



A Study of Malaysian Audit Market Concentration

Lim Theng Yee

(Matric: 801478)

UNIVERSITI UTARA MALAYSIA

JANUARY 2012

A Study of Malaysian Audit Market Concentration

A Thesis Submitted to the Graduate School in Partial Fulfilment of
Master of Science in International Accounting
Universiti Utara Malaysia

By
Lim Theng Yee

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Abstract

This study presents the extent and nature of audit market concentration of companies listed in KLSE in year 2008 and 2009. Given the current interest in auditor choice, this study also analyzed in detail at the individual audit firm level and by industry sector and market segments. Auditor concentration that measured in this study can use to determine current audit structure. The link between concentration measures with competitiveness is more complex than often assumed. In this study, I only focus on concentration measures and do not make any inferences about the competitive aspect of the market. The Big Four firms held more than 80% of the market share (based on audit fees) in both years 2008 and 2009. KPMG retained its position as a 'dominant firm' while Deloitte is the 'least dominant firm' among the Big Four firms. The Big Four hold 100% share of 3 sectors (fixed line telecommunications, life insurance and tobacco) in 2008 and increase to 4 sectors (bank, exchange traded funds, life insurance and tobacco) in 2009. The main concerns of auditor concentration are reduction in audit firm choice that will lead to increase of conflict of interest and issues concerning the governance and accountability of audit firms.

Acknowledgements

First and foremost, I would like to thank my supervisor, Dr. Shamharir Abidin for his continuing support: thank you for bringing things back into focus as I more occasionally wondered off; and for believing in the merit of my work and capabilities as a researcher. I would also like to thank my examiner, Dr. Nurwati Ashikkin.

I would also like to extend my thanks to my family. I thank to my mother, Chan Siew Lan for her patience, love, caring, and advice. Thank you to my father, Lim Ah Guan for his never ending support. I am so grateful to them, who raised me to have faith, confidence, and power in myself. I also thank to my siblings for the joy, happiness, and encouragements.

Thank You All

Lim Theng Yee

16 Jan 2012

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Chapter One

Introduction

1.1 Background of the Study

During the early 1990s, there were concerns that the large firms were competing too aggressively. Excessive competing may result in 'low-balling' behavior and 'opinion shopping behavior'. 'Low-balling' behavior is resulted from excessive price competition and leads the audit firm to cross-subsidization against non-audit services. Aggressive competing also encouraged 'opinion shopping' behavior by companies. Companies perceived a willingness on the part of audit firms to offer different accounting interpretations. According to Beattie (2003), these beliefs and perceptions does not support by any clear evidence.

During the late 1990s, a dominant Big Eight emerge in the audit market. However, subsequently it had been reduced through merger and firm collapse to a Big Four. Enron accounting and auditing scandal has caused the size of the dominant group to reduce. This scandal had impaired and damaged their auditor's brand name that subsequently made Anderson to cease its operation. According to Beattie (2003), this event introduced a shock to the system, destabilizing the prevailing market 'equilibrium'. The scandal associated with Anderson's demise gave rise to a unique merger situation in which the demand for monitoring, which is costly, increased Chi (2006), using US data, finds that audit fees across all companies has generally risen following the Andersen event. Asthana, Balsam and Kim (2009) report that audit fees and the audit fee rate (as a percentage of total assets) of US companies rose markedly in 2002 following the Enron scandal, especially for larger, riskier clients.

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