

audit services performed by auditors due to the high concentration of the number of accounting firms.

Besides, a number of studies on individual auditors' behavior disclose that the different characteristics of auditor behavior affect their individual's cognitive and behavior (Trompeter, 1994; Ponemon & Gabhart, 1990; Ayers & Kaplan, 2003), which finally affect audit quality and audit fee (Sundgren & Svanstrom, 2014; Gul et al., 2012). There are also studies discover that different remuneration was given to the auditors even in the same firm, which means that the value of each auditor is differently perceived by the firm. This indication proposes that the differences among auditors that directly implement the audit task may affect audit quality, and this is also recognized by the market.

Furthermore, in order to give the opinions of audit quality, the manager of audit clients focus more on individual auditor level rather than firm level, even the quality of firm's financial statement are not affected. Besides, the managers of audit clients have a decision making power in determining of audit fees. They are also considered as negotiators of audit fees. Thus, it can be concluded that different auditor may get different audit fees.

Previous researches have examined various aspects of gender differences in the accounting profession (Collins, 1993). The impact of gender differences have been issue to an increasing interest in the literature. For example, According to Eagly and Carli (2003), female directors have to demonstrate high efficiency to achieve top position in the

company. Therefore, they have prepared themselves perfectly. According to Schein (2010), management researches provide proof that that people often stereotype male managers as owning high managerial capabilities, at the same time as looking ahead to that female managers lack the necessary attributes managerial fulfillment.

Several studies have investigated the impact of gender bias in product and overall performance (Gold et al., 2009). Even male and female auditors acquire the same training and education, normatively, people would expect that they could exhibit similar audit judgement. However, extant research suggests that female auditors are usually believed to be more ethical and risk- averse (Levin et al., 1988).

The feasible gender- based differences in all of these areas, could have an effect on the audit fees paid by auditee. In different words, it appears reasonable to anticipate that female auditors are, in common, are rated significantly higher for trustworthiness, honesty and integrity than male auditors. Therefore, male and female auditors isn't considered upon as being equally credible which causes audit fees charged to be associated with auditor gender. As a result, it may be assumed that audit fees is associated with male or female auditor.

Another important factor influencing audit fees is auditor ethnicity. According to Che Ahmad et al., (2006), the ethnic obligations and feelings would possibly impact auditor judgment and objectivity. It is important that cultural and ethnicity be taken into consideration as they strongly impact belief, lifestyle, and behavior patterns of human.

Basically, directors in Malaysia are from different ethnicity. Therefore, they are bound by their own cultural values and most of directors of Malaysian companies tend to manage their companies based on their cultural and may recognize auditor change differently

Based on previous explanation, it is critical to empirically inspect the relationship between auditor gender, auditor ethnicity and audit fees. This research also include the factors that are identified to have significant influences on the determination of audit fees in Malaysia such as auditee's size, auditee's complexity, , auditee's profitability, auditee's financial risk and Big 4 auditors.

1.2 Background of the study

It is important to know how do auditor charge audit fees to auditee and what are the factors influencing audit fees. The determination of the audit fees is different compared to other professions as it is determined directly or indirectly through the financial aspects of the company's business. A common problem faced by auditor and auditee is in the determination of audit fees that acceptable and agreed by both parties (Low et al., 1990). In the process of determining audit fees, the auditee should confident that the audit fee charged are reasonable with the services provided by the auditor (Lurie, 1976). HO and NG (1996) conclude that, in the process of determining the audit fees, it is necessary for auditor and clients to set an optimal audit fees.

According to Company Act 1965, it is compulsory for companies to disclose their

audit fee in their annual report. The Malaysian Institute of Accountant (MIA) was issued “A Recommended Basis for Determining Audit Fees” as a guideline to determine the audit fee. However, according to Paino and Tahir (2012), the amount of audit fee charged depended largely on the audit skills, experience, knowledge, and time required to carry out auditing work.

Besides, Sundgren & Svanstrom (2013) stated that audit fee levels commonly in line with audit quality. Nevertheless, the amount of audit fee charged by the auditor always in contra with audit fees perceived by the company. As a consequence, Kwong (2011) concludes that it is necessary to know how the price of audit fees are determined and whether the audit fees charged are reasonably within the auditing industry. On the other hand, many literature review on determinants of audit fee finds that, the audit fees charged are affected by the firm’s attributes. According to DeFond and Francis (2005), the differences in individual auditors’ attributes have an effect on the pricing of the audit engagement.

According to Hariri et al., (2007), audit fee charged by auditor in Malaysia increased by 10% from 1997 to 1998. Besides, Malek & Che Ahmad (2012) stated that from year 2003 to 2007, the average audit fees increased from RM 191,875 to RM 248,376. Effective from January 2012, International Financial Reporting Standard (IFRS) has been implemented in Malaysia by Malaysian Accounting Standard Board (MASB). More than 1000 public listed companies will be influenced by this standard in 2012 (Yeow and Mahzan, 2013).

1.3 Problem statement

Walid El-Gammal (2012) investigates that previous research tried to study whether factors that influencing audit fees is caused by client's company attributes or audit company attributes such as size, industry specialization, competition, experience, reputation and whether it is audited by "Big 4". The issue of auditing and determination of audit fees always debated in accounting specifically on how auditor charge audit fees to customers. Even though there have been number of studies on determination of audit fees, but according to Waresul Karim & Moizer (1996) ;Cobbin (2002), there still have little research done in developed countries regarding issues on audit delays, audit fee determinants and audit quality.

Moreover, Che Ahmad, Houghton, & Mohd Nor (2006) stated that under Companies Act 1965, all companies incorporated in Malaysia are required to provide an audited annual report in accordance with Accounting Standard and Malaysian Institute of Accountant (MIA). Under this standard, all public listed companies must follow additional requirements set out by Securities Commission (SC) and Bursa Malaysia. There are also additional mechanism for rules and regulation that introduced by MIA regarding to the accounting profession under Accountants Act 1967 (Che Ahmad, Houghton, & Mohd Nor,2006).

Besides, issues of gender and ethnicity also often discussed in previous studies. Between male and female auditors, who impose higher audit fees and whether the same

ethnicity between client and audit partner affects the determination of audit fees. Suzan & Jomana,(2013) argue that one would expect female auditor and male auditor will issued the similar audit judgments even they received the same training and education. There is no assurance that they will charge the audit fee according to the guidelines. Thus, this paper is to determine this inequity by looking at all these variables.

1.4 Research objectives

Specifically, the objectives are as follows:

- (1) to investigate the relation between the gender and the audit fees in Malaysia.
- (2) to investigate the relation between the ethnicity and the audit fees in Malaysia.

1.5 Research questions

To provide better and clear understanding about this topic, the following research questions are formulated;

- (1) Does audit partner's gender give impacts on audit fees in Malaysia?
- (2) Does audit partner's ethnicity give impacts on audit fees in Malaysia?

1.6 Scope of the study

The scope of the study is as follows:

- (1) This study is based on the sample of 100 audited annual report of listed companies in Malaysia, and randomly selected.
- (2) Annual report of year 2015 have been selected. The reason is 2015 is the latest audited report been signed by Chartered Accountants (at the moment of project paper was written).

1.7 Significance of the study

This paper will support prior research on determinant of audit fees and audit fees negotiation especially in Malaysia. More importantly, this study would be beneficial to several parties includes:

1.7.1 To Researcher

This research is a requirement for the researcher to complete this course. Other than that, this study has exposed the researcher with the new experience to obtain more knowledge, information and increase the current understanding in research field. This research can be used as the instrument in investigating the problems or making decision. The researcher

also has the opportunity to develop confidence and enhance research skills.

1.7.2 To practitioners

This research also can help practitioners such as regulatory bodies, firms, and audit firms to take into consideration on the determination of audit fees charged.

1.8 Definition of key terms

Audit fees is the amount of fees charged by auditor for the process of auditing the company's account. The audit fees is determine based on the agreement between auditee and the auditor in accordance with the duration of period taken during audit process, taking into account the several factors such as audit service provided and the number of auditors involved throughout the auditing process.

1.9 Organizational of remaining chapter

The next section of this paper is organized as follows. Chapter 2 describe the literature review related to the topic and explain the theoretical framework of this study. The next chapter (Chapter 3) continues with the research methodology which is using secondary data (i.e. annual report) of listed companies in Malaysia. In Chapter 4 presents the results of data analysis and discussions. Finally in Chapter 5 covers the conclusion, problems and including its limitations and recommendations for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter will present the related literature review relevant to the topic and discuss the conceptual and theoretical framework for this study. This chapter will briefly explained the relationship between gender and ethnicity of the auditor and audit fee as well as the factors that influencing audit fees in Malaysia such as, firm's size, firm's financial risk, firm's complexity, and firm's profitability. Each of the variables will be supported by justifications and to test all of these variables, hypotheses will be provided.

2.2 Review of the Literature

The calculation and determination of audit fees is a sensitive issue. Where, according to professional ethics, the amount of audit fees charged should not be too high or too low. Many researches in auditing focused on the engagement of partner's characteristics using primary data (e.g. Gibbins et al.,2001; Brown and Johnstone, 2009), thus this study is based on secondary data.

2.3 Auditor's Gender and Ethnicity

2.3.1 Auditor's Gender

According to Khan et al. (1996) due to higher integrity and responsibility, female auditors are valued significantly compared to male auditors. Besides, the study of relationship between audit fee and auditor gender found that the engagement of female auditors is greater than male auditors (Hardies et al., 2009). According to Tsui (1996), the higher degree of ethics is influenced by independent behavior, and compared to male auditors, female auditors is more independent. . Md Yusof (2010) found that, based on Bursa Malaysia data, there is a similar audit fee charged between male and female partners. Besides Ittonen and Peni (2010) concludes that there is no gender effect on audit fee. Based on the above, the current study investigates on the relation between audit fees and gender

2.3.2 Auditor's Ethnicity

Malaysia consists of multiracial, cultural and ethnic communities. Each ethnic group practice their religious beliefs and maintain their own culture (Iskandar & Pourjalali, 2000). Since every ethnic is concerned with their own culture, it is important to study the effect of multiracial communities to accounting practices in Malaysia (Sendut,1991). According to Patel et al., 2002; Salleh et.al, 2006; Haniffa and Cooke,2002; Iskandar and Pourjalali,2000), the effect from different ethnicity and cultural in the improvement of accounting practices have attracted many accounting researchers.

In Malaysia, a study conducted by Iskandar and Pourjalali (2000) found that the

implementation of accounting and auditing practices was influenced by cultural values. Some researchers conclude that Malays people prefer to work with the Malays community as they are more familiar with their religion, belief and customs, while Salleh et al., (2006) found that Chinese people have high individualism but low uncertainty avoidance. Chinese people are able to work with their own and other races because they believed that business must be separated from their inner feelings.

According to Hofstede (1991) the Chinese rank low on individualism but Gray (1988) hypothesises that a higher rank of professionalism (defined as the maintenance of professional self-regulation) is more likely when there are higher ranks of individualism and lower ranks of uncertainty avoidance and power distance and argues that Chinese are relatively more professional compared to Malays. Haniffa and Cooke (2002) suggest that the Chinese are relatively individualistic compared with Malays.

According to Che Ahmad et al., (2006), most of the Malay businesses company are interested to hire Malay auditor in order to increase the number of Malay participation especially in the auditing sector. Study by Che Ahmad and Houghton (2001) also concluded that the effects of cultural differences and the various aspects of culture (i.e. ethnicity and demography) have been shown to influence organisations, accounting disclosure practices, business practices and audit services. Besides, the ethnic obligations and feeling, might influence auditor judgement and objectivity (Che Ahmad et al.,2006). It is important that cultural values be taken into consideration as they strongly influence belief, lifestyle, and behavioural patterns of people. Based on these discussion it can be concluded that ethnicity

also play an important role in the determination of audit fees.

2.4 Determinants of audit Fees

2.4.1 Auditee's size

According to Walid El-Gammal (2012), the firm's size is significantly affect the time of auditing process and auditor's work. The bigger the company size, the more time needed to implement audit services. This may result higher audit fee charged by auditor. Besides, Carson, Fargher, 2004 ;Palmrose, 1986; Simon & Taylor, 2004) conclude that the bigger companies pay higher audit fees compared to smaller companies in the industry. According to Walid El-Gammal (2012) previous research found that auditee's size are measured by calculating total assets, sales, revenues and the number of employees. This is similar with the study of Chung & Narasimhan (2002).

Besides, by using sample of energy firms also show that the result is positive which means that there is a significant relationship between firm size and audit fee (Wilson, 2003). The study by Matthew & Peel (2003) investigate that the research analysis done by using companies in United Kingdom found that company size was the major factors in determining audit fees 100 years ago and the result is remain unchanged until today.

2.4.2 Auditee's complexity

According to Davis et al., (1993), another variable used in determining audit fees charged

was firm's complexity. Previous research found that firm's complexity has significant relationship with audit fees. Hay et al., (2004) conclude that the more firm's complexity, the more time needed and the harder it is to audit. Besides, Chan et al.,(1993) stated that current asset such as account receivable and inventory are more difficult to audit compared to cash and near cash assets. For example, inventory consisted of variety of items, so, it is difficult in determining the appropriate cost, to verify the existence of ownership and measuring the net realizable value.

Similarly, debtors account comprised of large number of balances and it is difficult to ensure the accuracy and recoverability of the recorded amount. Based on this argument, Simunic (1980), and Low et al., (1990) have included inventory to total assets in their audit fee model to measure the relationship between firm's complexity and audit fees even though some researchers used these proxies to measure audit financial risk.

2.4.3 Auditee's Financial Risk

According to Walid El-Gammal (2012), firm's financial risk is consider as an important factor in determining audit fees. To determine firm's financial risk, Sandra and Patrick (1996) used liquidity ratio and debt ratio. The formula used to calculate the ratios; long term debt/total assets, income before tax/ total assets,current assets/ total assets (Joshi & Al-Bastaki, 2000;Carson et al., 2004). In general, companies endure financial losses when the risk debt ratio is higher which leads to higher possibility of bankruptcy. The more the time and work spent to complete auditing process, the higher the audit fee charged. Thus,

firm's financial risk are positively related to audit fees (Craswell & Francis, 1999; Francis & Simon, 1987).

2.4.4 Auditee's Profitability

According to Chung & Lindsay (1988), the firm's profitability can be measured by using income or loss figure in the income statement. Besides, firm's profitability also can be measured by using profitability ratios such as return on investment (ROI), return on capital employed (ROCE) and Return to assets (ROA). Moradi, Valipour, & Pahlavan (2012) stated that there is a different between the level of firm's profitability and audit fees. This means that the higher company's profitability, the higher the audit fees need to be paid.

Based on this, Moradi et al., (2012) concludes that the determination of audit fees is important between managers and auditors, because managers have advantage to manipulate earnings. Previous researchers found that there is a significant relationship between earning management and audit fees (Leventis and Dimitropoulos, 2010; Magee and Tseng, 1990).

2.4.5 Big 4 Auditors

According to Simunic (1980), no fee premiums between Big 4 and non-Big 4 auditors and argued that the market for auditing services is competitive and that there is no product differentiation or economies of scale for Big 4 and non-Big 4 auditors. Francis (1984)

indicated that Big 4 auditors charge higher audit fees than non-Big 4 auditors in both the small- and large-client segments. Later, Francis and Stokes (1986) attempted to reconcile these two contradictory results and found that for the largest client segment, the findings are consistent with those of Simunic (1980) that there are no price differentials between Big 4 and non-Big 4 auditors. However, for smaller auditees, the results from Francis and Stokes (1986) show that the audit provided by Big 4 auditors differs from that provided by non-Big 4 auditors, which is consistent with Francis (1984).

According to Jenkins and Krawczyk (2001), the perceptions of professional accountant from Big 4 and non-Big 4 auditors are important since they are the only audit practitioners who audit the financial statements of companies. It is known that the audit markets are segmented into at least two categories, namely as Big4 auditors and non-Big 4 auditors. Big 4 auditors are among big international auditing firms, such as Pricewaterhousecoopers, KPMG, Deloitte, and Ernst & Young. Besides, all other auditors which have a national or local reputation are termed as non-Big 4 auditors. According to Palmrose (1986), Big 4 auditors are identified in the literature as higher quality auditors.

2.5 Theoretical Framework

2.5.1 Agency Theory

According to Jensen and Meckling (1976), an agency theory is an agreement between one or more persons known as principals, engaged with another person known as agent, to complete their obligation of their duties by delegating the authority to make decisions making on behalf of them. In this situation, the principal puts all trust in their agent to act

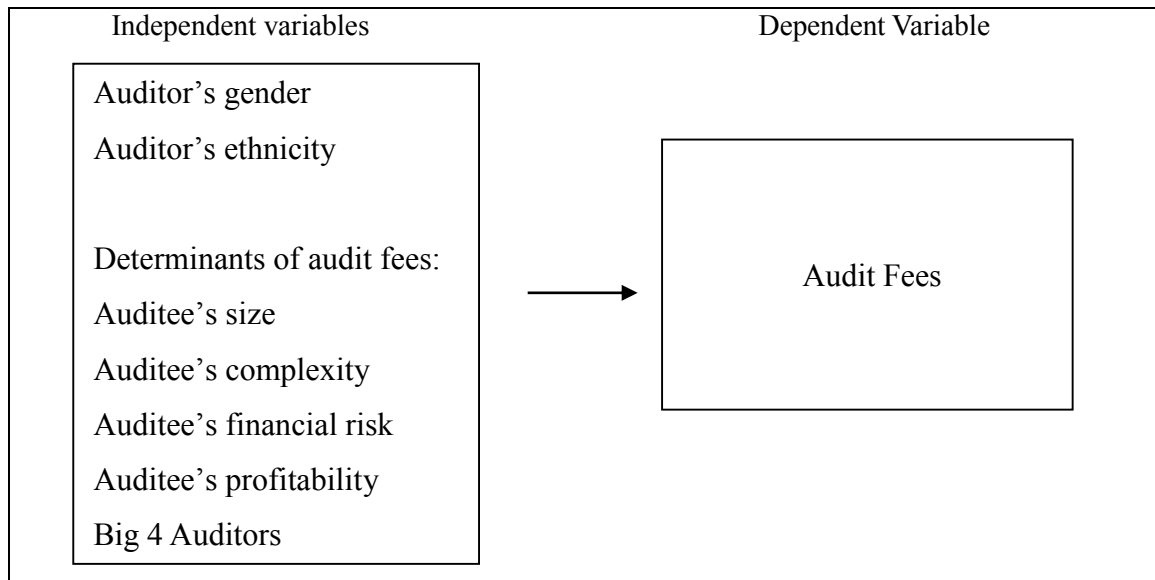
on their behalf preferably. As a consequence of information asymmetries between both parties, principals need to trust their agents and the mechanism such as audit should be carried out to reinforce this trust. In practice, the agency theory is used when resolving two issues arising in the relationship between the agencies.

The first issue is when the goal of the agent is not in line with the main goal of the principal. And the second problem is happened when agents and principals act differently when dealing with risks. These problem can cause principal lack of confidence on their agent. As an agent, the auditor is responsible for convincing the manager to perform their responsibilities by auditing the company's account with full integrity.

2.6 Research Framework

The conceptual framework below will be used in order to determine the extent of audit fee model in Malaysia. As shown in the Figure 2.1, there are seven independent variables used in this study which are auditor's gender, auditor's ethnicity, firm's size, firm's complexity, firm's financial risk, firm's profitability and Big 4 auditors. The dependent variable in this study is clearly audit fees charged by auditor to their clients. The independent variables and their hypothesized relationship with the dependent variables are discussed in following section.

Figure 2.1
Research Framework



2.7 Hypotheses Development

2.7.1 Auditor's gender

According to Niemi (2002), present literature shows that female auditor charged higher audit fees compared to male auditor. Besides, female auditor also more independent and higher level of ethics compared to male auditor (Tsui,1996). Since auditor's gender may have an effect on audit fees, it's far thrilling to have a look at the relationship between auditor's gender and audit fees. Thus, the hypothesis proposed is:

H1: Auditor's gender has a significant effect in determining audit fees for companies in Malaysia.

2.7.2 Auditor's ethnicity

According to Che Ahmad et al., (2006), the auditor judgement and objectivity might be influenced by the ethnic obligations and feelings. Since people in Malaysia are comes from different ethnic background, there is an issue whether ethnicity between both sides (audit partner and client) influence audit fees. So, it is important to know the relationship between auditor's ethnicity and audit fees. Thus, hypothesis developed in this study is;

H2: Auditor's ethnicity has a significant effect in determining audit fees for companies in Malaysia.

2.7.3 Firm's size

Bigger firm's size required more audit services and time needed compared to small firm's size. Thus, it is expected that bigger client's size will pay higher audit fees to the auditor (Simon & Taylor, 2004). Most previous research measured the firm's size by using total assets. This is similar with the studies done by Simunic (1980); Davis et al. (1993); Iyer and Iyer (1996); Karim and Moizer (1996); Menon and Williams (2001); Willekens and Achmadi (2003); Abbot et al., (2003); Field et al., (2004); Ayoib et al.,(2005). Total assets used probably because, when company has higher total assets, the workload of auditor also will increase. Therefore, the hypothesis proposed for this variable is;

H3: Size of firm has a significant effect in determining audit fees for companies in Malaysia.

2.7.4 Firm's complexity

Waresul Karim and Moizer (1996) stated that the amount of audit effort expended can be expected to increase with the increased complexity of the audit task which in turn is likely to lead to increased audit fees. Complexity costs will be a reflection of the nature of the business of the auditee, its location, the quality of its internal control and the proportion of unusual transactions.

According to Walid El - Gammal (2012), the complexity of the firm is measured by the number of subsidiaries and branches around the world. He also argued that the bigger the number of subsidiaries, the higher the complexity of the firms and at the same time, the more audit services are required.

Besides, the increase of firm's complexity may result in increasing the number of audit failure (Curry & Peel, 1998). In this study, inventories and receivables is used to measure firm's complexity. Therefore, the relationship between audit fees and firm's complexity are hypothesized to be positive.

H4: Complexity of firm has a significant effect in determining audit fees for companies in Malaysia.

2.7.5 Firm's financial risk

In most cases, receivables and inventories are categorized as risky assets because they can

be manipulated. According to Ayoib et al., (2005), the greater the risky balance sheet assets, the more tentative work is needed to overcome the problems, and the increase in the audit fees charged. Therefore, it is foreseen to get the same result from this study.

According to Walid El-Gammal (2012), firm's financial risk is considered an important factor in determining the audit fees. The more the time and work needed to complete the auditing process, the greater the audit fee is.

Curry and Peel (1998) hypothesized that auditee risk affects the level of audit fees for two reasons. Firstly, increased client risk increases the risk of audit failure and therefore a higher level of audit testing will be required. Secondly, the auditor will charge a higher fee, commensurate with the perceived risk (of audit failure) associated with the audit and/or to cover the cost of higher indemnity insurance against audit failure. Five measurements for audit risk have been identified in previous research such as the ratios total liabilities to total assets, long-term debt to total assets, working capital to total assets, current assets to current liabilities, and current assets less stock to current liabilities.

There are two areas most frequently cited as being difficult to audit which are inventory and account receivables (Hay et al. ,2004). Maher et al. (1992), Iyer and Iyer (1996), and Ayoib et al. (2005) suggested that the greater the proportion of risky balance sheet assets, the greater would be the auditor's loss exposure and need for special audit steps. Most of the previous researcher used long-term debt to total assets ratio as a measure for risk (Chaney et. al., 2004; Craswell et. al., 1995; Curry & Peel, 1998; Firth, 1997; Gul, 1999; Joshi & Al-Bastaki, 2000; O'Sullivan, 1999; Wilson, 2003). Therefore, a long-term

debt to total assets ratio will be used as proxies for firm's financial risk as most of the previous researcher used this measure for the proxy of risk. Therefore, the relationship between audit financial risk of auditee and audit fees are hypothesized to be positive as well.

H5: Financial risk of firm has significant effect in determining audit fee for companies in Malaysia.

2.7.6 Firm's Profitability

Waresul Karim and Moizer, (1996), argued that firm's profitability is difficult to access since there are two possible opposite effects. First, low profitability could be linked with financial pressure which could require greater audit could work to verify the value of assets and to confirm that the company was a going concern. Second, higher profitability could means that the firm is less concern regarding individual overhead and hence the audit fee could be higher.

Even there is a disagreeing due to the conflicting of the relationship between audit fees and firm's profitability, the relationship hypothesized is that there is a positive relationship between firm's profitability and audit fees.

H6: Profitability of firm has a significant effect in determining audit fees for companies in Malaysia.

2.7.7 Big 4 Auditors

Big 4 auditors audit most of the large companies (Shafer et al., 2001) while non-Big 4 auditors audit the medium and small firms, and the selection of both types of auditors can fully capture a comprehensive picture of the auditing profession. Francis and Stokes (1986) show that the audit provided by Big 4 auditors differs from that provided by non-Big 4 auditors. Gul (1999) argued that the findings in Francis and Stokes (1986) are not consistent with the theory of market efficiency and long-run economic equilibrium. Their results demonstrate that fee premiums are higher for Big 4 auditors than for non-Big 4 auditors in both the small- and large client segments. In this study, the relationship between Big 4 auditors and audit fees are hypothesized to be positive as well.

H7: Big 4 auditors has a significant effect in determining audit fees for companies in Malaysia.

2.8 Summary and Conclusion

In this chapter, previous research findings were discussed with regard with auditor's gender and ethnicity and also audit fees determinants. Agency theory also has been explained in this chapter. Specifically, in this study, audit fees determinations have been concentrating in six areas, which are auditor's gender, auditor's ethnicity, firm's size, firm's complexity, firm's financial risk and firm's profitability.

CHAPTER 3

RESEARCH METHODOLOGY AND RESEARCH DESIGN

3.1 Introduction

This chapter will discuss how the data needed in the study was collected, what the sample selection criteria that had to be fulfilled and also include discussion on how the data being analyzed.

3.2 Sample selection

In this study, 100 audited reports for financial year ended 2015 that has been listed in Bursa Malaysia was randomly selected. The sample is based on year 2015 that already been signed by Chartered Accountant. The reason is 2015 is the latest audited report been signed by Chartered Accountants (at this moment of paper project was written).

One year sample period was selected in this study even though other researchers used a longer sample period. This is because, the data would contain more problem for longer sample periods and bring to smaller sample size to meet the criteria for the selection of the sample. The sampling procedures used were as follows:

First, the company with statement of financial positions covering periods not equal

to 1 year (12 months) were released for the reason of preventing the potential confounding effects.

Second, finance companies and banks also excluded because, according to Simunic (1980), the audit fee function is different for the finance and banking industry. The financial institutions and banks are ruled by the Banking and Financial Institution Act 1989, meaning that, there is a different regulations compared to other sectors.

Lastly, companies with data on any variable missing will also be excluded from the sample selection. The variables of interest will include the revenues, inventories, total assets, trade receivables and long term debt. The data for gender and ethnicity also obtained from annual report.

3.3 Sources of data

All the data in this study consists of secondary data. To collect the data required for the study, several sources have been used such as annual reports. Audit fees for each of the companies were obtained from the notes to the account in the annual audited report. Since this study consists of secondary data, thus, there is no questionnaire been distributed and collected.

All of the audited reports are in year 2015 and already been signed by Chartered Accountant that been recognized by MIA. The main reason year 2015 annual report were

selected is because the most recent Malaysian studied by Che Ahmad et al., (2006), Md Yusof (2010) and Yatim (2006), that related to the topic are using the data before 2010, so the data in 2015 was updated from the previous research. 100 listed companies in Malaysia were randomly selected and schedule of calculating the variables of audit fees been organized in order to generate the information needed.

3.4 Data Analysis

To meet the objectives of the study, descriptive statistics and inferential statistics will be employed. All the data collected will be analyzed by using SPSS. Sekaran (1992) stated that it is important to use descriptive analysis because it describe the phenomena of interest, so that one can make sense of them. However, descriptive analysis cannot be used to examine inferences from the sample to population.

Based on previous research, multiple regression analysis is mostly used to study the behavior of audit fees. Multiple regressions is an extension of covariates correlation. The result of regression is an equation that represents the best prediction of a dependent variable from several independent variables. Simunic (1980), Firth (1985), Maher et al. (1992), Iyer and Iyer (1996), Menon and Williams (2001), were some of researchers who conducted their research by employing this multiple regression technique. Therefore, the same technique was used in order to be consistent with the earlier studies. In order to test the hypotheses development, inferential statistics were required. In this study, the inferential statistical technique used is the multiple regression analysis.

3.5 Measurement of independent variables

There are seven independent variables in this study. First, is a gender. Gender is determined by male or female auditors. Second, is ethnicity. Ethnicity is measured by Malay and non-Malay auditors. Third, is auditee's size. Auditee's size is determined by calculating the total assets of the company. Fourth, is auditee's complexity. The auditee's complexity is calculated by dividing the sum of the receivables and inventories with total assets of the company. Fifth, is auditee's financial risk. The measurement of auditee's financial risk is by calculating of long term liability divided by total assets of the company. Sixth, is auditee's profitability. Profitability is measured based on return on total assets of the company. Seventh, is Big 4. Big 4 is measured based on Big 4 and non Big 4 auditor firm's companies. The data measurement process is shown in Table 3.1.

Table 3.1
Data Measurement

Variables	How to measure
Auditor's Gender	1=Male , 0=Female
Auditor's Ethnicity	1=Malays, 0= Non Malay
Big 4 Auditors	1= Big 4, 0= Non Big 4
Auditee's Size	Total Asset of the company
Auditee's Complexity	(Inventories-Trade Receivables) / Total Asset
Auditee's Financial risk	Long Term Liabilities/ Total Asset
Auditee's Profitability	Earnings before Interest and Tax (EBIT) / Total asset

Previous research mostly used multiple regression analysis to study the behaviour of audit fees. Simunic (1980), Firth (1985), Iyer and Iyer (1996), Maher et al. (1992), Menon and Williams (2001) were some of researchers who conducted their research by employing this multiple regression technique. Therefore, the same technique was used in order to be consistent with the earlier studies.

3.7 Summary and conclusion

Basically, this chapter focused on the methodology employed with the purpose of achieving the objectives of the study. These will include the discussion on data collection, sample selection and the data analysis. Once the methodology of the research was discussed in this chapter, then the finding and the analysis of data will be discussed and presented in Chapter 4. This is the most important chapter where the hypotheses were checked to see whether it will be supported or rejected.

CHAPTER 4

FINDING AND DISCUSSION

4.1 Introduction

This chapter will discuss the finding and discussion of the study. First, result of factors that influencing audit fees (descriptive results) will be reported. It will mainly concentrate on mean, median, the minimum and the maximum value of each variable. Then, the main result of analysis will be presented. It will highlight the empirical analysis results testing all seven hypotheses discussed earlier.

4.2 Diagnostic Tests

Diagnostic tests were conducted to ensure that the regression analysis fulfills linear regression assumptions. The normality test, multicollinearity test, and heteroscedasticity test, are shown in the following sub-headings.

4.2.1 Normality Test

Statistical and graphical methods can be used in assessing the normality of the data. Based on the statistical methods, skewness and kurtosis are among the statistical measures most

used in examining the normality of the data. According to Meyers,(Gamst & Guarino 2006)), the value of skewness and kurtosis should not exceed ± 1.96 (for .05 significant levels) and ± 2.58 for .01 significant levels). On assessing the normality of data using graphical methods, (Hair et al. 2010) stated that the normality plot is the most reliable method for assessing normality of data. Normality is assumed if the data distribution follows a diagonal line. Based on the result, it indicated that the data is accurate and normal for further analysis. The details of the graphical normality test are provided in Appendix A.

4.2.2 Multicollinearity Test

Based on Coefficients output- Collinearity Statistics, the obtained VIF value of independent variables are GENDER is 1.078, ETHNIC is 1.079, SIZE is 3.197, RISK is 2.929, COMPLEX is 1.174, PROFIT is 1.045 and B4 is 1.315. It can be concluded that none of the independent variables exceed 10 which indicates that among the independent variables, there is no significant threat of multicollinearity as argued by Neter et al.(1996). Besides, value of tolerance presented in Table 4.2 for each of the independent variables are GENDER is 0.927, ETHNIC is 0.927, SIZE is 0.313, RISK is 0.341, COMPLEX is 0.852, PROFIT is 0.957 and B4 is 0.761. Each of variables which has tolerance value of greater than 0.10 suggesting that, among the independent variables, multicollinearity does not exist.

4.2.3 Heteroscedasticity Test

The study employs the White's test to test for heteroscedasticity problem. Such issue is apparent when the errors are systematically related to dependent variable. As such, it would render hypotheses testing to be distorted, if any. The White's test yields a chi square of 14.479 at a p value of 0.99 (not significant). Thus, we could safely conclude that heteroscedasticity is not an apparent threat in the ensuing regression analysis.

4.3 Result of Audit Fees Determinants

There are several variables involved in this model. The audit fee was used as dependent variable. Meanwhile, for independent variables, male and female were used as a proxy of gender, Malays, and non-Malay were used as a proxy of ethnicity, Big 4 and non-Big 4 audit firms were used as a proxy of Big 4 auditors, total assets were used to measure auditee size, account receivables and ratio of inventories were used as a proxy for complexity of the balance sheet of the auditee financial statement, return on total assets were used as proxy for auditee profitability, and ratio of long term debt to total assets were used to measure auditee financial risk.

Table 4.1 below shows the descriptive statistics for all the variables involved in this study. The amounts presented in the table were nominal values. However, inferences cannot be made simply by looking at the descriptive results.

Table 4.1
Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
lgaudfee	100	1.82	4.26	2.6362	.49659
gender	100	0	1	.81	.394
size	100	4.78	7.75	6.0097	.61962
finrisk	100	1.38	7.17	4.7805	1.16558
complex	100	.00	.80	.2561	.18076
profit	100	-.40	.51	.0684	.08923
ethnic	100	0	1	.09	.288
b4	100	0	1	.53	.502

From the table, the observation shows that size variable is highest. According to Turpen (1995), the higher fee reported in the audited annual report were supported by higher assets and revenues (size variable) as both of them was reported as the most significant exploratory variables in determining audit fees. Larger auditee size requires more time and effort to do audit works resulting in higher audit fees charged.

4.4 Statistical Analysis Result

A first-difference regression model was performed to test factors in determining audit fees by employing determinants such as gender, ethnicity, size, complexity, profitability, financial riskiness of the client financial statement, and Big 4 auditors.

Table 4.2
Regression Result

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-1.103	.401		-2.752	.007		
gender	.086	.082	.068	1.048	.297	.927	1.078
ethnic	.020	.112	.011	.176	.860	.927	1.079
size	.604	.090	.754	6.732	.000**	.313	3.197
finrisk	-.016	.046	-.038	-.352	.725	.341	2.929
complex	.102	.186	.037	.546	.586	.852	1.174
profit	.122	.356	.022	.343	.733	.957	1.045
b4	.152	.071	.153	2.134	.035*	.761	1.315

a. Dependent Variable: lgaudfee

R-squared = 0.644

Beta coefficient in Table 4.2 is used to measure how sensitive the changes in audit fees charged to changes in all independent variables are. The higher the value of the beta coefficient, the stronger the effects of the independent variables to the dependent variable of audit fee. The sign of beta coefficient indicate the positive or negative relationship between audit fee and the other independent variables. A positive relationship implies that an increase in the independent variable will also increase the audit fee charged. Meanwhile, a negative relationship indicates that a decrease in the independent variable will increase the audit fee charged. The adjusted R^2 is 0.644. It indicates that 64.4% of variation in the audit fee changes was described by the variation of the changes in independent variables. The general results showed that only size of the company and big 4 variables were significant at p-value of 0.000 and 0.035 and beta coefficient of 0.754 and 0.153.

4.4.1 Gender

According to Ittonen and Peni (2012) in their study in three Nordic companies, there is no gender effect on audit fee. In this study, the result showed that gender variable were not significant with p-value of 0.297 and beta coefficient of 0.068. The result showed that there is no relation between the audit fees and the gender of audit partners. In this study 19% are female auditors and 81% are male auditors. Based on the result, the auditor's gender is one of the variables having towards negative relationship with audit fees. Therefore, the results have rejected H1.

4.4.2 Ethnicity

According to Md Yusof (2010), companies tend to appoint audit partner ethnic with dominating ethnic of the board of director (BOD). In this study, 9% audit partners are Malay, 79% are Chinese, 10% are Indian and 2% are from other ethnicity. The result showed that audit partner ethnicity is not significant with p-value of 0.860 and Beta coefficient of 0.011. Results indicate that audit partner ethnicity not influence the determination of audit fee.

4.4.3 Firm's Size

For auditee size result is significant with p-value of 0.000 and beta coefficients of 0.754. Most of previous researches had shown that the auditee size was the most significant

variable in determining the audit fees (Turpen, 1995). Thus, the result of this study is constant with previous research (e.g. Maher et al., 1992; Chan et al., 1993; and Myrteza & Zhang, 1996) who used revenue, turnover or total sales instead of total asset as a proxy for auditee size.

Based on the previous research, Walid El-Gammal (2012) concludes that auditee size is the most important factor in determinants of audit fees. It is usually measured by total assets, sales, revenues, and number of employees of the auditee.

Despite the much smaller sample size of 100. The variation documented is not far behind studies that collected much larger samples (Che Ahmad et al., 1994; Yatim, 2004). Hence, the expectation is met between auditee's size and audit fees.

4.4.4 Firm's Complexity

For firm's complexity variable, the results show that there is a positive relationship between firm's complexity and audit fees, where firm's complexity is measured by inventories plus receivables divided by total assets. Chan et al., (1993) recommended that current assets such as account receivable and inventory were more difficult to audit fees as compared to other current assets such as cash or near cash assets.

The general results showed that complexity variable were not significant at p-value of 0.586 and beta coefficient of 0.037. For example, inventory consisted of great variety of

items, so that it is difficult in determining the appropriate cost, to verify the existence of ownership and measuring the net realizable value. According to Curry & Peel (1998), previous studies shows that firm's complexity was 51 found to be positively related to audit fee determination. But in this study, the expectation is not met between auditee's complexity and audit fees.

4.4.5 Firm's Financial Risk

According to Walid El-Gammal (2012), firm's financial risk is measured as an important factors in determining the audit fees. The debt ratio is the most preferred risk measured. It is calculated as the percentage of long term debt to total assets. This shows the ability of the firms to pay off its debt incurred. If the debt ratio is high, it give a signal that long term of financial structure of the company will be unstable, and it shows that it is hard for the company to pay off its debt in a proper manner, which may result to a lower credit rating. However, in this study, the result show that there is a negative relationship between firm's financial risk variables with audit fees charged. The general results showed that audit risk variable were not significant at p-value of 0.725 and beta coefficient of -0.038. Therefore, the expectation is not met between auditee's financial risk and audit fees.

4.4.6 Firm's Profitability

There is an expectation that the profitability variables are associated with audit fees. However, the results indicate that the profitability variable was not significant with p-value

of 0.733 and beta coefficients at 0.022. According to Walid El-Gammal (2012), prior research found that firm's profitability is an important indicator of the performance of the company's management and as the proxy of their efficiency in managing company's resources.

However according to Menon and Williams, (2001), audit fee drivers have changed over time. The firm's profitability can be measured by the income or loss figure shown in the income statement of the company (Chung & Lindsay, 1988; Dugar, Ramanan & Simon, 1995; Simon et al.,; Warasul & Moizer, 1996; Firth, 1985). Thus, the expectation is not met between auditee's profitability and audit fees.

4.4.7 Big 4 auditors

There is an expectation that the Big 4 auditors variables are associated with audit fees. The result showed that Big 4 variable is significant with p-value of 0.035 and beta coefficients of 0.153. According to the study 53% companies was audited by Big 4 and 47% by non-Big 4. Thus, the result of this study is constant with previous research (Gul, 1999) who found that audit fee premiums are higher for Big 4 auditors than for non-Big 4 auditors in both the small- and large client segments.

4.5 Summary and Conclusion

This study shows that only auditee size and Big 4 auditors are significant and positively

related to audit fees. However variables of auditor's gender, ethnicity, auditee profitability, auditee complexity, and auditee riskiness give negative relationship towards this study and show insignificant result. The next chapter will present the conclusion, limitation of the study as well as recommendations for future research.



CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter presents the conclusion and recommendations of this study. This will include whether the objectives of the study were met and whether the results were consistent with previous research. In addition, the problem and limitation of the study also will be presented in this chapter. Thus, the results and conclusions made in this study should be interpreted with caution by other researchers with regards to the limitation of the study. Besides, some recommendations for future research also included in this section as means to overcome the limitations of the study.

Table 5.1
Supported and Rejected of All Hypothesis

Hypothesis	Description	Accepted / Rejected
H1	Auditor's gender has a significant effect in determining audit fees for companies in Malaysia.	Rejected
H2	Auditor's ethnicity has a significant effect in determining audit fees for companies in Malaysia.	Rejected
H3	Size of auditee has a significant effect in determining audit fees for companies in	Supported

	Malaysia.	
H4	Complexity of auditee has a significant effect in determining audit fees for companies in Malaysia.	Rejected
H5	Financial risk of auditee has a significant effect in determining audit fees for companies in Malaysia.	Rejected
H6	Profitability of auditee has a significant effect in determining audit fees for companies in Malaysia.	Rejected
H7	Big 4 auditors has a significant effect in determining audit fees for companies in Malaysia.	Supported

5.2 CONCLUSION OF FINDINGS

The result of the observation show that only size of auditee and Big 4 auditors is positively significant to audit fees. While, profitability of auditee, complexity of auditee, and financial riskiness of auditee, gender and ethnicity did not having influence and give negative relationship towards the determinants of audit fees.

The results of this study may assist audit firms in future in order to determine the audit fees for companies and next to improve their audit work done performance in the audit firm. This study also help regulators or policy makers to regulate the schedule or guideline in order to determine audit fees for companies in a better way by providing evidence of competitive competition which exist in companies Malaysian audit market. The findings will help auditors in order to charge audit fees to the client.

Findings from this study provide a number of important insights into audit fee determinants and by association, audit quality. In addition, results provide important

inference with implications for audit firm itself.

5.3 PROBLEMS AND LIMITATIONS OF THE STUDY

There are several problems and limitation found in the study. The results of this study are specific in year 2015 and may not be relevant to prior or future years. A further limitation was that in order to test the hypotheses, data for all of the variables used in this study were collected from audited annual reports. Such an approach to data collection potentially limits the amount and type of data that can be collected.

Even though only variables of size and big 4 auditors were found significant as important determinants of audit fees, there is still a certain percentage of unexplained variation that could be other factors that affecting audit fees as shown by the value of adjusted R^2 .

The small sample size also becomes one of the limitation in this study. This study used very restrictive criteria to select sample such as completed financial data, 12 months accounting periods, business industries etc. Thus, inferences from this study should be made with care and the limitation of the study should be taken into consideration before generalization could be made to other audit markets.

5.4 RECOMMENDATIONS OF FUTURE RESEARCH

Due to the limitations of the study, several future research suggestions are recommended regarding the determinations of audit fees in Malaysia and for the auditing profession. The study was conducted by employing data from audited report of companies for financial year ended 2015 only. Future research should consider extending the research by collect data from various audit firms and will go to the “Big 4” in Malaysia to check the consistency of result for other audit markets. According to Harjinder Singh (2010), “Big 4” was found to be one of the important factors in determining the amount of audit fees.

Besides, future research could be conducted to examine any potential relation between audit fees and other factors such as auditor specialization, internal auditing and corporate governance. Further research is also needed to help female auditors in understanding the persistent effects of implicit gender stereotypes, since auditing is still strongly gender-typed in favor of men in our society.

5.5 SUMMARY

Basically, this chapter summarized the findings of this study. The result of the study shows that only size of auditee and Big 4 auditors are having positive relationship and significant with the audit fees. While, the gender, ethnicity, profitability of auditee, complexity of auditee, financial risk of auditee, are show negative relationship and insignificant result. This chapter also explains problems and limitations of the study as well as the

recommendations for future research.



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Appendix A: SPSS Results

Correlations

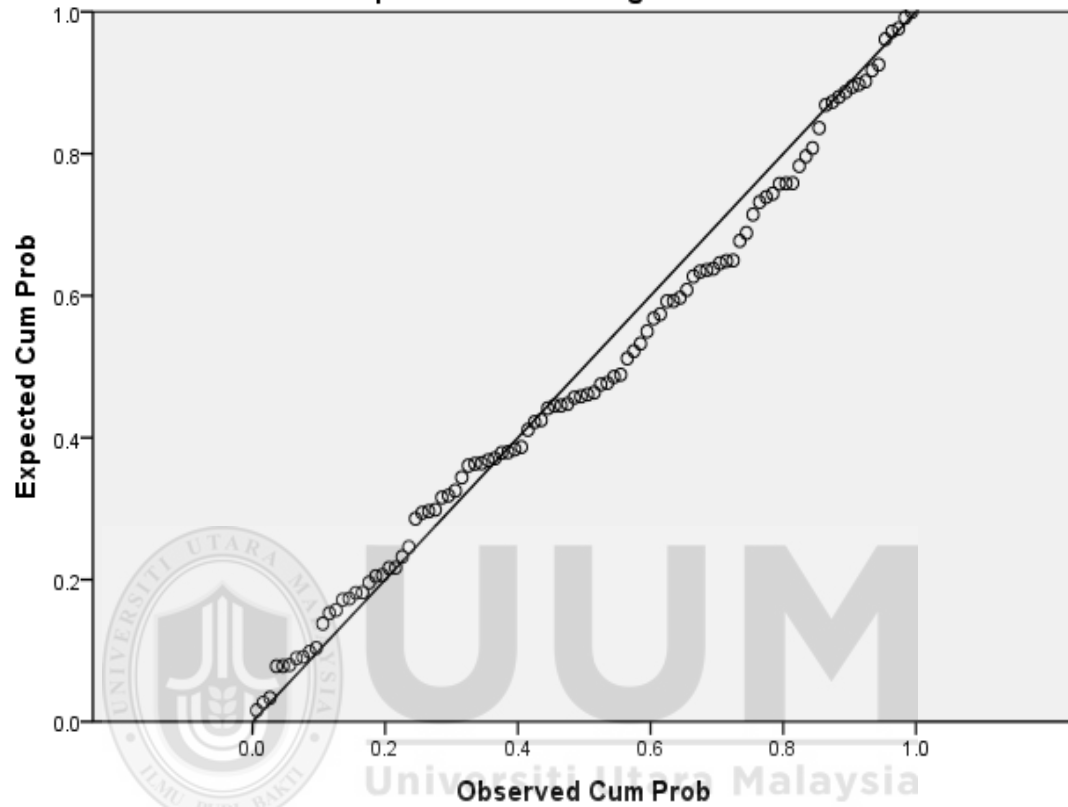
		lgauddfee	Gender	ethnic	size	finrisk	complex	profit	b4
lgauddfee	Pearson	1	.100	.127	.784**	.617**	-.248*	.085	.459**
	Correlation								
	Sig. (2-tailed)		.323	.209	.000	.000	.013	.402	.000
	N		100	100	100	100	100	100	100
gender	Pearson		1	.152	.054	-.004	.067	.097	-.099
	Correlation								
	Sig. (2-tailed)			.130	.597	.969	.509	.339	.329
	N			100	100	100	100	100	100
ethnic	Pearson			1	.113	.099	.027	-.080	.156
	Correlation								
	Sig. (2-tailed)				.261	.327	.787	.430	.121
	N				100	100	100	100	100
size	Pearson				1	.806**	-.349**	.070	.441**
	Correlation								
	Sig. (2-tailed)					.000	.000	.489	.000
	N					100	100	100	100
finrisk	Pearson					1	-.322**	.122	.363**
	Correlation								
	Sig. (2-tailed)						.001	.227	.000
	N						100	100	100
complex	Pearson						1	-.014	-.252*
	Correlation								
	Sig. (2-tailed)							.889	.011
	N							100	100
profit	Pearson							1	.062
	Correlation								
	Sig. (2-tailed)								.540
	N								100
b4	Pearson								1
	Correlation								
	Sig. (2-tailed)								
	N								

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: lgaudfee



Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
gender	100	0	1	.81	.394
lgaudfee	100	1.82	4.26	2.6362	.49659
size	100	4.78	7.75	6.0097	.61962
finrisk	100	1.38	7.17	4.7805	1.16558
complex	100	.00	.80	.2561	.18076
profit	100	-.40	.51	.0684	.08923
ethnic	100	0	1	.09	.288
b4	100	0	1	.53	.502

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-1.103	.401		-2.752	.007		
gender	.086	.082	.068	1.048	.297	.927	1.078
ethnic	.020	.112	.011	.176	.860	.927	1.079
size	.604	.090	.754	6.732	.000	.313	3.197
finrisk	-.016	.046	-.038	-.352	.725	.341	2.929
complex	.102	.186	.037	.546	.586	.852	1.174
profit	.122	.356	.022	.343	.733	.957	1.045
b4	.152	.071	.153	2.134	.035	.761	1.315

a. Dependent Variable: lgauddfee

R-squared = 0.644

