

**THE IMPACT OF CORPORATE GOVERNANCE AND THE PROVISION
OF NON-AUDIT SERVICES ON AUDITOR CHANGE DECISION**



UUM
ISHAKU VANDI ISHAYA
Universiti Utara Malaysia

MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

UNIVERSITI UTARA MALAYSIA

November, 2015

**THE IMPACT OF CORPORATE GOVERNANCE AND THE PROVISION
OF NON-AUDIT SERVICES ON AUDITOR CHANGE DECISION**

BY



**Thesis Submitted to
School of Accounting (SOA)
Universiti Utara Malaysia
In Partial Fulfilment of the Requirement for the Degree
Master of Science (International Accounting)**

PERMISSION TO USE

I am presenting this thesis in fulfilment of the requirement for a Master Degree from the University Utara Malaysia (UUM), I agree that the library of this university may make it freely available for inspection. I further agree that permission for copying this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my thesis. It is understood that any copying or publication or use of this thesis or parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition given to me and to the UUM in any scholarly use which may be made of any material in my thesis. Request for permission to copy or to make other use of materials in this thesis in whole or in part should be addressed to:



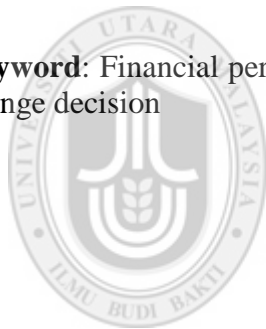
Dean of School of Accounting
Univeristi Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman

UUM
Universiti Utara Malaysia

ABSTRACT

Auditing plays a crucial role in corporate governance process and it has been shown to increase the reliability and quality of an organization's financial performance. Hence, understanding the reasons why companies change their auditor is very important. In Malaysia, not much study has been conducted on auditor change. Thus, the study seeks to examine the impact of corporate governance and the provision of non-audit service on auditor change decision. The study used companies listed on Bursa Malaysia, as at 31st December, 2009 to 2011. Furthermore, the research used a sample size of 712 non-financial auditor change companies to test logistic regression Model of auditor change determinants. The results revealed that board independence, non-audit service, changes in management, size and big 4 are significant determinants of auditor change. The outcome of the study could improve corporate governance practices by management, and also increase the demand for audit quality in an organization. The study therefore, recommended that future studies should include additional corporate governance variables like audit committee, management ownership and ownership concentration. Lastly, a longer period of years could be covered so as to have a true reflection of the issue.

Keyword: Financial performance; corporate governance; non-audit services; auditor change decision

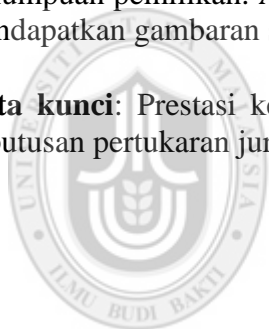


UUM
Universiti Utara Malaysia

ABSTRAK

Pengauditan memainkan peranan penting dalam proses tadbir urus korporat dan ia telah dibuktikan dapat meningkatkan kebolehpercayaan dan kualiti prestasi kewangan organisasi. Oleh itu, memahami sebab-sebab mengapa syarikat menukar juruaudit adalah sangat penting. Di Malaysia, tidak banyak kajian telah dijalankan terhadap pertukaran juruaudit. Oleh itu, kajian ini memeriksa kesan tadbir urus korporat dan peruntukan bukan audit terhadap keputusan pertukaran juruaudit. Kajian ini menggunakan syarikat yang tersenarai di Bursa Malaysia pada 31 Disember 2009 hingga 2011. Di samping itu, penyelidikan ini menggunakan sampel sebanyak 712 syarikat bukan kewangan untuk menguji model logistik penentu perubahan juruaudit. Hasil kajian menunjukkan bahawa kebebasan juruaudit, perkhidmatan bukan audit, pertukaran pengurusan, saiz dan 'Big 4' adalah penentu pertukaran juruaudit yang signifikan. Hasil kajian itu boleh meningkatkan amalan tadbir urus korporat oleh pihak pengurusan, dan juga meningkatkan permintaan untuk kualiti audit dalam sesebuah organisasi. Oleh yang demikian, kajian ini mengesyorkan bahawa kajian masa depan perlu memasukkan pembolehubah tambahan tadbir urus korporat seperti jawatankuasa audit, pemilikan pengurusan dan penumpuan pemilikan. Akhir sekali, tempoh tahun kajian harus di panjangkan untuk mendapatkan gambaran sebenar tentang isu ini.

Kata kunci: Prestasi kewangan; tadbir urus korporat; perkhidmatan bukan audit; keputusan pertukaran juruaudit



UUM
Universiti Utara Malaysia

ACKNOWLEDGEMENT

With gratefulness in my heart to the Almighty God, the benefactor of wisdom and knowledge who out of His infinite mercy gave me the ability to complete my master's program. I am indeed indebted to my supervisors, Ass. Prof. Dr. Shamharir Bin Abidin and Dr. Mohamad Naimi Mohamad Nor for their strong support and guidance throughout the period of my study. Indeed, they have been a source of inspiration and mentors to me. Furthermore, I would like to acknowledge the contributions of the Dean and staff of School of Accounting, Universiti Utara Malaysia.

Similarly, I also appreciate the support, prayers and inspiration of my father, Mr. Ishaya John Dabari. Likewise, I would also extend my appreciation to my mother who has always been there for me and giving me support in prayers and encouragement. I will not end without appreciating the supports, patience, and perseverance of my family members particularly my brothers and sisters, cousins, uncles, aunties, and friends. Finally, once more, all thanks be to Almighty God, the most high for His infinite mercy and blessings.



Table of Contents

CERTIFICATION OF THESIS WORK.....	i
PERMISSION TO USE	ii
ABSTRACT.....	iii
ABSTRAK	iv
ACKNOWLEDGEMENT	v
Table of Contents	vi
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Problem Statement	3
1.3 Research Questions	5
1.4 Research Objectives	6
1.5 Significance of the Study	6
1.6 Scope of the Study	7
1.7 Organization of the Study	8
CHAPTER TWO	9
LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT.....	9
2.1 Introduction	9
2.2 Issues of Auditor Change	9
2.3 Theories of Auditor Change.....	11
2.3.1 Agency Theory.....	11
2.3.2 Signalling Theory.....	13
2.3.3 Information Suppression Hypothesis	14
2.4 Corporate Governance around the World	29
2.4.1 Background	29
2.4.1.2 Definition of Corporate Governance.....	32
2.4.1.3 Corporate Governance in Malaysia.....	33
2.4.2 Board of Directors Independence	36
2.4.3 Chairman/CEO duality.....	41
2.4.4 Auditor Independence	42
2.4.5 Non-audit services (NAS).....	45
2.5 Hypotheses Development	48
2.5.1 Board independence (nedbod)	49
2.5.3 Provision of Non-audit services	53
2.5.4 Auditor independence (nasaudfee).....	55
2.6 Other Factors Influencing Auditor Change.....	55

2.7	Summary	57
CHAPTER THREE.....		58
RESEARCH METHODOLOGY.....		58
3.1	Introduction	58
3.2	Initial Sample	58
3.3	Data Cleaning Process.....	58
3.4	Framework and Model	60
3.5	Summary	63
CHAPTER FOUR.....		64
RESULTS		64
4.1	Introduction	64
4.2	Descriptive Statistics.....	64
4.3	Correlation Analysis.....	67
4.4	Test for Detecting Outliers.....	73
4.5	Model for Logistic Regression.....	74
4.6	Additional Analysis.....	80
4.7	Summary	83
CHAPTER FIVE.....		84
SUMMARY RECOMMENDATION AND CONCLUSION		84
5.1	Introduction	84
5.2	Summary	84
5.3	Implication of the Study.....	86
5.4	Limitation of the Study	86
5.5	Recommendation for Future Studies.....	87
5.6	Conclusion	87
REFERENCES.....		88

LIST OF TABLES

Table: 2.1	Summary of literature review	25
Table: 3.1	Summary of Data Screening	57
Table: 3.2	Description of Independent Variables	59
Table: 4.1	Descriptive Statistics	64
Table: 4.2	Correlation Analysis	69
Table: 4.3	New Descriptive Statistics	70
Table: 4.4	Logistic Regressions	73
Table: 4.5	Interactions between nedbod and NAS	77
Table: 4.6	Interactions between Duality and NAS	78
Table: 4.7	Fee Expenditure	79
Table: 5.1	Summaries of Results	82

LIST OF FIGURES

Figure: 3.1 Theoretical frameworks

58



LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CFO	Chief Financial Officer
MCCG	Malaysian Code on Corporate Governance
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MIA	Malaysian Institutes of Accountants
NAS	Non-audit services
NEDBOD	Board Independence
NEDs	Non-executive Directors
OECD	Organization for Economic Co-operation and Development



UUM
Universiti Utara Malaysia

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In Malaysia, more than 2000 audit firms currently supply audit services to domestic listed and unlisted companies (MIA webpage, 2011). Even with the high numbers of audit suppliers, the audit market is dominated by only a small number of large audit firms. The so called ¹'Big Four (B4)' dominance is especially true in the case of the audit market for public listed companies. Due to the excessive concentration of the Big Four's market, there is fear that it might result to the increase in the price of the audit services (Office of Fair Trading, 2002). This fear could be traced back to a particular development in the audit market.

In the middle of year 2002, Andersen, one of the top five audit firms in the world, was convicted of obstruction of justice for shredding documents related to the failed US energy giant, Enron. Andersen ceased its business in August 2002 and its business was acquired by other firms. Andersen's demise and Enron's collapse have ignited intense debate regarding audit market competition and audit quality especially amongst regulators and academics and users of financial statements.

¹ The big4 companies comprises of the four largest international professional service networks offering audit, assurance, tax, consulting, advisory, actuarial, corporate finance and legal services. The big4 perform most of the audit services for both public traded companies and private companies. The big4 are KPMG, Deloitte, PricewaterhouseCoopers and Ernst & Young.

The contents of
the thesis is for
internal user
only

REFERENCES

- Abbott, L. J., & Parker, S. (2000). Auditor selection and audit committee characteristics. *Auditing: A Journal of practice & theory*, 19(2), 47-66.
- Abbott, L. J., Parker, S., Peters, G. F., & Raghunandan, K. (2003). The association between audit committee characteristics and audit fees. *Auditing: A Journal of Practice & Theory*, 22(2), 17-32.
- Abdel-Khalik, A. R. (2002). Reforming corporate governance post Enron: Shareholders' Board of Trustees and the auditor. *Journal of Accounting and Public Policy*, 21(2), 97-103.
- Abdullah, S. N. (2006). Board composition, audit committee and timeliness of corporate financial reports in Malaysia. *Corporate ownership and control*, 4(2), 33-45.
- Adel, B., & Maissa, T. (2013). Interaction Between audit committee and internal audit: Evidence from Tunisia. *IUP Journal of Corporate Governance*, 12(2), 59-78.
- Aghaei Chadegani, A., Muhammaddun Mohamed, Z., & Jari, A. (2011). The determinant factors of auditor switch among companies listed on Tehran Stock Exchange. *International Research Journal of Finance and Economics ISSN*, 1450-2887.
- Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of financial and quantitative analysis*, 31(03), 377-397.
- Ahadiat, N. (2011). Association between audit opinion and provision of non-audit services. *International Journal of Accounting & Information Management*, 19(2), 182-193.
- Akhtaruddin, M., Hossain, M. A., Hossain, M., & Yao, L. (2009). Corporate governance and voluntary disclosure in corporate annual reports of Malaysian listed firms. *Journal of Applied Management Accounting Research*, 7(1), 1-19.
- Albring, S., Robinson, D., & Robinson, M. (2014). Audit committee financial expertise, corporate governance, and the voluntary switch from auditor-provided to non-auditor-provided tax services. *Advances in Accounting*, 30(1), 81-94.
- Alexander, D., & Hay, D. (2013). The effects of recurring and non-recurring non-audit services on auditor independence. *Managerial Auditing Journal*, 28(5), 407-425.
- Allegrini, M., & Greco, G. (2013). Corporate boards, audit committees and voluntary disclosure: evidence from Italian Listed Companies. *Journal of Management & Governance*, 17(1), 187-216.
- Alzeban, A., & Sawan, N. (2015). The impact of audit committee characteristics on the implementation of internal audit recommendations. *Journal of International Accounting, Auditing and Taxation*, 24(2015), 61-71.
- Antle, R. (1984). Auditor independence. *Journal of accounting research*, 22(1), 1-20.

- Antle, R., & Nalebuff, B. (1991). Conservatism and auditor-client negotiations. *Journal of Accounting Research*, 29(1991), 31-54.
- Anum Mohd Ghazali, N. (2010). Ownership structure, corporate governance and corporate performance in Malaysia. *International Journal of Commerce and Management*, 20(2), 109-119.
- Archambeault, D., & DeZoort, F. T. (2001). Auditor opinion shopping and the audit committee: An analysis of suspicious auditor switches. *International Journal of Auditing*, 5(1), 33-52.
- Arens, A. A., Loebbecke, J. K., Elder, R. J., Beasley, M. S., & American Institute of Certified Public Accountants. (2000). *Auditing: An integrated approach* (Vol. 8). Upper Saddle River, NJ: Prentice Hall.
- Arrow, K. J. (1985). Informational structure of the firm. *The American Economic Review*, 75(2), 303-307.
- Asare, S., Cohen, J., & Trompeter, G. (2005). The effect of non-audit services on client risk, acceptance and staffing decisions. *Journal of Accounting and Public Policy*, 24(6), 489-520.
- Ashbaugh-Skaife, H., Collins, D. W., & Kinney, W. R. (2007). The discovery and reporting of internal control deficiencies prior to SOX-mandated audits. *Journal of Accounting and Economics*, 44(1), 166-192.
- Assumptions of logistic regression. Accessed on 3rd October, 2015. Retrieved from <http://www.statisticssolutions.com/assumptions-of-logistic-regression/>
- Asteriou, D., & Hall, S. G. (2007). *Applied econometrics: A modern approach using eviews and microfit revised edition*. Palgrave Macmillan.
- Bagherpour, M., Monroe, G., & Shailer, G. (2010). Auditor switching in an increasingly competitive audit market. *W. papers*.
- Bakar, N. B. A., Rahman, A. R. A., & Rashid, H. M. A. (2005). Factors influencing auditor independence: Malaysian loan officers' perceptions. *Managerial Auditing Journal*, 20(8), 804-822.
- Bar-Yosef, S., & Livnat, J. (1984). Auditor selection: An incentive-signalling approach. *Accounting and Business Research*, 14(56), 301-309.
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review*, 71(4), 443-465.
- Beasley, M. S., & Petroni, K. R. (2001). Board independence and audit-firm type. *Auditing: A journal of practice & theory*, 20(1), 97-114.
- Beattie, V., & Fearnley, S. (1998). Audit market competition: auditor changes and the impact of tendering. *British Accounting Review*, 30(3), 261-289.

- Beattie, V., Goodacre, A., & Masocha, W. (2006, March). The determinants of auditor changes in the voluntary sector: Evidence from UK Charities. In National Auditing Conference, University of Manchester.
- Beaulieu, P., & Reinstein, A. (2010). Belief perseverance among accounting practitioners regarding the effect of non-audit services on auditor independence. *Journal of Accounting and Public Policy*, 29(4), 353-373.
- Bédard, J., & Gendron, Y. (2010). Strengthening the financial reporting system: Can audit committees deliver?. *International journal of auditing*, 14(2), 174-210.
- Bedingfield, J. and S. Loeb, (1974). Auditor changes - An examination, *Journal of Accountancy*, 67(1974), 66-69.
- Beneish, M. D., Hopkins, P. E., Jansen, I. P., & Martin, R. D. (2005). Do auditor resignations reduce uncertainty about the quality of firms' financial reporting? *Journal of Accounting and Public Policy*, 24(5), 357-390.
- Bliss, M. A., Muniandy, B., & Majid, A. (2007). CEO duality, audit committee effectiveness and audit risks: A study of the Malaysian market. *Managerial Auditing Journal*, 22(7), 716-728.
- Bloomfield, D., & Shackman, J. (2008). Non-audit service fees, auditor characteristics and earnings restatements. *Managerial Auditing Journal*, 23(2), 125-141.
- Bockus, K., & Gigler, F. (1998). A theory of auditor resignation. *Journal of Accounting Research*, 36(2), 191-208.
- Boyd, B. K. (1995). CEO duality and firm performance: A contingency model. *Strategic Management Journal*, 16(4), 301-312.
- Branson, J., & Breesch, D. (2004). Referral as a determining factor for changing auditors in the Belgian auditing market: An empirical study. *The international journal of accounting*, 39(3), 307-326.
- Burton, J. C., & Roberts, W. (1967). Study of auditor changes. *Journal of Accountancy*, 123(4), 31-36.
- Business Roundtable. (2005). Tapping America's potential: The education for innovation initiative. Washington, DC: Business Roundtable.
- Cadbury Committee (1992), Report of the Committee on Financial Aspects of Corporate Governance, London, HMSO.
- Calderon, T. G., & Ofofibe, E. (2007). Determinants of client-initiated and auditor-initiated auditor changes. *Managerial Auditing Journal*, 23(1), 4-25.
- Carcello, J. V., & Neal, T. L. (2000). Audit committee composition and auditor reporting. *The Accounting Review*, 75(4), 453-467.
- Carcello, J. V., & Neal, T. L. (2003). Audit committee characteristics and auditor dismissals following "new" going-concern reports. *The Accounting Review*, 78(1), 95-117.

- Chahine, S., & Filatotchev, I. (2011). The effects of corporate governance and audit and non-audit fees on IPO Value. *The British Accounting Review*, 43(3), 155-172.
- Chao, C. F., Lin, Y. M., Li, C. S., & Fang, S. J. (2011). Auditor switch, analysts forecasts and executives' stock options. *African Journal of Business Management*, 5(19), 7864-7875.
- Che Ahmad, A., Houghton, K. A., & Zalina Mohamad Yusof, N. (2006). The Malaysian market for audit services: ethnicity, multinational companies and auditor choice. *Managerial Auditing Journal*, 21(7), 702-723.
- Cho, D. S., & Kim, J. (2007). Outside directors, ownership structure and firm profitability in Korea. *Corporate Governance: An International Review*, 15(2), 239-250.
- Clark, W., & Demirag, I. (2002). Enron: the failure of corporate governance. *Journal of Corporate Citizenship*, 2(8), 105-22.
- Code, C. (1992). Report of the committee on the financial aspects of corporate governance: the code of best practice.
- Cohen, J., Krishnamoorthy, G., & Wright, A. M. (2002). Corporate governance and the audit process. *Contemporary accounting research*, 19(4), 573-594.
- Copley, P. A., & Douthett, E. B. (2002). The Association between auditor choice, ownership retained, and earnings disclosure by firms making initial public offerings*. *Contemporary accounting research*, 19(1), 49-76.
- Council, F. R. (2010). The UK corporate governance code. London: Financial Reporting Council.
- Daugherty, B. E., & Tervo, W. A. (2008). Auditor changes and audit satisfaction: Client perceptions in the Sarbanes-Oxley era of legislative restrictions and involuntary auditor change. *Critical perspectives on accounting*, 19(7), 931-951.
- Davidson, R., Goodwin-Stewart, J., & Kent, P. (2005). Internal governance structures and earnings management. *Accounting & Finance*, 45(2), 241-267.
- DeBerg, C. L., Kaplan, S. E., & Pany, K. (1991). An examination of some relationships between non-audit services and auditor change. *Accounting Horizons*, 5(1), 17-35.
- Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1996). Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the sec*. *Contemporary accounting research*, 13(1), 1-36.
- Defond, M. L. (1992). The association between changes in client firm agency costs and auditor switching. *Auditing*, 11(1), 16-35.
- DeFond, M. L., & Subramanyam, K. R. (1998). Auditor changes and discretionary accruals. *Journal of accounting and Economics*, 25(1), 35-67.
- Dobler, M. (2014). Auditor-provided non-audit services in listed and private family firms. *Managerial Auditing Journal*, 29(5), 427-454.

- Donnelly, R., & Mulcahy, M. (2008). Board structure, ownership, and voluntary disclosure in Ireland. *Corporate Governance: An International Review*, 16(5), 416-429.
- Dykhhoorn, H. J., & Sinning, K. E. (1982). Perceptions of auditor independence: Its perceived effect on the loan and investment decisions of German financial statement users. *Accounting, Organizations and Society*, 7(4), 337-347.
- Ebrahim, A. (2010). Audit fee premium and auditor change: the effect of Sarbanes-Oxley Act. *Managerial Auditing Journal*, 25(2), 102-121.
- Ettredge, M. L., Scholz, S., & Li, C. (2007). Audit fees and auditor dismissals in the Sarbanes-Oxley era. *Accounting Horizons*, 21(4), 371-386.
- Ewert, R. (1999). Auditor liability and the precision of auditing standards. *Journal of Institutional and Theoretical Economics*, 155(1), 181-206.
- Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *The journal of political economy*, 88(2), 288-307.
- Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *Journal of law and Economics*, 26(2), 327-349.
- Fan, J. P., & Wong, T. J. (2005). Do external auditors perform a corporate governance role in emerging markets? Evidence from East Asia. *Journal of accounting research*, 43(1), 35-72.
- Felton, R. F., & Watson, M. (2002). Change across the board. *McKinsey Quarterly*, 4(1), 31-45.
- Firth, M. (1980). Perceptions of auditor independence and official ethical guidelines. *Accounting review*, 55(3), 451-466.
- Forker, J. J. (1992). Corporate governance and disclosure quality. *Accounting and Business research*, 22(86), 111-124.
- Francis, J. R., & Wilson, E. R. (1988). Auditor changes: A joint test of theories relating to agency costs and auditor differentiation. *Accounting Review*, 64(3), 663-682.
- G. Brody, R., M. Haynes, C., & G. White, C. (2014). The impact of audit reforms on objectivity during the performance of non-audit services. *Managerial Auditing Journal*, 29(3), 222-236.
- Garcia-Meca, E., & Sánchez-Ballesta, J. P. (2010). The association of board independence and ownership concentration with voluntary disclosure: A meta-analysis. *European Accounting Review*, 19(3), 603-627.
- Geng, J., & Yang, H. (2001). Analysis on auditor switching of listed company in China. *Accounting Research*, 22(4), 57-62.
- Ghazali, N. A. M., & Weetman, P. (2006). Perpetuating traditional influences: Voluntary disclosure in Malaysia following the economic crisis. *Journal of International Accounting, Auditing and Taxation*, 15(2), 226-248.

- Gillan, S., Hartzell, J. C., & Starks, L. T. (2006, March). Evidence on corporate governance: The joint determination of board structures and charter provisions. In AFA 2007 Chicago Meetings Paper.
- Grayson, M. (1999). An empirical test of auditor switching as a means to delay the revelation of bad news. Working paper, School of Business, Jackson State University.
- Guiral, A., Ruiz, E., & Choi, H. J. (2014). Audit report information content and the provision of non-audit services: Evidence from Spanish lending decisions. *Journal of International Accounting, Auditing and Taxation*, 23(1), 44-57.
- Gul, F. A., & Leung, S. (2004). Board leadership, outside directors' expertise and voluntary corporate disclosures. *Journal of Accounting and public Policy*, 23(5), 351-379.
- Haron, H., Jantan, M., & Pheng, E. G. (2005). Audit committee compliance with Kuala Lumpur Stock Exchange listing requirements. *International Journal of Auditing*, 9(3), 187-200.
- Hashim, H. A., & Devi, S. S. (2008). Board independence, CEO duality and accrual management: Malaysian evidence. *Asian Journal of Business and Accounting*, 1(1), 27-46.
- Hassan Che Haat, M., Abdul Rahman, R., & Mahenthiran, S. (2008). Corporate governance, transparency and performance of Malaysian companies. *Managerial Auditing Journal*, 23(8), 744-778.
- Hatfield, R. C., Agoglia, C. P., & Sanchez, M. H. (2008). Client characteristics and the negotiation tactics of auditors: Implications for financial reporting. *Journal of Accounting Research*, 46(5), 1183-1207.
- Ho, S. S., & Wong, K. S. (2001). A study of the relationship between corporate governance structures and the extent of voluntary disclosure. *Journal of International Accounting, Auditing and Taxation*, 10(2), 139-156.
- Hudaib, M., & Cooke, T. E. (2005). The impact of managing director changes and financial distress on audit qualification and auditor switching. *Journal of Business Finance & Accounting*, 32(9-10), 1703-1739.
- Hudaib, M., & Cooke, T. E. (2005). The impact of managing director changes and financial distress on audit qualification and auditor switching. *Journal of Business Finance & Accounting*, 32(9-10), 1703-1739.
- Huson, A. J., Ali, M., Anuar, M. N., Ariff, M., & Shamsheer, M. (2000). Audit switch decisions of Malaysian listed firms: test of determinants of wealth effect. *Capital Market Review*, 8(2), 1-24.
- Ismail, K. N. I. K., & Abdullah, S. N. (1999). Earnings quality and accounting conservatism: A survey on Malaysian financial analysts [Electronic Version]. *Malaysian Management Review*, 34(2), 21-43.

- Ismail, S., Aliahmed, H. J., Nassir, A. M., & Hamid, M. A. A. (2008). Why Malaysian second board companies switch auditors: evidence of Bursa Malaysia. *International research journal of finance and economics*, 13(13), 123-30.
- Iyer, G. S., Iyer, V. M., & Mishra, B. K. (2003). The impact of non-audit service fee disclosure requirements on audit fee and non-audit service fee in the United Kingdom: an empirical analysis. *Advances in Accounting*, 20(2003), 127-140.
- Jaffar, N., & Alias, N. (2002). Audit firm rotation in Malaysia: prospects and problems. *Finance India*, 16(3), 933-948.
- Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *the Journal of Finance*, 48(3), 831-880.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- Jensen, M. C., & Meckling, W. H. (1979). Rights and production functions: An application to labor-managed firms and codetermination. *Journal of business*, 16(3), 469-506.
- Joher, H., Ali, M., Mohd Ramidili, S., & Md Nassir, A. (2000). Auditor Switch Decision of Malaysian Listed Finns: Tests of determinants and wealth effect. *Pertanika Journal of Social Sciences & Humanities*, 8(2), 77-90.
- Johnson, W. B., & Lys, T. (1990). The market for audit services: Evidence from voluntary auditor changes. *Journal of accounting and economics*, 12(1), 281-308.
- Jubb, P. B. (2000). Auditors as whistleblowers. *International Journal of Auditing*, 4(2), 153-167.
- Kamardin, H., & Haron, H. (2011). Internal corporate governance and board performance in monitoring roles: Evidence from Malaysia. *Journal of Financial Reporting and Accounting*, 9(2), 119-140.
- Kao, L., & Chen, A. (2004). The effects of board characteristics on earnings management. *Corporate Ownership & Control*, 1(3), 96-107.
- Kim, K. A., Kitsabunnarat-Chatjuthamard, P., & Nofsinger, J. R. (2007). Large shareholders, board independence, and minority shareholder rights: Evidence from Europe. *Journal of Corporate Finance*, 13(5), 859-880.
- Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of accounting and economics*, 33(3), 375-400.
- Kleinman, G., Palmon, D., & Anandarajan, A. (1998). Auditor independence: A synthesis of theory and empirical research. *Research in Accounting Regulation*, 12, 3-42.
- Kluger, B. D., & Shields, D. (1991). Managerial moral hazard and auditor changes. *Critical Perspectives on Accounting*, 2(3), 255-272.
- Knapp, M. C., & Elikai, F. (1988). Auditor changes: A note on the policy implications of recent analytical and empirical research. *Journal of Accounting, Auditing & Finance*, 3(1), 78-86.

- Kuppusamy, K., Mohamed, N., & Shanmugam, B. (2003). Audit committees in Malaysia and the Blue Ribbon Committee Report: A comparative study. *International Journal of Management*, 20(4), 509.
- Leftwich, R. W., Watts, R. L., & Zimmerman, J. L. (1981). Voluntary corporate disclosure: The case of interim reporting. *Journal of accounting research*, 19(1981), 50-77.
- Lennox, C. (2000). Do companies successfully engage in opinion-shopping? Evidence from the UK. *Journal of Accounting and Economics*, 29(3), 321-337.
- Levitt, A., & Securities, U. S. (2000). Speech by SEC chairman: Remarks before the conference on the rise and effectiveness of new corporate governance standards. Federal Reserve Bank, New York, [Online] Available: [http://www. sec. gov/news/speech/spch449. htm](http://www.sec.gov/news/speech/spch449.htm) on, 19(10), 2009.
- Listing Requirements of Bursa Malaysia Securities Berhad, available at www.bursamalaysia.com
- Magri, J., & Baldacchino, P. J. (2004). Factors contributing to auditor-change decisions in Malta. *Managerial Auditing Journal*, 19(7), 956-968.
- Malaysian Code on Corporate Governance (2000). Finance Committee on Corporate Governnace, Securities Commission, Kuala Lumpur.
- Mani, D., Barua, A., & Whinston, A. B. (2010). An empirical analysis of the impact of information capabilities design on business process outsourcing performance. *Management Information Systems Quarterly*, 34(1), 39-62.
- MCCG (1999), Malaysian Code on Corporate Governance, Report on Corporate Governance, Securities Commission, Kuala Lumpur.
- Menon, K., & Williams, D. D. (2008). Management Turnover Following Auditor Resignations*. *Contemporary Accounting Research*, 25(2), 567-604.
- Mitchell, A., Puxty, T., Sikka, P., & Willmott, H. (1994). Ethical statements as smokescreens for sectional interests: The case of the UK accountancy profession. *Journal of Business Ethics*, 13(1), 39-51.
- Moizer, P. (1992). State of the art in audit market research. *European Accounting Review*, 1(2), 333-348.
- Moizer, P., & Porter, B. (2004). Auditor Resignations and Dismissals in the UK. Institute of Chartered Accountants in England and Wales.
- Nahar Abdullah, S. (2004). Board composition, CEO duality and performance among Malaysian listed companies. *Corporate Governance: The international journal of business in society*, 4(4), 47-61.
- Nahar Abdullah, S., Zalina Mohamad Yusof, N., & Naimi Mohamad Nor, M. (2010). Financial restatements and corporate governance among Malaysian listed companies. *Managerial Auditing Journal*, 25(6), 526-552.

- Naimi, M., Nor, M., Rohami, S., & Wan-Hussin, W. N. (2010). Corporate governance and audit report lag in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*, 6(2), 57-84.
- Nasir, N. M., & Abdullah, S. N. (2004). Voluntary disclosure and corporate governance among financially distressed firms in Malaysia. *Financial Reporting, Regulation and Governance*, 3(1), 95-139.
- Nazatul Faiza Syed Mustapha Nazri, S., Smith, M., & Ismail, Z. (2012). Factors influencing auditor change: evidence from Malaysia. *Asian Review of Accounting*, 20(3), 222-240.
- Nyakuwanika, M. (2014). Why Companies Change Auditors in Zimbabwe?(2003-2013). *Research Journal of Finance and Accounting*, 5(5), 171-181.
- O'sullivan, N. (2000). The impact of board composition and ownership on audit quality: Evidence from large UK companies. *The British Accounting Review*, 32(4), 397-414.
- Office of Fair Trading, (2002) 'Guidelines for competition assessment', February, London.
- Oman, C. P. (2001). Corporate governance and national development. Working Paper No. 180. Research programme on: Corporate Governance in Developing Countries and Emerging Economies.
- O'Neill, H. M., Poudner, R. W., & Buchholtz, A. K. (1998). Patterns in the diffusion of strategies across organizations: Insights from the innovation diffusion literature. *Academy of Management Review*, 23(1), 98-114.
- Organisation for Economic Co-operation and Development. (1999). OECD principles of corporate governance. OECD.
- Palmrose, Z. V. (1986). Audit fees and auditor size: Further evidence. *Journal of accounting research*, 24(1), 97-110.
- Pany, K., & Reckers, P. M. (1988). Auditor performance of MAS: A study of its effects on decisions and Perceptions'. *Accounting Horizons*, 2(2), 31-48.
- Park, Y. W., & Shin, H. H. (2004). Board composition and earnings management in Canada. *Journal of corporate Finance*, 10(3), 431-457.
- Parkash, M., & Venable, C. F. (1993). Auditee incentives for auditor independence: The case of nonaudit services. *Accounting Review*, 68(1), 113-133.
- Pascoe, J., & Rachagan, S. (2005). Key developments in corporate law reform in Malaysia. *Sing J. Legal Stud.*, 93. 2005.
- Peasnell, K. V., Pope, P. F., & Young, S. (2003). Managerial equity ownership and the demand for outside directors. *European Financial Management*, 9(2), 231-250.
- Peasnell, K. V., Pope, P. F., & Young, S. (2005). Board monitoring and earnings management: do outside directors influence abnormal accruals?. *Journal of Business Finance & Accounting*, 32(7-8), 1311-1346.

- Pedhazur, E. J. (1997). Multiple regression in behavioral research: Explanation and prediction. (1997), Key: citeulike:553311.
- Petra, S. T. (2005). Do outside independent directors strengthen corporate boards?. *Corporate Governance: The international journal of business in society*, 5(1), 55-64.
- Pettigrew, A., & McNulty, T. (1995). Power and influence in and around the boardroom. *Human relations*, 48(8), 845-873.
- Pincus, K., Rusbarsky, M., & Wong, J. (1989). Voluntary formation of corporate audit committees among NASDAQ firms. *Journal of Accounting and Public Policy*, 8(4), 239-265.
- Pound, J. (1995). The promise of the governed corporation. *Harvard Business Review*, 73(2), 89-98.
- Pratt, J. W., Zeckhauser, R., & Arrow, K. J. (1985). *Principals and agents: The structure of business*. Harvard Business Press.
- Quick, R., Sattler, M., & Wiemann, D. (2013). Agency conflicts and the demand for non-audit services. *Managerial Auditing Journal*, 28(4), 323-344.
- Rainsbury, E. A., Bradbury, M. E., & Cahan, S. F. (2008). Firm characteristics and audit committees complying with 'best practice' membership guidelines. *Accounting and Business Research*, 38(5), 393-408.
- Saleh, N. M., Iskandar, T. M., & Rahmat, M. M. (2005). Earnings management and board characteristics: Evidence from Malaysia. *Jurnal Pengurusan*, 24(4), 77-103.
- Samaha, K., & Dahawy, K. (2010). An empirical analysis of corporate governance structures and voluntary corporate disclosure in volatile capital markets: The Egyptian experience. *International Journal of Accounting, Auditing and Performance Evaluation*, 7(1-2), 61-93.
- Schwartz, K. B., & Menon, K. (1985). Auditor switches by failing firms. *Accounting Review*, 60(2), 248-261.
- Schwartz, K. B., & Soo, B. S. (1995). An analysis of Form 8-K disclosures of auditor changes by firms approaching bankruptcy. *Auditing*, 14(1), 125-138.
- Securities Commission. (2012). *Malaysian code on corporate governance 2012*. Kuala Lumpur: Securities Commission
- Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, 52(2), 737-783.
- Shockley, R. A. (1981). Perceptions of auditors' independence: An empirical analysis. *Accounting Review*, 55(4), 785-800.
- Shu, S. Z. (2000). Auditor resignations: Clientele effects and legal liability. *Journal of Accounting and Economics*, 29(2), 173-205.

- Siagian, F. T., & Tresnaningsih, E. (2011). The impact of independent directors and independent audit committees on earnings quality reported by Indonesian firms. *Asian review of Accounting*, 19(3), 192-207.
- Sun, J., Lan, G., & Liu, G. (2014). Independent audit committee characteristics and real earnings management. *Managerial Auditing Journal*, 29(2), 153-172.
- Thahir Abdul Nasser, A., Abdul Wahid, E., Nazatul Faiza Syed Mustapha Nazri, S., & Hudaib, M. (2006). Auditor-client relationship: the case of audit tenure and auditor switching in Malaysia. *Managerial Auditing Journal*, 21(7), 724-737.
- Thevenot, M., & Hall, L. A. (2009). Auditor switches in the post-SOX era: the case of firms with internal control weaknesses. Available at SSRN 1602082.
- Titman, S., & Trueman, B. (1986). Information quality and the valuation of new issues. *Journal of Accounting and Economics*, 8(2), 159-172.
- Tu, G. (2012). Controller changes and auditor changes. *China Journal of Accounting Research*, 5(1), 45-58.
- Turner, L. E., Williams, J. P., & Weirich, T. R. (2005). An inside look at auditor changes. *The CPA Journal*, 12(2005), 12-21.
- Uzun, H., Szewczyk, S. H., & Varma, R. (2004). Board composition and corporate fraud. *Financial Analysts Journal*, 60(3), 33-43.
- Vanstraelen, A. (2003). Going-concern opinions, auditor switching, and the self-fulfilling prophecy effect examined in the regulatory context of Belgium. *Journal of Accounting, Auditing & Finance*, 18(2), 231-254.
- Vethanayagam, J., Yahya, S., & Haron, H. (2006). Independent non-executive directors, managerial ownership and firm performance in Malaysian public listed companies. In *Proceeding Symposium on Accountability, Governance and Performance*.
- Walker, A., & Hay, D. (2013). Non-audit services and knowledge spillovers: An investigation of the audit report lag. *Meditari Accountancy Research*, 21(1), 32-51.
- Wallace, W. A. (1984). A time series analysis of the effect of internal audit activities on external audit fees. Institute of Internal Auditors Research Foundation.
- Wan-Hussin, W. N. (2009). The impact of family-firm structure and board composition on corporate transparency: Evidence based on segment disclosures in Malaysia. *The International Journal of Accounting*, 44(4), 313-333.
- Watts, Ross L. and Zimmerman, Jerold L., *Positive accounting theory*. Ross L. Watts, Jerold L. Zimmerman, Positive accounting theory, Prentice-Hall Inc., 1986. Retrieved from: <http://ssrn.com/abstract=928677>.
- Weiss, R. E., & Kalbers, L. P. (2008). Causes and consequences of auditor changes: a comparison of accelerated and non-accelerated filers. Retrieved from <http://www.researchgate.net/publication/228307451>.

- Wells, D. W., & Loudder, M. L. (1997). The market effects of auditor resignations. *Auditing*, 16(1), 138-144.
- Weston, J. F., Siu, J. A., & Johnson, B. A. (2001). *Takeovers, restructuring, and corporate governance*. Prentice Hall.
- Willenborg, M. (1999). Empirical analysis of the economic demand for auditing in the initial public offerings market. *Journal of Accounting Research*, 37(1), 225-238.
- Woo, E. S., & Koh, H. C. (2001). Factors associated with auditor changes: a Singapore study. *Accounting and Business Research*, 31(2), 133-144.
- Zalailah, S., Jenny, S., & Stuart, M. (2006). The impact of board composition and ethnicity on audit quality: Evidence from Malaysian companies. *Malaysian Accounting Review*, 5(2), 61-83.
- Zhang, B., & Emanuel, D. (2008). The provision of non-audit services and earnings conservatism: Do New Zealand auditors compromise their independence?. *Accounting Research Journal*, 21(2), 195-221.
- Zulkafli, A. H., Samad, M. F. A., & Ismail, M. I. (2005). *Corporate governance in Malaysia*. Retrieved May, 5, 2011.



UUM
Universiti Utara Malaysia