

The Recent Structure of Audit Market in Malaysia

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The Recent Structure of Audit Market in Malaysia

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By

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ABSTRACT

The perceived dominance of the accounting profession by the largest audit firms provides a frequent focus for critics of the accounting profession in U.S, U.K, Australia and so in Malaysia. This is due to the fact that such market power will lead to market abuse as suggested by traditional industrial organizational theory. However, due to competitiveness and dynamics structure in audit market, such assumption had been challenged and thus new industrial organizational theory had been introduced. The aim of this paper is to provide the current situation of Audit market in Malaysia in term of market concentration and specialization in general. Apart from Big Four, Group A auditors or mid-tier auditors had been included in the analysis. Concentration ratio methods and two types of measurement basis: number of audits clients and audit fee size were used. The results in general were consistent with previous study done before such as Ali et al., (2006), Iskandar and Aman (2003) and Ali et al., (2003) that agree Malaysia audit market is high concentrated with greater than 60% market share dominance by Big Four. In addition to that, the results also had highlighted the existence of Group A auditors in Big Four rival and overall it provides more up to date of current situation of audit market in Malaysia.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Regulators and others in some countries have expressed concern that the domination of the audit services by a small numbers of large firms might lead tacit collusion among the industry leaders. The domination of these large firms, which is referred as Big four was recorded in at least 4 countries e.g., Beattie and Fearnley (1994). However, these big four domination in audit market worldwide is not unexpected according to the skill and expertise they have developed. Due to this big firm domination, few studies have concluded that audit services market exhibits characteristics of an oligopoly (Pound and Francis, 1981). One of the characteristics of an oligopoly as stated by many economist is the ability to collude. As defined by Sammelson and Nordhous (1992), collusion is an agreement between different firms to cooperate by raising prices, dividing markets or otherwise restraining competition. One of the ways to collude is by merging or forming a cartel.¹

Given the merger between two big six firms in 1998 and the demise of Arthur Andersen in 2002, it is believed that the market concentration for audit services is higher

¹ A cartel is a formal agreement among firms in an oligopolistic industry. Cartel members may agree on such matters as prices, total industry output, market shares, allocation of customers, allocation of territories, bid-rigging, establishment of common sales agencies, and the division of profits or combination of these. (OECD glossary of statistical terms).

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