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**THE RELATIONSHIP BETWEEN IFRS EXPERIENCE AND
AUDIT FEES IN CHINA**



**MASTER OF SCIENCE
(INTERNATIONAL ACCOUNTING)
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**THE RELATIONSHIP BETWEEN IFRS EXPERIENCE AND AUDIT FEES IN
CHINA**

**By
FU XINYU**



**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Master of Science
(International Accounting)**



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
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ABSTRACT

This study intended to provide evidence of the effect of the IFRS convergence process on audit fees in China. Moreover, the study investigates whether the integration of IFRS would increase audit costs by studying the relationship between IFRS experience and audit fees for Chinese listed companies. This study gathered data from annual reports of 30 A-share and 30 A+H shares of Chinese manufacturing firms listed in Shanghai and Shenzhen stock exchange and Hong Kong stock exchange, respectively for the period 2016 to 2018. Meanwhile, this study quantitatively studies the relationship between the IFRS experience of the auditor and IFRS experience of company and audit fees of the company. Based on an analysis of the study, when the company implement IFRS, it needs to pay auditors with IFRS expertise, higher audit fees, thus increasing the audit cost of the company. However, the study shows that a company with IFRS experience does not affect audit fee. Moreover, this study offers additional evidence for the study of the audit fees generated by the IFRS convergence in China. Therefore, this study also puts forward suggestions that Chinese firms and local audit firms must pay attention to their IFRS-related auditing skills.

Keywords: IFRS convergence, audit fees, audit experience



ABSTRAK

Kajian ini bertujuan untuk memberikan bukti tentang kesan proses penumpuan IFRS terhadap yuran audit di China. Selain itu, kajian itu menyiasat sama ada penumpuan IFRS akan meningkatkan kos audit dengan mengkaji hubungan antara pengalaman IFRS dan yuran audit untuk syarikat tersenarai China. Kajian ini mengumpulkan data laporan tahunan 30 saham-A dan 30 saham A+ H syarikat pembuatan China yang tersenarai di bursa Shanghai dan Shenzhen dan bursa saham Hong Kong masing-masing bagi tempoh 2016 hingga 2018. Sementara itu, kajian ini secara kuantitatif mengkaji hubungan antara pengalaman IFRS juruaudit dan pengalaman IFRS syarikat dan yuran audit syarikat. Menurut analisis kajian, apabila syarikat melaksanakan IFRS, mereka perlu membayar yuran yang lebih tinggi kepada juruaudit dengan kepakaran IFRS, yang meningkatkan kos audit syarikat. Walau bagaimanapun, kajian ini menunjukkan bahawa syarikat dengan penumpuan IFRS tidak menjejaskan yuran audit. Selain itu, kajian ini menawarkan bukti tambahan untuk mengkaji yuran audit yang dihasilkan oleh penumpuan IFRS di China. Oleh itu, kajian ini juga mengemukakan cadangan bahawa syarikat China dan firma audit tempatan perlu memberi perhatian kepada kemahiran pengauditan yang berkaitan dengan IFRS mereka.

Kata kunci: penumpuan IFRS, yuran audit, pengalaman audit



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LIST OF ABBREVIATIONS

IFRS	International Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
G20	Group of Twenty
WTO	World Trade Organization
MOF	Ministry of Finance
IASB	International Accounting Standards Board
ASBE	Accounting Standards for Business Enterprises
CASC	China Accounting Standards Board
CAS	China Accounting Standards
CSRC	China Securities Regulatory Commission
U.S.	United States
EU	European Union
OECD	Organization for Economic Co-operation and Development
KPMG	Klynveld Peat Marwick Goerdeler
PwC	Price waterhouse Coopers
EY	Ernst & Young
Deloitte	Deloitte Touche Tohmatsu
TA	Total Asset
NI	Net Income
TL	Total Liability
LEV	Leverage
IV	Independent Variable
DV	Dependent Variable
CV	Control Variable



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CHAPTER ONE

INTRODUCTION

Due to the rapid development of economic globalization, a large number of transnational trading activities and transnational financing activities have taken place in China. For transnational trade, accurate information of accounting is vital for consumers, including investors and creditors. Previous literature has shown that IFRS convergence process would improve the accuracy of accounting information to some extent (Barth, Landsman, & Lang, 2008). Nevertheless, in the convergence phase of China's IFRS, there will be many challenges and problems. The focus of this study is the issues about audit cost.

Firstly, the audit process is very significant and necessary for companies' development. Auditing is a significant part of financial reporting because it can enhance the accountability and credibility of financial information provided by the company (Sloan, 2001). The process of corporate audit can assist in organizational transparency, monitoring and governance, and provide consumers of annual financial statements with reassurance, such as investors, lenders, management, authorities and the public (Lee & Welker, 2007). Secondly, the process of corporate audit is indispensable, because the corporate audit is an integral part of conducting business and is a legal requirement in many countries (Gray, Manson, & Crawford, 2007). For the development of a company, the audit of high quality means high audit cost. So, when companies are required to use a higher standard to finish their auditing, they have to pay auditors more audit fees, especially for auditors who are from Big 4 accounting firms. Studying

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APPENDIX 1: LIST OF COMPANIES

The Sample Corporates Name

A-share (30)

China High Speed Railway Technology Co., Ltd.
Shenzhen Kaifa Technology Co., Ltd.
Shenzhen Desay Battery Technology Co., Ltd.
North Huajin Chemical Industries Co., Ltd.
Shenzhen Zhongjin Lingnan Nonfermet Co. Ltd.
China Great wall Technology Group Co., Ltd.
Shenzhen SDG Information Co., Ltd.
TCL Corporation
Anhui Fengyuan Pharmaceutical Co., Ltd.
Sichuan New Energy Power Co., Ltd.
Jiangsu Eastern Shenghong Co., Ltd.
Midea Group Co., Ltd.
Zhenxing Biopharmaceutical & Chemical Co., Ltd.
Changhong Huayi Compressor Co., Ltd.
Zangge Holding Co., Ltd.
Jilin Chemical Fibre Stock Co., Ltd.
Dong-E-E-Jiao Co., Ltd.
XCMG Construction Machinery Co., Ltd.
Sichuan Xinjinlu Group Co., Ltd.
North Industries Group Red Arrow Co., Ltd.
Lonkey Industrial Co., Ltd. Guangzhou
Yunnan Baiyao Group Co., Ltd.
Gree Electric Appliances, Inc. of Zhuhai
Chacha Food Company, Limited
Shenzhen Kinwong Electronic Co., Ltd.
Hangzhou Nbond Nonwovens Co., Ltd.
Zhejiang Xian tong Rubber Plastic Co., Ltd.
Huagong Tech Company Limited
Jiuzhitang Co., Ltd.
Zhejiang Supor Co., Ltd.

A-share & H-share (30)

Tsingtao Brewery Company Limited
Livzon Pharmaceutical Group Inc.
China International Marine Containers (Group) Ltd.
Huaneng Power co. LTD.
Huadian Power International Corporation Limited
Maanshan Iron & Steel Company Limited
Sinopec Shanghai Petrochemical Company Limited
Angang Steel Company Limited

Jiangxi Copper Company Limited
Nanjing Panda Electronics Company Limited
Zhengzhou Coal Mining Machinery Group Co., Ltd
Shandong Xinhua Pharmaceutical Company Limited
Guangzhou Baiyunshan Pharmaceutical Holdings
Company Limited
Dongjiang Environmental Company Limited
Anhui Conch Cement Company Limited
Hisense Home Appliances Group Co., Ltd.
Zhejiang Shibao Company Limited
Luoyang Glass Company Limited
BYD Company Limited
CRRC Corporation Limited
Ganfeng Lithium Co., Ltd.
BBMG Corporation
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
Xinjiang Goldwind Science&Technology Co., Ltd
Guangzhou Automobile Group Co., Ltd
Great Wall Motor Company Limited
Weichai Power Co., Ltd.
Aluminum Corporation of China Limited
Shanghai Electric Group Company Limited
Fuyao Glass Industry Group Co., Ltd.



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