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Auditors Switching in the Relationship Between Corporate Governance and Financial Performances - Evidence from Malaysian Public Listed Companies (PLCs)

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ABSTRACT

Due to the corporate scandals in the business world, corporate governance is big concern and becomes an alarming issue. Bursa Malaysia required all PLCs to have corporate disclosures in order to cultivate sound corporate governance, meanwhile auditors act as watchdogs in ensuring the disclosures. However, auditor switching is evident and disorder of auditor switching often takes place in Malaysia. Thus, this paper seeks to empirically investigate the association between corporate governance, auditor switching, and financial performance of Malaysian PLCs. Secondary data on a total number of 100 PLCs from years 2009 to 2013 are used. The results reveal that separation of position for BOD chairman and CEO as well as large board size lead to better overseeing of the management on behalf of shareholders, which drives the firm performance. Surprisingly, independent directors do not definitely lead to good firm performance, especially when they do not play their role properly. When there is CEO/chairman duality, tendency of auditor switching is low due to a long-tenure relationship with auditor. A high powered structure in Malaysia that concentrates on top-down relationship prompts no objection from board members and independent directors when a less crucial decision such as auditor switching decision is made. Auditors as the mediator play significant roles between corporate governance and financial performance since they provide creditability and greater assurance to investors. Therefore, this paper has vital implications and gives insight for government to emphasize the auditors' roles as agents for ensuring impacts on the association between corporate governance and financial performance.

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Keywords: Corporate governance, CEO/chairman duality, board size, independent directors, auditor switching, financial performance, Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, Malaysia

INTRODUCTION

Corporate governance becomes an alarming issue in the business world nowadays due to the existence of corporate scandals such as Enron and WorldCom. In Malaysia, there are few PLCs involved in such cases, including Megan Media Holdings Berhad, and Transmile Group. Thus, effective corporate governance is important as it helps to ensure the businesses are running smoothly. In the direction of coping with the breakdown of governance, United States had created the Sarbanes-Oxley Act of 2002. However, as one of the emerging countries, Securities Commission in Malaysia issued MCCG to nurture more desirable corporate governance amongst PLCs. In addition, Bursa Malaysia required all PLCs to have corporate disclosures. Auditors are required to act as guard dogs in ensuring that the disclosures provide true and fair view as many users of these information rely on them for financial decisions. Furthermore, since the auditors are agents of the firms due to their being appointed by the shareholders through the board of directors, an issue arises as to compliance with professional guidelines and standards, all in an attempt to satisfy the needs of their employers (Shareholders) with regards to what is to be covered and uncovered which constitute a further test of the global or local competence, technical capabilities and level of experience and exposure Siala *et al*(2009). Nonetheless, from the perspective of the agency theory, part of the audit responsibilities is to uncover the excesses of the managers that are not in line with the expectation of the shareholders. Thus, the issue arises as to whether auditor switching could have direct or indirect effect on the financial performance and corporate governance activities of a firm.

However, some PLCs are trying to switch auditors to portend the companies' true conditions. Turner *et al* (2005) stated that the trend of auditor switching is increasing, for instance, 59% of the surveyed companies switched the auditors as they did not make adequate disclosures. In Malaysia, auditor switching is evident and disorder of auditor switching often take place. An example of auditor switching disorder is 1MDB's case, where the auditor was changed for three times within five years. Shanmugam (2014) observed that the recent auditor switching in 1MDB was due to an extension of date in annual report submission as various new acquisitions had varied the business orientation and caused business diversification. Nevertheless, it has raised the uncertainty on transparency of 1MDB in corporate reporting. As a result, it shows that ineffectiveness of corporate governance may result in auditor switching and the companies' financial performance may be affected.

Therefore, a research on the auditors switching and its effects on corporate governance and financial performance of Malaysian PLCs is very much needed. This study is to investigate the association between corporate governance, auditor switching, and financial performance of Malaysian PLCs. Moreover, it also investigates the mediating effect of auditor switching

in the association between corporate governance and financial performance. It hopes that this study provide further useful insights in corporate governance area in future.

LITERATURE REVIEW

Theoretical Viewpoints

There are three theories that explain the reasons for auditor switching. Agency theory is used when the rationale for auditor switching is associated to agency-related incentives for higher quality audit (Francis and Wilson, 1988; Nyakuwanika, 2014). For signalling theory, management teams in relation to agency issues are more likely to use it as switching to higher quality auditors, since it provides better signal of promising expectations and indicate that shareholders' interests are being monitored properly. For insurance theory, management teams who undergo losses due to material misstatements are more probably to use it. The auditor "insured" companies, are presumed to give better audit quality reports and provide useful insight to improve companies' performance. Nevertheless, there are arguments of insufficiency of power in explaining the reasons and rationale for remarkable statistic on auditor switching. It is because they neglect the behavioural factors and present only partial explanation regarding auditor switching (Beattie and Fearnley, 1998). Moreover, corporate governance mechanisms influences company's auditor switching determination (Lin and Liu, 2010).

An Overview of Malaysian Corporate Governance

Malaysia was among the earliest to perform corporate governance reforms in the Asian region (Securities Commission Malaysia, 2011). Malaysian Code of Corporate Governance (MCCG 2012), Capital Market Master Plan, as well as Financial Sector Master Plan are the fundamental references of the development for Malaysian corporate governance. These frameworks gave the information on the background rules as well as the prescription on implementation towards sound corporate governance. According to MCCG 2012, corporate governance is described as action and formation to operate companies' activities towards strengthening the prosperity as well as accountability of companies in order to achieve long-lasting shareholders' value and take consideration of other stakeholders' benefits. To express it in simple words, it is a function of managing companies in order to provide accountability to stakeholders. The functions are oversight, managerial, compliance, and external audit, where inter-relatedness with each other take place in order to achieve sound corporate governance practices.

Components of Corporate Governance

1. CEO/Chairman Duality

The Board of Directors (BOD) plays an essential role in making sure that the management team has acted bona fide in order to maintain sound corporate governance framework. BOD is the important person who executes an oversight function. Yet, there is case that the director is simultaneously holding two positions, which are CEO and BOD chairman. In other words, it is called CEO/chairman duality while there is no segregation of duty of CEO and BOD chairman (Bozec, 2005).

2. Board Size

It is a proxy of corporate governance element as the board size is tied to the head of corporate governance as well as being the source for generating experience and expertise information and effective management monitoring that enhance greater firm performance Coles et.al, (2008). Due to these reasons, board size is deemed to have a crucial part and component on the board's functioning. MCCG and Bursa Malaysia are silent on the board size, but it is suggested that board size should not be too big nor too small (Shakir, 2008). The maximum and minimum number is dependent on the company's Articles of Association (A&A).

3. Presence of Independent Directors in Company Board

Presence of independent directors in a company board is defined as the extent of independence of outside officer in the directors' board (Nuhu, 2014). It is measured by the percentage of independent directors over total directors. Independent director includes the 'non-interest', 'outside', 'non-executive', 'non-management', and 'non-employee' elements (Clarke, 2006).

Auditor Switching

Auditor switching implies the resignation and discharge of auditors' duties from the client firm (Turner *et al*, 2005). Normally, auditor switching has been perceived in a negative manner. It is due to the auditors going to lose their clients while the clients may hide the truth of company's performance and incur more costs (Nazri *et al*, 2012).

Financial Performance

Financial performance is the function of executing financial activity and the degree of the extent that financial objectives are being attained (Trivedi, 2010). There are three main functions of financial performance, which are as the tool of financial management, purpose of business organisation, and channel of motivation (Needly, 2007, Ong and Teh, 2008). ROA, ROE, and Tobin's Q are used in this study. There is a well-being balance on the financial performance as ROA and ROE reveal the historical while Tobin's Q displays succeeding financial performance.

Relationship Between Corporate Governance, Auditor Switching and Financial Performance

1. Corporate Governance vs. Financial Performance

The impact of CEO/chairman duality on corporate performance has been extensively debated as there are different findings from different researches. Tian and Lau (2001) stated that favourable association was between CEO/chairman duality and financial performance in terms of operation efficiency (ROA and ROE) and financial strength (shareholder's right ratio). On the other hand, according to Hsu *et al* (2012), the relationship of CEO/chairman duality and company's financial performance is congruence with agency theory, where segregation of duty of CEO and BOD chairman promotes effective observation and control of CEO that leads to good financial performance. Peng *et al* (2007) found that CEO/chairman duality brings both

pros and cons effects towards the financial performance as it acts as the two-edged sword. In a contradicting view, Zulkarnain and Shamsher (2008), Valenti *et al* (2011) discovered the lack of support in the relationship of CEO/chairman duality and financial performance.

For board size, there are different perspectives of thought with respect to the association connecting with financial performance grounded on different researches. Among the 174 sampled companies in United States (US), a positive association is shown between board size along with company's financial performance (Belkhir, 2008). The results are proved by setting company's size, leadership structure of board, CEO tenure, independence of board, and ownership structure as control variables. On the other hand, Beiner *et al* (2003) stated that a negative association is formed between company's board size and financial performance. It is because the reaped benefits from large board size are offset by the drawbacks such as collaboration, communication, and decision making difficulties.

Past researchers investigated the linkage between the presence of independent directors with financial performance from different perspectives. It is found that there was significant positive association between presence of independent directors in Thai bank and the financial performance (Pathan *et al*, 2008). The result implied that independent directors are important people who have greater oversight than other directors towards Thai banks as they retained the reputation of market. Saat *et al* (2011) has a more comprehensive research, where it examined this relationship in Malaysia context from the view of capable independent financial director, superior independent director, and existence of family members in BOD. The outcome was that independent directors have positive relationship with financial performance when there were capable independent financial director or superior independent director. It has negative association when there was an existence of family member director.

2. Corporate Governance vs. Auditor Switching

Past studies have shown consistent results in their researches for association between CEO/chairman duality as well as auditor switching. In the research of Lin and Liu (2010), it is revealed that CEO/chairman duality has significant relationship with auditor switching, where the company is more probably changed to a smaller auditor when the CEO simultaneously holds the BOD chairman's position. According to Ianniello *et al* (2013), the result is alike with research of Lin and Liu (2010), where it is stated that negative association is linking the CEO/chairman duality along with the choice of reputed auditor.

Past researches have shown inconsistent results for the association between company's board size as well as auditor switching. According to Ianniello *et al* (2013), large company's board size is deemed to have an unfavourable impact on corporate governance because it incurs organizational and coordination issues. Due to this reason, the company that has large board size switches to a reputed and large auditor to perceive an improvement of financial statement's quality. In the research of Lin and Liu (2010), it is revealed that the effects of company's board size in the Chinese listed firms towards the auditor switching is not conclusive. It may indicate that due to the lacking of competency in corporate governance, company's board size does not influence the fruitful oversight function in their companies.

Researches in the past studies have shown consistent results on relationship between presence of independent directors and financial performance. According to Abidin *et al* (2006), it is indicated that there is less chance for the occurrence of auditor switching issue with the existence of independent directors in the company board. In addition, Zhang *et al* (2013) observed that when percentage of independent director rate is higher, the auditor switching issue is less probably to happen. The presence of independent directors is quantified by independent director rate, thus, it is implied that there is negative association connecting the existence of independent directors in company board and auditor switching.

3. Auditor Switching Vs. Financial Performance

Auditor switching leads to the reduction in trustworthiness and reliability of financial reports. A slump in the companies' stock prices or a rise in the companies' cost of capital may happen after the announcement of auditor switching. Nevertheless, there is a controvert view formed by Chang *et al* (2008) who explored on the impacts of switching auditors from a Big 4 to a non-Big 4 auditor firm from year 2002 to 2006. The result is that the investors do not consider the switch to non-Big 4 auditors as bad news and thus the market reaction is not unfavourable. Chan *et al* (2011) analysed the stock and earnings performance of companies after auditor switching. It exhibits that the companies' financial performance is positive after auditor switching, no matter the switching among or between the Big 4 and non-Big 4 auditors.

4. Auditor Switching As Mediator of Corporate Governance and Financial Performance

To the best of knowledge, there is none of the extant researches that examines the auditor switching as having association linking corporate governance together with financial performance. Previous studies just pay attention primarily to the relationship between each pair of these three variables, such as the connection between corporate governance vs. financial performance, corporate governance vs. auditor switching, and auditor switching vs. financial performance. Applying auditor switching as mediator appears to be the theoretically most reasonable path to answer the "how" question on corporate governance leading to financial performance.

METHODOLOGY

This research uses quantitative research approach. Malaysian PLCs are being chosen as the samples because PLCs have more contribution towards the growing economy. PLCs can enlarge the shareholder base by engaging credible investors, who provide sizable capital investment. Malaysia is being chosen as it is an emerging country. This study adopts the annual reports, which are downloaded from Bursa Malaysia website according to the selected Malaysian PLCs listing from years 2009 to 2013 for corporate governance and auditor switching data in order to determine if auditor switching had persisted in line with the studies of (Malek, (2005) and Abdul Nasser *et al*, (2006) . It also adopts Datastream (web-based) for financial performance measurements from years 2009 to 2013 in order to achieve consistency.

As identified by Hair *et al* (2005), a sample size is appropriate and adequate if there are 100 to 200 samples. Moreover, there are at least 50 samples needed to achieve a low bias of standard error (standard deviation of the sampling distribution) in a research that involve a single mediator variable (MacKinnon *et al*, 2002). Therefore, sample size of this study is set as 100 samples. Simple random sampling is applied to avoid the result being biased. Allowance of incomplete data such as PLCs having incomplete set of annual reports from years 2009 to 2013 are taken into account for data analysis purpose. Those PLCs that have incomplete data are not being chosen for this research. Cleaning data process is allowed when checking the normality of data. A summary of research variables are as followed:

Table 1 Operationalisation of variables

Variables	Items	Proxies	Operationalisation
Independent Variables	Corporate Governance	CEO/ chairman duality (DUAL)	DUAL = 1, if BOD chairman is not CEO DUAL = 0, if BOD chairman is the CEO *Related studies: Tian and Lau (2001); Lin and Liu (2010); Hsu et al (2012); Yang and Zhao (2014)*
		Board size (SIZE)	Aggregation of board members in the board. *Related studies: Beiner et al (2003); Belkhir (2008); Pathan et al (2008)*
		Presence of independent directors (ID)	Quantified by the percentage of independent directors over total directors. Formula: $\frac{\text{independent directors}}{\text{Total directors}} \times 100\%$ *Related studies: Pathan et al (2008); Miwa (2015)*
Dependent Variables	Financial Performance	Return on assets (ROA)	Measured the efficiency of company in utilizing its assets. Formula: $\frac{\text{Net income}}{\text{Average of total assets}}$ *Related studies: Tian and Lau (2001); Beiner et al (2003); Belkhir (2008); Pathan et al (2008); Peng et al (2007); Chan et al (2011); Hsu et al (2012); Yang and Zhao (2014)*
		Return on equity (ROE)	Conventional measure of shareholders' gain. Formula: $\frac{\text{Net income}}{\text{Average shareholder equity}}$, *Related studies: Tian and Lau (2001); Beiner et al (2003); Pathan et al (2008); Valenti et al (2011); Yang and Zhao (2014)*

Table 1 (Cont.)

		TOBIN's Q	Ratio of market value of firm over sum of assets Formula: $\frac{\text{Total market value of firm}}{\text{Total assets}}$ *Related studies: Beiner et al (2003); Belkhir (2008); Yang and Zhao (2014)*
Mediating Variable	Auditor switching	AS	AS = 0, if auditors have not been switched, AS = 1, if auditors have been switched *Related studies: Chadegani et al (2011); Nazri et al (2012)*
Control Variable	Company size	CSIZE	Logarithm of assets aggregation of company. Formula: log (total assets) *Related studies: Tian and Lau (2001); Beiner et al (2003); Belkhir (2008); Pathan et al (2008); Peng et al (2007); Hsu et al (2012)*

Regression analysis is being applied and four regression models are formed, which are:

Model 1: $FP = \alpha + \beta\ CG + \varepsilon$ Model 3: $FP = \alpha + \beta\ AS + \varepsilon$

Model 2: $AS = \alpha + \beta\ CG + \varepsilon$ Model 4: $FP = \alpha + \beta 1\ CG + \beta 2\ AS + \varepsilon$

Where:

α	-	Intercept	CG	-	Corporate governance
β	-	Regression coefficient	AS	-	Auditor switching
ε	-	Error term	FP	-	Financial performance

In addition, Sobel test that is used for examining the mediation effect (Warner, 2013), is An Interactive Calculation Tool For Mediation Test credited to Preacher and Leonardelli (2010). In this research, it is used to compare the extent of indirect impact of CG on FP to depict null hypothesis, H_0: DE equivalent to 0. The indirect effect of CG on FP is obtained by testing the product of the D (CG to AS path) and E (AS to FP path) coefficients. DE= (F- F'), where F is the simple effect of CG on FP that is not controlled by AS, and F' is the CG to FP path coefficient with the mediation effect of AS. There is statistically significant effect of DE product if z-test statistic is greater than +1.96 or below -1.96.

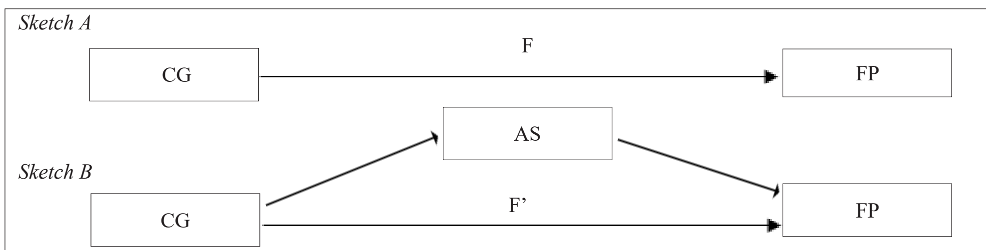

Figure 1 Sketch A: A direct action diagram of CG influences FP
Sketch B: A mediation model diagram of CG influences FP via AS

DATA ANALYSIS AND RESULTS

Sampled Companies Profiling

Table 2 Sectors of Sampled Companies

Sectors	Total
Industrial Products	31
Trading/Services	16
Consumers Products	20
Others	33
	100

It is shown in the above table 2, that the sector distributions are not consistent with each other due to a simple random sampling technique used in the research. Moreover, there is no particular sector not being chosen as it is to avoid any bias on particular sector in terms of the effectiveness of corporate governance, frequency of auditor switching, and firm performance.

Table 3 Characteristics Independent Variables and Mediating Variable of Sampled Companies

	Year	2009	2010	2011	2012	2013
	Variables	N / %	N / %	N / %	N / %	N / %
DUAL	BOD equal to CEO	21	21	17	15	13
	BOD not equal to CEO	79	79	83	85	87
BOARD SIZE	0-3	0	0	0	0	0
	4-7	63	61	62	63	62
	8-11	34	35	37	36	37
	≥12	3	4	1	1	1
ID (%)	0-10	0	0	0	0	0
	>10-20	0	0	1	0	2
	>20-30	9	8	8	9	8
	>30-40	34	35	35	36	36
	>40-50	40	35	40	34	27
	>50	17	22	16	21	27
AS	No switch	100	79	80	82	83
	Switch:					
	-To Big 4	0	4	6	4	3
	-To Non-Big 4	0	17	14	14	14

The table 3 above shows the characteristics of sampled companies. It reveals that more than 75% of sample companies from years 2009 to 2013 have no CEO/chairman duality in their companies. It implies that most sampled companies complied with MCCG that required the separation of position between BOD chairman and CEO to ensure a balance between power and authority when making decisions. As the percentage of separation of both positions

increases, it shows that Malaysian companies view it as an important feature for sound corporate governance.

For board size, Harper (2006) indicated that the most effective board size consists of 4 to 10 members, but it can go up to maximum of 12 members. It shows that most of the sample companies have a total number of four to seven board members from years 2009 to 2013, which is within the range of 61% to 63% for years 2009 to 2013. The second highest board members in board size are in between eight to eleven, which is in the range of 34% to 37% of the sampled companies from years 2009 to 2013. Therefore, sample companies fulfil the requirement of the most effective board size as stated by Harper (2006).

For the perspective of independent director (in percentage), it indicates that there is a wide range between percentages of independent directors in sampled companies within year 2009 to 2013. The frequency of independent director (in percentage) for range 30 to 40 and 40 to 50 is the highest. It is in the range of 34% to 36% for category >30-40 and 27% to 40% for category >40-50 from years 2009 to 2013. There is only less than 30% of sample companies have more than 50% of independent directors over total directors from years 2009 to 2013. Overall, the presence of independent directors in most of the sampled companies is only 50% or less. MCCG requires that more than one third of the members should be independent directors on the board, so the companies just fulfil the one third requirement and should increase the independent directors to two third for a sound corporate governance.

By categorizing the sampled companies from auditor switching aspect, it is noticed that huge difference occurred between the switch and no switch of auditors from years 2009 to 2013, where the ratio is 1:3. The percentage of no switch is higher due to the culture adopted in sampled companies from years 2009 to 2013. Malaysian companies tend to maintain a long-term relationship with other parties as it is believed that relationship is the key to success.* For the sampled companies that switch their auditors, the direction of switching is more towards the non-Big 4 firm. It may be due to few factors such as to hide the reasons behind the auditor switching (Chadegani *et al*, 2011) as they give lower quality of monitoring.

REGRESSIONS ANALYSIS

Table 4 Summary of Regression Analysis

Model		Unstandardized Coefficients		t-value
		B	Std. Error	
Model 1: CG and FP				
ROA	(Constant)	-0.091	1.895	-0.048 ns
	CSIZE	0.719	0.189	3.807**
	DUAL	0.267	0.697	0.384 ns
	SIZE	0.362	0.160	2.259*
	ID	-7.120	2.340	-3.043**
R^2 =0.072		F value=9.608		
Adjusted R^2=0.065		F significance=0.000		

Table 4 (Cont.)

ROE	(Constant)	-2.621	2.926	-0.896 ns
	CSIZE	1.491	0.292	5.108**
	DUAL	0.344	1.076	0.319 ns
	SIZE	0.558	0.247	2.256*
	ID	-9.676	3.614	-2.677**
R^2 =0.090		F value=12.238		
Adjusted R^2=0.083		F significance=0.000		
TOBINQ	(Constant)	0.768	0.114	6.723 ns
	CSIZE	-0.009	0.011	-0.754 ns
	DUAL	-0.115	0.042	-2.745**
	SIZE	0.010	0.010	1.039 ns
	ID	-0.474	0.141	-3.357**
R^2 =0.046		F value=6.007		
Adjusted R^2=0.039		F significance=0.000		
Model 2: CG and AS				
AS	(Constant)	0.268	0.117	2.304 ns
	CSIZE	-0.021	0.012	-1.841 ns
	DUAL	-0.089	0.043	-2.076*
	SIZE	-0.004	0.010	-0.361 ns
	ID	0.097	0.144	0.676 ns
R^2 =0.015		F value=1.900		
Adjusted R^2=0.007		F significance=0.100		
Model 3: AS and FP				
ROA	(Constant)	-0.860	1.072	-0.803 ns
	CSIZE	0.743	0.184	4.041**
	AS	0.391	0.741	0.528 ns
R^2 =0.032		F value=8.197		
Adjusted R^2=0.028		F significance=0.000		
ROE	(Constant)	-3.417	1.649	-2.072 ns
	CSIZE	1.549	0.283	5.473**
	AS	1.044	1.140	0.916 ns
R^2 =0.057		F value=15.123		
Adjusted R^2=0.054		F significance=0.000		
TOBINQ	(Constant)	0.576	0.065	8.901 ns
	CSIZE	-0.004	0.011	-0.353 ns
	AS	0.024	0.045	0.526 ns
R^2 =0.001		F value=0.214		
Adjusted R2=-0.003		F significance=0.807		

Table 4 (Cont.)

Model 4: CG, AS, and FP				
ROA	(Constant)	-0.242	1.905	-0.127 ns
	DUAL	0.317	0.700	0.453 ns
	SIZE	0.364	0.160	2.270*
	ID	-7.175	2.342	-3.063**
	AS	0.562	0.731	0.769 ns
	CSIZE	0.731	0.190	3.856**
R^2 =0.073		F value=7.798		
Adjusted R^2=0.064		F significance=0.000		
ROE	(Constant)	-2.967	2.941	-1.009 ns
	DUAL	0.458	1.081	0.424 ns
	SIZE	0.562	0.247	2.275*
	ID	-9.801	3.615	-2.712**
	AS	1.288	1.128	1.142 ns
	CSIZE	1.518	0.293	5.187**
R^2 =0.092		F value=10.057		
Adjusted R^2=0.083		F significance=0.000		
TOBINQ	(Constant)	0.763	0.115	6.635 ns
	DUAL	-0.114	0.042	-2.689**
	SIZE	0.010	0.010	1.046 ns
	ID	-0.476	0.141	-3.367 **
	AS	0.020	0.044	0.455 ns
	CSIZE	-0.008	0.011	-0.713 ns
R^2 =0.047		F value=4.839		
Adjusted R^2=0.047		F significance=0.000		

* represents P<0.05 (significant); ** represents P<0.01 (significant); ns represents non-significant

In model 1, it examines the association between corporate governance and financial performance. CEO/chairman duality is not statistically strong and significant (p-value<0.01) and negatively correlated with Tobin's Q only with a t-value of -2.745. The result is consistent with Hsu et al. (2012). This suggests that separation of position for BOD chairman and CEO leads to better overseeing of the management on behalf of shareholders. For board size, no statistically significant linear dependence of the mean of Tobin's Q on it is detected. On the other hand, it is statistically significant (p-value<0.05) and positively correlated with ROA and ROE with a t-value of 2.259 and 2.256 respectively. The result is consistent with Belkhir (2008). This suggests that a large board size plays better roles in monitoring management and leads them to a better decision. It also shows that strong statistically significant (p-value<0.01) linear dependence of the mean of ROA, ROE, and Tobin's Q on independent directors is detected. It is negatively correlated with ROA, ROE, and Tobin's Q with t-value of -3.043, -2.677, and -3.357 respectively. This suggests that independent directors do not definitely result in good firm performance. When they do not play their role properly, it can prompt faulty investment

decisions. The result is inconsistent with Pathan *et al* (2008), who stated that independent directors could oversee the management and retain market's reputation.

In model 2, it examines the relationship between corporate governance and auditor switching. No statistically significant linear dependence of the mean of auditor switching on board size and presence of independent directors is detected. However, CEO/chairman duality is statistically significant (p-value<0.05) and negatively correlated with auditor switching with a t-value of -2.076. It is inconsistent with past studies, for instance, Lin and Liu (2010) and Ianniello *et al* (2013). It is due to the fact that all the past studies were conducted in foreign countries. In Malaysia, there is a long-term relationship with auditor when CEO/chairman duality leads to the low tendency of auditor switching. Moreover, the importance of auditor is of less concern and a high power distance in Malaysia that focuses on top-down relationship causes no objection from board members and independent directors when a less important decision such as auditor switching decision is made.

In model 3, it examines the association between auditor switching and financial performance. No statistically significant linear dependence of the mean of financial performance on auditor switching is detected. This reveals that auditors do not have a direct effect towards financial performance as auditors are not the people who manage the company. The result is inconsistent with Chang *et al* (2008) who discovered that companies got positive earnings no matter the switching to big 4 or non-big 4. Model 4, examines the association between corporate governance, auditor switching, and financial performance. The overall results and significant level of model 4 are the results of combination model 1, 2, and 3.

Sobel Test

Table 5 Summary of Sobel Test

Independent Variable	Mediating Variable	Dependent Variable	t-value	Full/Partially Mediation
CEO/chairman duality	Auditor switching	ROA	-0.511 ns	Full
		ROE	-0.837 ns	Full
		Tobin's Q	-0.516 ns	Full
Board size	Auditor switching	ROA	-0.319 ns	Full
		ROE	-0.367 ns	Full
		Tobin's Q	-0.320 ns	Full
Presence of independent director	Auditor switching	ROA	0.415 ns	Full
		ROE	0.543 ns	Full
		Tobin's Q	0.418 ns	Full

ns represents non-significant

According to the table 5 above, there are full mediating effects of auditor switching. When examining relationship between corporate governance and financial performance, a significant relationship exists between them. However, when auditor switching is added as a mediator, no significant relationship exists between corporate governance and financial performance with

the justification being that the auditors are not part of the firm's decision-making body, thus having to operate at the whims and caprices of those who appointed them regardless of what the law says. The implication here, therefore, is that the term or tenure of the auditors should be specific, at least three years as in Nigeria as specified in the Company and Allied Matters Act 2004 (CAMA, 2004 amended) if ever they will be re-appointed and the law should be stringent as to the exit and entry which may be factored along the line of global best practices, experience and reputation Geiger, *et al*., (2002)

CONCLUSION

In a nutshell, existence of the association connecting corporate governance, auditor switching, and financial performance is evident. Companies should be more focused on corporate governance and auditor switching to enhance financial performance. However, Malaysian PLCs are still having low awareness on the importance of auditors even though all the hypotheses proposed in this study are supported. Therefore, more efforts are needed from government to facilitate and educate public on the importance of auditors to companies. However, this research suffered from few limitations. Firstly, the data used is secondary data and there is uncertainty over the data quality, especially where they are not made available to time and where they might have been doctored before the publication to suit the interest of the managers and shareholders. Secondly, this research covers PLCs only. Thirdly, it emphasises only on the nominal variable for auditor switching. It suggests that interview can be conducted to explore this relationship. Additional information can be obtained due to the flexibility in expressing words. Moreover, the future researchers can include private companies as samples to strengthen the representativeness of the study. Furthermore, considering the qualitative variables such as the reasons for auditor switching as the proxies for the latter in future research will be an enhancement of the required knowledge base in studies of this nature.

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