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

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Master of Science (International Accounting)
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by
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FAKTOR-FAKTOR PENENTU BAGI YURAN AUDIT:
KES BAGI INDUSTRI PERBANKAN DI MALAYSIA

ABSTRACT (BAHASA MALAYSIA)


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.

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

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

7.1 Qualitative Results and Descriptive Statistics 45

TABLE 5- Summary of Descriptive Statistics 47

TABLE 6- Pearson’s Correlation Among Independent Variables 50

7.2 Ordinary Least Squares (OLS) Analysis 51

TABLE 7- Summary of Ordinary Least Squares Regression for Audit Fees 52

7.3 Sensitivity Analyses 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 Discussion 63
<table>
<thead>
<tr>
<th>Content</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.0 CONCLUSIONS, IMPLICATIONS AND LIMITATIONS</td>
<td>52</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>54</td>
</tr>
<tr>
<td>APPENDIX 1- Questionnaire</td>
<td>58</td>
</tr>
<tr>
<td>SECTION A- Bankers Perspective on Non-Audit Services Performed by the Audit Firms</td>
<td>59</td>
</tr>
<tr>
<td>SECTION B- Non-Audit Services Fees Information</td>
<td>59</td>
</tr>
</tbody>
</table>
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.

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\(^1\) 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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BIBLIOGRAPHY


Accounting Horizons, 2: 32-40.


