

**THE DETERMINANTS OF AUDIT FEES:
THE CASE OF THE BANKING INDUSTRY IN MALAYSIA**

**A thesis submitted to the Graduate School in partial
fulfillment of the requirements for the degree
Master of Science (International Accounting)
Universiti Utara Malaysia**

**by
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**FAKTOR-FAKTOR PENENTU BAGI YURAN AUDIT:
KES BAGI INDUSTRI PERBANKAN DI MALAYSIA
ABSTRACT (BAHASA MALAYSIA)**

Isu yuran audit dan yuran bukan audit yang dikenakan oleh firma-firma audit kerap diperbincangkan di dalam bidang perakaunan and pengauditan. Baru-baru ini, disebabkan oleh skandal korporat di Amerika Syarikat, terutamanya skandal Enron, isu ini diperdebatkan bersama dengan kegagalan pengauditan yang dikatakan sebagai penyebab kepada kehancuran syarikat-syarikat. Ini disebabkan firma-firma audit lebih bergantung kepada perkhidmatan-perkhidmatan bukan audit dibandingkan pengauditan itu sendiri dan ini seterusnya mengakibatkan profesion pengauditan teruk dipersalahkan dan beberapa perubahan dicadangkan. Oleh itu, kajian ini berusaha untuk mencungkil situasi di Malaysia dengan menggunakan sektor perbankan sebagai tumpuan kajian. Secara spesifik, kajian ini cuba untuk mengenalpasti kesan bagi perkhidmatan-perkhidmatan bukan audit yang dilaksanakan oleh firma-firma audit untuk bank-bank ini.

Keputusan kajian menunjukkan secara signifikan bahawa pembolehubah yuran bukan audit menentukan yuran audit. Begitu juga dalam analisis sensitiviti, keputusan adalah konsisten. Disamping itu, kajian ini menunjukkan bahawa pembolehubah baru dalam bentuk “jenis” bank-bank, juga memberi kesan dalam menentukan yuran audit.

Kajian ini juga menyokong kajian-kajian Rose (1999) dan Ayoib (2001) yang mendapati bahawa syarikat-syarikat asing membayar lebih ke atas yuran audit

daripada syarikat-syarikat tempatan. Dengan itu, hasil kajian ini membuka peluang kepada pengkaji-pengkaji yang lain untuk mengkaji mengenai yuran audit dan yuran bukan audit dengan menggunakan saiz sampel yang lebih besar dan sektor-sektor yang lain.

**THE DETERMINANTS OF AUDIT FEES:
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ABSTRACT

The issue of audit fees and non-audit fees charged by the audit firms has been discussed regularly in accounting and auditing literature. Recently, due to the corporate scandals in United States, especially the Enron scandal, the issue is discussed together with a host of revelations about audit failures that led to companies' demise. Auditing profession is being badly blamed and suggested to change due to the audit firm's reliance more on non-audit services than the audit itself. Therefore, this study attempts to probe the situation in Malaysia using banking sector as the subject of interest. Specifically, it tries to examine the impact of non-audit services conducted by audit firms to these banks over audit fees.

The results show that the variable of non-audit fees is statistically significant in determining audit fees. Similarly, in the sensitivity analysis, the results are robust. Thus, the present study shows a new variable, in the form of the "types" of banks, that has significant impact on audit fees.

This study also supports Rose (1999) and Ayoib (2001) studies that foreign companies pay more on audit fees than the local companies. Hence, these findings give opportunity to the other researchers to study on audit fees and non-audit fees by using larger sample size and other sectors.

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Further appreciation is also due to those who directly or indirectly helped me in gathering information and permission to use facilities in the Kuala Lumpur Stock Exchange, Institute of Bankers in Malaysia and the Bank Negara Malaysia.

As for the contributions of my family, I begin with my late father, Shafie Bin Ahmad and my mother, Noriah Binti Abdullah, my beloved wife, Atikah Binti Mohd Mahdzir, my father in law Mohd Mahdzir Bin Abdul Rashid, my mother in law Che Zaiton Binti Che Din, my eldest sister Rohana and other members of my family who have always stood by me ready to help. Their steady and supportive attitude has made a positively motivated me throughout this research.

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TABLE OF CONTENT

<i>Content</i>	<i>Page</i>
PERMISSION TO USE	i
ABSTRACT (BAHASA MALAYSIA)	ii
ABSTRACT (ENGLISH)	iv
ACKNOWLEDGMENTS	v
LIST OF TABLES	x
1.0 INTRODUCTION	1
1.1 <i>Background of Banking Sector</i>	5
1.2 <i>Background of Non-Audit Services in Malaysia</i>	10
TABLE 1- Changes in Kuala Lumpur Stock Exchange Listing Requirements	11
2.0 THE MOTIVATION OF THE STUDY	12
3.0 THE OBJECTIVE OF THE STUDY	14
4.0 LITERATURE REVIEW	16
4.1 <i>Audit Fees</i>	16
4.2 <i>Non-Audit Fees</i>	25
5.0 HYPOTHESES DEVELOPMENT	31
6.0 RESEARCH DESIGN AND SAMPLE SELECTION	34
6.1 <i>Sample and Data</i>	34
TABLE 2- Sample Selection Summary	36
TABLE 3- Summary of Sample Coverage by Industry and Category	37
6.2 <i>Explanation of the Model</i>	38
6.3 <i>Explanation and Measurement of Variables</i>	40
6.3.1 Audit Fees	40
6.3.2 Non-Audit Services Fees	40
6.3.3 Auditee Size	40
6.3.4 Complexity	41
6.3.5 Opinion	42

<i>Content</i>	<i>Page</i>
6.3.6 Auditor	42
6.3.7 Foreign	42
6.3.8 Commercial	43
TABLE 4- Expected Signs of Independent Variables	44
7.0 RESULTS	45
7.1 <i>Qualitative Results and Descriptive Statistics</i>	45
TABLE 5- Summary of Descriptive Statistics	47
TABLE 6- Pearson's Correlation Among Independent Variables	50
7.2 <i>Ordinary Least Squares (OLS) Analysis</i>	51
TABLE 7- Summary of Ordinary Least Squares Regression for Audit Fees	52
7.3 <i>Sensitivity Analyses</i>	54
TABLE 8- Summary of Sensitivity Analysis of Ordinary Least Squares Regression for Audit Fees (Excluding LOGASSETS)	55
TABLE 9- Summary of Ordinary Least Squares Regression for Audit Fees (Non-Merger Data- Including LOGASSETS)	57
TABLE 10- Summary of Ordinary Least Squares Regression for Audit Fees (Non-Merger Data-Excluding LOGASSETS)	58
TABLE 11- Summary of Ordinary Least Squares Regression for Audit Fees (Changes LOGNAS to NASAU-Including LOGASSETS)	59
TABLE 12- Summary of Ordinary Least Squares Regression for Audit Fees (Changes LOGNAS to NASAU-Excluding LOGASSETS)	60
7.4 <i>Discussion</i>	63

<i>Content</i>	<i>Page</i>
8.0 CONCLUSIONS, IMPLICATIONS AND LIMITATIONS	52
BIBLIOGRAPHY	54
APPENDIX 1- Questionnaire	58
SECTION A- Bankers Perspective on Non-Audit Services Performed by the Audit Firms	59
SECTION B- Non-Audit Services Fees Information	59

LIST OF TABLES

Table 1	Changes in Kuala Lumpur Stock Exchange Listing Requirements	11
Table 2	Sample Selection Summary	36
Table 3	Summary of Sample Coverage by Industry and Category	37
Table 4	Expected Signs of Independent Variables	44
Table 5	Summary of Descriptive Statistics	47
Table 6	Pearson's Correlation Among Independent Variables	50
Table 7	Summary of Ordinary Least Squares Regression for Audit Fees	52
Table 8	Summary of Sensitivity Analysis of Ordinary Least Squares Regression for Audit Fees (Excluding LOGASSETS)	55
Table 9	Summary of Ordinary Least Squares Regression for Audit Fees (Non-Merger Data- Including LOGASSETS)	57
Table 10	Summary of Ordinary Least Squares Regression for Audit Fees (Non-Merger Data-Excluding LOGASSETS)	58
Table 11	Summary of Ordinary Least Squares Regression for Audit Fees (Changes LOGNAS to NASAU-Including LOGASSETS)	59
Table 12	Summary of Ordinary Least Squares Regression for Audit Fees (Changes LOGNAS to NASAU-Excluding LOGASSETS)	60

1.0 INTRODUCTION

The issue of audit fees and non-audit fees has been discussed regularly in accounting and auditing fraternity as early as 1980s. Both are important in predicting future fees, investigating cost structures and measuring audit efficiency (Firth, 1997). Studies on non-audit fees issue also show a growing concern regarding the determinant of audit fees paid by client companies across several nations (Firth, 1997). Recently, the Enron scandal in the United States, had bristled with a host of revelations about the auditing leading the company to its demise. Andersen, the auditor of Enron was heavily criticised for its collapse. Such criticism was levelled against Andersen because they concentrated more on non-audit services rather than audit. In 1998, Andersen's total worldwide revenue for non-audit services was US\$ 3216.8 million as compared with US\$ 2,876.6 million only for audit (Andersen, 1998).¹ Andersen's total worldwide revenue had grown by about 13 percent annually since 1990 (Andersen, 1998). One of the reasons given by Andersen was the growth in new services they provided other than audit services.

¹ Under Malaysian Institute Accountant By Law (On Professional Conduct and Ethics) revised 2002 suggested that audit firms should not accept any appointment if they provide non-audit services, whereby the provision of non-audit services would create a significant threat to the professional independence, integrity and objectivity of the audit firms.

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