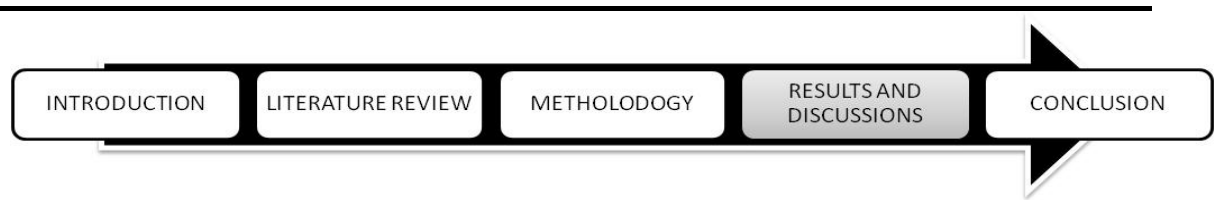


4 RESULTS AND DISCUSSION

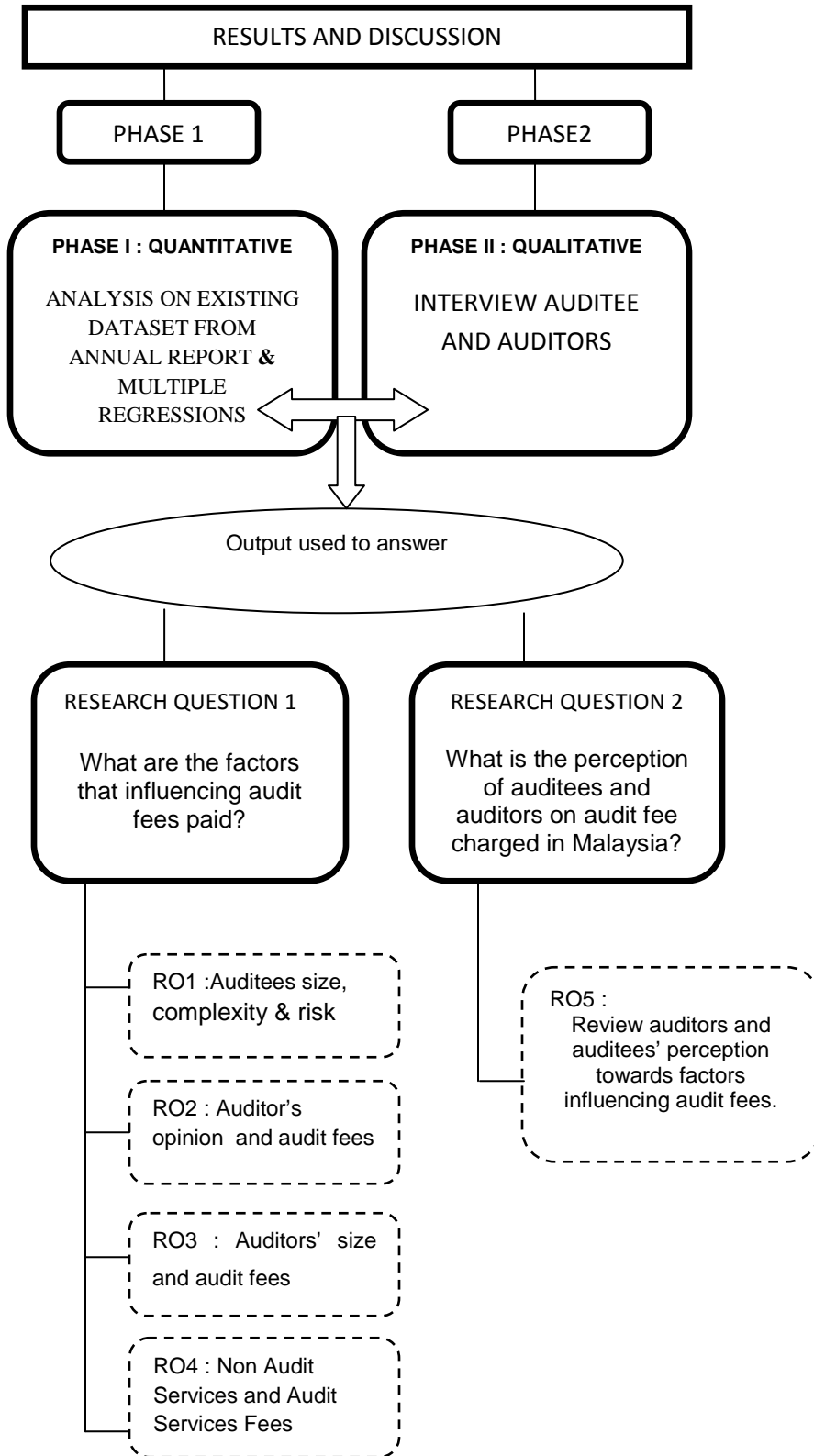


INTRODUCTION

This aim of this section is to presents results established through analysis on existing dataset from annual report, multiple regressions and interview process so that the results can be interpreted in terms of the theory and observations made by researcher to achieve the research objectives. As it was documented in Chapter 4, the sample population has representation of 100 Public Listed Companies listed in Bursa Malaysia and interviews conducted with some auditees and auditors. In this chapter, results of the study will be presented in TWO sub sections;

- i) **Phase I** – **Analysis on existing dataset from annual report;** variables are arranged in an appropriate range and tabular form to study the influential of variables on the fees charge.
 - **Multiple Regressions;** to identify how significant the variables influencing dependent variables. Data analysis from Excel is used to obtain the results.
- ii) **Phase II** – **Interview Results;** interviews was conducted among auditees and auditors. Their comments and experience is used to support the findings derived in Phase I

FLOW OF RESULTS AND DISCUSSION SECTION



PHASE I : ANALYSIS ON EXISTING DATASET FROM ANNUAL REPORT AND MULTIPLE REGRESSION

As explained in Chapter 3, all the variables will be measured accordance to its proxies in which was used by previous studies. Results of analysis on existing dataset from annual report will be presented in tabular form for every selected proxy and supported with multiple regressions results.

PHASE II : INTERVIEW RESULTS

The primary goal of Phase II is to elicit and record information from the complainants, subject, and every important witness. The interviews were carried out with some accountants and auditors. The spoken word is usually the greatest source of investigative evidence and often the best evidence. Respondents are encouraged to reveal everything that he or she feels and thinks about the fees charged in Malaysia. As explained in Chapter 3, two types of interview have taken place; face to face interview and telephone interview. Respondents' who couldn't attend the interview have submitted their comments through open ended questionnaire. The researcher has recorded all remarks that may be relevant and interpreted it carefully to satisfy research objective 5.

Research Question 2:
What is the perception of auditees and auditors on the amount of audit fees charged in Malaysia?
RO 5 To review auditees and auditors perception towards factors influencing audit fees

As presented earlier in Chapter 3, Table 12 represents interview respondents that have been participated in the interview session.

Table 12: Interview Respondents

Senior Manager of Big 4	Respondent #1
Former Auditor and Accountant in Public Listed Company - Now Accountant in Simoda Engineering	Respondent #2
Auditor – Medium Size	Respondent #3
Accountant – Seacera	Respondent #4
Accountant – Sapura	Respondent #5
Accountant - Gefung Holdings Bhd	Respondent #6

**PHASE I : ANALYSIS ON EXISTING DATASET FROM ANNUAL REPORT
AND MULTIPLE REGRESSION RESULTS FOR OBJECTIVE 1**

RO1 : To review **auditees size** and its pattern towards audit fees

4.1.1 AUDITEES SIZE

In analysis on existing dataset from annual report, two proxies which were used to measure auditees size are i) total assets and ii) total revenue, whereas for regression results total assets was the only proxy tested to measure auditee size. This is consistent with the replication and modification of previous research done by (Craswell et al., 1995; Ferguson et al., 2003; and Giroux and McLelland, 2008).

Total Assets And Audit Fees

According to literature review presented in Chapter 2, auditees size (total assets) is the most significant variable in determining audit fees. However, some researcher evidence that possibility of economies of scale in the auditors' costs, and the existence of more

sophisticated internal control procedures in large-sized companies, helps to reduce the audit work and the fees (Joshi and Al-Bastaki, 2000).

Table 13 explains the relationship of total assets and audit fees charged in Year 2010. The range of the company assets is quite broad, but some observations can be made. According to the table, the most common fee paid fall in the range of total assets between RM 100,000,000 to RM 200,000,000. However the highest fees paid came from large size companies which holds more than RM4,000,000,000 total assets value.

Table 13: Relationship between Total Assets and Audit Fees

Range total Assets (RM)	N	Average Total assets (RM)	Average Audit fee (RM)
10,000,000 to 50,000,000	7	36,733,098.6	47,645.0
50,000,000 to 100,000,000	20	77,967,504.0	85,939.0
100,000,000 to 200,000,000	23	140,366,896.0	110,395.2
200,000,000 to 300,000,000	16	243,485,668.0	124,747.0
300,000,000 to 500,000,000	11	409,328,333.0	134,720.0
5,000,00,000 to 1,000,000,000	11	690,296,666.0	231,723.0
1,000,000,000 to 4,000,000,000	11	2,540,939,982.0	842,882.0
> 4,000,000,000	1	6,055,721,000.0	832,000.0

(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

Table 13 also exhibits that when total assets increase, audit fees increase along it. This explains total assets variable should trigger higher audit fees. The range of total assets included is quite broad, but some observations can be made, such as when the companies held approximately RM 140 million assets, audit fees charged were RM110,000. Similarly, when total assets increase to RM 690 million, audit fees increases by 110%. This finding is in line with Palmrose (1986) and Turpen (1990), who argued total assets

have a direct impact on the auditors' work which in turn leads to high fees. Numerous literatures have affirmed that a positive relationship exist between audit fees and auditees size.

Total Revenue And Audit Fees

Swanson (2008), measure auditees size using sales revenue. He argued that number of entries or transactions likely increases when revenue increases. Consequently, auditors are accountable to detect duplication of transactions and sales invoices to avoid incidence of fraudulent financial reporting. Therefore, more time required for testing in which results in higher fees This is consistent with Perols and Lougee (2010) research, where they have found some evidence that companies highly likely committing fraud by overstating revenue (<http://www.bjournal.co.uk>).

Table 14 shows the range of total revenues extracted from sample. It is ranged from smaller to larger scale. The highest revenue reported from the sample are approximately RM5,000,000,000.

Table 14: Relationship between Total Revenue and Audit Fees

Range total revenue (\$ in millions)	N	Avg. Revenue (RM)	Avg. audit fee (RM)
1,000,000 10,000,000	6	6,589,519	89,467
10,000,000 100,000,000	39	53,693,908	88,545
100,000,000 500,000,000	35	250,275,628	144,996
500,000,000 1,000,000,000	8	691,711,084	262,338
1,000,000,000 5,000,000,000	11	1,388,584,207	793,300
5,000,000,000 10,000,000,000	1	5,057,773,000	832,000

(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

Table 14 clearly exhibits the relationship between total revenue and audit fees, in higher the revenue of a company resulted in higher fees. This result is consistent with total assets. Based on observation on Table 2, company's with RM10 million revenue are suggested to charge 0.12% of its revenue as their audit fee, these recommended fee is far more cheaper as compared to real world practice.

As to conclude, companies with high revenue are likely to pay high audit fees because it require rigorous auditing testing of the validity for the recognition of revenue and expenses which require more audit time. This finding agreed with prior studies by Pong and Whittington, (1994); Che Ahmad and Derashid, (1996) and O'Sullivan, (2000).

Multiple Regressions (Total Assets)

As reported in Table 15, this study uses multiple regressions analysis to examine the factors influencing external audit fees and to support further the findings' of analysis on existing dataset from annual report. Table 15 shows the overall model is significant ($p < 0.0000$), with Adj R^2 of 0.68. These are lower than those reported by Che Ahmad and Derashid (1996), which is 0.75. However, the adjusted R^2 of this study is higher compared to Rose (1999) and Meshari (2008) which was 0.66 and 0.57 respectively.

Table 15: Multiple Regressions result

	<i>Coeff</i>	<i>Std Err</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	1.0905	0.3938	2.7691	0.00680
LOGTA	0.4200	0.0483	8.6986	0.00000
LOGSUBS	0.3451	0.0615	5.6110	0.00000
LEV	0.0161	0.0175	0.9161	0.36198
INVREC	0.2039	0.0959	2.1274	0.03607
OPINION	0.2259	0.1561	1.4476	0.15113
AUDITOR	0.0594	0.0535	1.1112	0.26939
LOGNAS	0.0214	0.0112	1.9053	0.05900

Note : p-value of statistical significant at the 0.05 level; Adj R²=0.677

Table 16: Correlation matrix of the explanatory variables

	AUDITOR	OPINION	LOGTA	LEV	INVREC	LOGSUBS	LOGNAS	LOGFEE
AUDITOR	1							
OPINION	-0.12922	1						
LOGTA	0.390802	-0.09371	1					
LEV	-0.12031	-0.04024	-0.12923	1				
INVREC	0.083236	0.0384	-0.1106	-0.17705	1			
LOGSUBS	0.181448	-0.09531	0.370459	0.008596	-0.00227	1		
LOGNAS	0.473231	-0.16139	0.184666	-0.1174	-0.13524	0.073831	1	
LOGFEE	0.424262	-0.03161	0.739122	-0.06892	0.046206	0.579688	0.261296	1

Table 16 suggests that large absolute value 0.739 between audit fee and total assets with significant level 0.000 (Table 15). These evidence total assets highly influence the fees. Larger auditees size would probably need a significant capital investment to attract the investors; hence they embark on larger transactions and resulted in higher statutory audit fees paid. In addition, interviewed respondents agreed that total revenue and assets has direct influence on audit fees (refer Phase II)

PHASE II : INTERVIEW RESULT FOR AUDITEES SIZE

According to the results in Phase I, it was evidenced that through analysis and multiple regressions that company's growth derived to higher audit fee. Growth of a company includes assets acquisition and increase of revenue. In relation to this statement, respondent #4 has commented as below,

[.....] it is very obvious that company's growth resulted in higher audit fee, for an example, if a dormant company carries higher assets then they have to pay more audit fee as compared to a dormant company which carrying fewer assets. Even though there is no active transactions incurred during the financial period, the weightage of assets can cause variance in fees paid (Respondent #4).

This opinion is agreed by other respondents too,

[.....] Obviously, audit fee charged influence by its size, for an example transaction volume and sales volume and so on. However, we can't say the fees charged by auditors is high, I would rather say auditors are being paid extra for extra job done because the fees in Malaysia is not high actually.....we are actually paying low fees to auditors which is essentially very bad for the accounting profession. Maybe, MIA should look into it and revise the fees back (Respondent #2).

[.....] no doubt, auditors are charging high fees if a company have large volume of assets or high revenue or any sort of growth experience by the company (Respondent #3).

All the respondent totally agree that auditees size to measure by total assets and it has a significant relationship with fees paid to auditors. This finding consistent with previous studies by Fan and Wong (2001); Maher et al., 1992; and Meshari, (2008).

4.1.2 AUDITEES COMPLEXITY

RO 1 : To investigate relationship between auditees complexity and its pattern towards audit fees

As to measure the auditees complexity, number of subsidiaries are used as its proxy. Information on subsidiaries for each companies were collected from annual report published in Bursa Malaysia. Total subsidiaries comprises of those located in Malaysia and outside Malaysia.

Number Of Subsidiaries (SUBS) And Audit Fees

Other than auditees size, complexity of auditee is another significant variable that influence audit fees. Researchers argue complexity of company operations may lead to higher audit fees because more audit work is needed and a higher fee per hour is charged (Cameran, 2005; Firth, 1985). One of the indicators to measure complexity is number of subsidiaries (SUBS). These SUBS variable is more complex to audit as compared to other current assets such as cash. Such challenging area likely involves more audit test and need special attention, as they are derived from different host of transactions, difficult to evaluate, and are areas that are most susceptible to fraud (Arens and Loebbecke, 1994; Wallace 1984). All this factor will hike up the audit fees.

Table 17 is arranged according to number of subsidiaries held by companies in the sample. It is randomly arranged from zero to the maximum of 90 subsidiaries. Audit fees are tested on its relationship with number of subsidiaries.

Table 17: Relationship between SUBS and Audit Fees

No of subsidiaries	Average audit fee (RM)
0	50,000.0
0 10	157,848.3
10 20	170,334.6
20 30	471,603.0
40 50	608,000.0
60-90	1,533,500.0

(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

Finding from prior studies consistent with the results obtained in Table 17, the more SUBS the greater impact on audit fees.

Multiple Regressions (SUBS)

As expected, LOGSUBS and total audit fee to be found with high correlation 0.580 (Table 16). Table 15 shows LOGSUBS variable have a positive and significant regression coefficient at ($p < 0.05$). This is consistent with previous research recurring finding of a positive relationship using this variable.

Sandra and Patrick (1996) revealed that auditing a group of companies with many subsidiaries or branches is associated with extra work and hours. More hours are needed to examine a greater number of subordinate's financial statement to endure the accurateness of consolidation financial statements. Moreover, auditors also need to test on the compliance of reporting requirements in the countries they operate. This resulted in additional audit task which would need expertise hand to test the intra group transactions, taxation implication, foreign currency transactions, transfer pricing and

many more that would entail more audit fees. This statement agreed to the fee pattern above.

Similarly, in Malaysian context, Che-Ahmad and Abidin (2008) found evidence that LOGSUBS is highly correlated to hours spend by auditors. The sample used in their study consists of publicly held Malaysian companies, which were listed on both the Main Board and the Second Board of the Bursa Malaysia as at 31 December 1993. They conclude, auditors auditing a diversified company are expected to do extensive test which audit become costly.

PHASE II : INTERVIEW RESULT FOR AUDITEES COMPLEXITY

Pertaining auditees complexity, all respondent have similar opinion again on this variable. They perceived that large number of subsidiaries, maintaining irregularities accounts may increase the complexity of audit which eventually develops higher fees. Respondents' feedback consistent with the regression and analysis on existing dataset from annual report result in Phase I. This evidence total assets and number of subsidiaries has strong relation towards audit fees.

[.....] yes if it involves foreign subsidiaries the audit process will take a little longer because we need time to study in depth of the compliance and regulations. Generally if a company holds many subsidiaries, audit process will take longer than as usual (Respondent #2).

[.....] some clients they don't keep proper accounts or sufficient detail on subsidiaries, or sometimes subsidiary accounts will be audited by other auditors which we need to wait for their input, so all this factors will delay the audit process and require us to perform more test which lead to higher fees (Respondent #3).

Many researchers have indicated audit fees significantly affect the level of audit complexity (Francis and Stokes, 1996; Che Ahmad and Houghton, 1996; Nikkinen and Sahlström, 2005; and Carcello et al., 2002). The rationale behind this is, the more intricate an operation becomes, organization tend to expand, diverse its structure and expected to have more complex transactions. This situation would expect more effort and supervision from the external auditors to measure the accuracy of a record.

4.1.3 AUDITEES RISK

RO 1 : To investigate relationship between **auditees risk** and its pattern towards audit fees

Auditees risk is tested using two ratios i) INVREC (the ratio of inventory and receivables over total assets), and ii) leverage (total long term debt excluding deferred taxation over total equity)

INVREC And Audit Fee

Based on the study carried out by O'Sullivan (1999) and Carcello et al., (2002), the sum of receivables and inventory over total assets is used as a proxy for audit risk because companies with higher amount of inventories and receivables would expect to have higher risk due to bad debts and inventories written off. These accounts are difficult to value because they are in an area of high susceptible to fraud. Firth (1997), explains the high ratio of receivables and inventory represents higher level of business risk which requires more testing and consequently an audit become more expensive. Table 18 is ranged by the ratio of INVREC. The interval is randomly selected. It shows most companies with INVREC ratio are in between 0.25 to 2.00 have approximately average

audit fees paid of RM177,000. However, Table 18 does not clearly presents the expected results with audit fees, for example average audit fees of approximately RM 257,000 paid for ratio between 0.07 to 0.15, whereas for higher ratio which is from 0.15 to 0.25, fees paid is much lower which is approximately RM137,000 only. In contrast, for ratio more than 4, average fees paid is RM 298,500.00. On the whole, the result does not show a clearer pattern to support either it increases along the fees or otherwise. Therefore, to be more precise, the data will be tested using multiple regressions and Phase II to confirm the finding.

Table 18: Relationship between INVREC and Audit Fees

INVREC Ratio	N	Avg. Audit fee (RM)
0.01 0.03	10	90,984.90
0.03 0.06	4	201,500.00
0.07 0.15	19	257,292.21
0.15 0.25	16	137,048.38
0.25 2.00	34	176,441.50
2.00 4.00	10	375,883.91
more than 4	7	298,500.00

(Source : Data extracted from Annual report 2010, Bursa Malaysia website)

Leverage (Long Term Debt / Equity) And Audit Fee

RO 1 : To investigate relationship between auditees risk and its pattern towards audit fees

Magnitude of leverage is tested to find relationship with audit fees. Generally, higher ratio exhibits a greater level of risk of companies because long-term debt could raise the agency costs and highly likely add on audit efforts and the duration of audit engagement.

This directly develops fees (Jensen and Meckling, 1976). However, Che-Ahmad and Abidin (2008) did not see any connection between leverage and fees prevail in Malaysian companies.

Table 19 exhibits audit fee is arranged according to leverage ratio. Audit fees for companies with the maximum leverage are about RM239,000 whereas companies with leverage ratio between 0.5 to 1 have paid RM1.6million audit fees. Result showcase unclear relation with audit fees and leverage, in order to obtain an empirical result, this variable will be tested in multiple regressions.

Table 19: Relationship between Leverage and Audit Fees

Leverage ratio	Total Audit fee (RM)
0	1,168,801.0
0	16,987,570.0
0.5	
0.5	1,624,247.0
1	
1	646,708.0
1.5	
>2	238,973.0

(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

Multiple Regressions (Leverage & Invrec)

INVREC shows significant variable in determining the audit fee ($p < 0.05$). The result shows *INVREC* has significant relationship with audit fees. As mentioned earlier, *INVREC* is high risk area which needs huge coverage and more attention; for instance, companies which carry huge inventories need to perform physical inventory count in the presence of external auditor to avoid fraudulent issues. Higher ratio drives more

verification by auditors to authenticate its balances in the financial position (Che Ahmad and Abidin, 2008). Due to the fact, it turns to be a significant determinant of audit fees.

Leverage in Table 19 shows it statistically insignificant to audit fees ($p > 0.05$), but this is not an expected sign. Che Ahmad and Abidin, 2008 explains negative relation was found due to Malaysia's business environment has low dependency on bank borrowings as compared to western countries, thus the degree of leverage is not priced in the same direction as practiced in the West. Prior studies evidenced that the association between audit fees and leverage is mixed. Some researcher found negative and some found positive relation. According to Francis and Simon (1987), they found leverage is not a significant magnitude in audit pricing in the US, whereas Francis and Stokes (1986) found a positive association in Australia. Collier and Gregory (1996) reported a positive relationship between audit fees and leverage in the UK. Joshi and Al-Bastaki (2000) found a positive association between audit fees and leverage in Bahrain meanwhile Sandra and Patrick (1996) showed a positive association between audit fees and leverage in Hong Kong.

PHASE II : INTERVIEW RESULT FOR AUDITEES RISK

Leverage and INVREC

[.....] if client can provide sufficient evidence to support its long term debt, then this is easy for the auditors to verify the figures and fact. In my experience, this is not use to judge the fees. I believe, if one failed to provide the proof then auditor may have to spend extra hours to detect the nature of the transactions which may entail higher fee (Respondent #4).

[.....] long term borrowing is not a significant risk which may impact the stability of the overall growth of a company. If client could not support the

figures in balance sheet then auditors may to spend more hours to perform test to verify no fraud incident occur. If the accounts seem to be supported with sufficient test there is no issue. I would say it is part of auditors' job which the service does not associate with extra fees. I agree that if a company own huge inventories, high risk will follow, so auditor should check thoroughly on this item. Audit hours spend than planned of course caused money to clients (Respondent #5).

This is consistent with the feedback received from Respondent #6 that long term debt is not considered in determining the audit pricing.

[.....] auditor's task and procedures are determined and governed by the auditing standards. The extent and level of these task and procedures are determined by auditor's assessment on the management's internal controls on a company's daily operations and financial reporting. Auditors should not act or participate in management decisions.due to the limited time, it is impossible for external auditor to audit the whole company. They work on samples. External auditors are more concern on compliance to standards, therefore leverage is not an important variable for audit fee determinant unless more work applied to verify the figures (Respondent #1).

[.....] some auditor are more concern on completing an audit without having a good understanding of the whole operations. In my view if the crosscheck between third party documents and clients agreed each other then they are comfortable with it. But we can't be blaming auditors, they have to work between the time frame given to them, not much they can do [.....] I had an experience where the in-house Internal Auditor of mine managed to find material fraud transaction right after external auditor audit the financial reporting. This shows external auditor fail to see the overall operation, so answer whether the fees paid is worth the money, I would say I depends. After all, they fees we are paying to auditors is lower than other countries and MIA is doing nothing about it, so auditors need to use their limited resources (Respondent #2) Respondent #2 also added that [.....] .external audit can use or rely on Internal Audit reporting, and thus this can reduce the audit fees charged. By doing that, we can have quality reporting.

Contradictory with the above statement, Respondent #5 suggests that both internal and external auditor should work together instead of relying on one and another.

[.....] By having Internal Auditor in operations will not result in decrease in audit fee because external Auditors still have to perform their duties according

to their audit plan and they still have to highlight irregularities of the company, basically the amount of evidence which they going look.

As to conclude the points from all respondents, leverage is not considered as a variable which influence audit fee paid in Malaysia but higher levels of receivables and inventory to total assets led to higher audit fees. In addition, other factors like internal auditors involvement in financial reporting are perceived to reduce the fees. Respondents' feedback on internal audit committee similar to prior study done by Felix (2001), he argue the reduction in fees may due to a lower measurement of audit risk consequential from internal audit contribution in firming the internal control.

PHASE I : ANALYSIS ON EXISTING DATASET FROM ANNUAL REPORT AND MULTIPLE REGRESSION RESULTS FOR OBJECTIVE 2

RO 2: To investigate relationship between **auditor's opinion** (qualified/unqualified) and audit fees

As explained in Chapter 2, audit opinion can be categorized as below;

a) Emphasis of matter or unqualified opinion with explanatory language

Auditors modify the auditor's report if a substance matter arising from a going concern or uncertainty problem. Unqualified opinion refers to clean opinion still remains unchanged.

b) Qualified opinion

Auditors express a qualified opinion when they disagree with management on the appliance of accounting used.

c) Disclaimer of opinion.

Auditors express a disclaimer of opinion if they could not find sufficient appropriate audit evidence. This opinion comes from the uncertainty of going concern.

d) Adverse of opinion.

Auditors express an adverse opinion when they significantly disagree with companies' management on the application of accounting policies and/or disclosure to financial statement.

Figure 3 : Auditor' s Opinion and Audit Fees



(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

According to Figure 3, the pie chart exhibits average audit fees charged for qualified and unqualified opinion issued by the auditors. The result shows approximately average of RM 211,000 of fees was charged for companies with unqualified opinion (clean report) whereas approximately RM 87,000 average fees was paid by companies who receives other than unqualified opinion (eg. disclaimer opinion and qualified). Based on this result, we are unable to conclude the finding of whether companies with unqualified

opinion paid higher fees because out of 100 companies, only three receives other than unqualified opinion, therefore mathematically the average fees for unqualified opinion will appear to be larger than qualified opinion. Researcher will proceed to multiple regression result to confirm the finding.

Multiple Regressions (Opinion)

Opinion is negatively correlated with *LOGFEE*, *LOGSUBS*, *LEV*, *LOGNAS* and *LOGTA* (Table 16) with p value higher than 0.05 and represents with t-ratios lesser than +/-2 (Table 15). It is found auditor's opinion has no influence on audit fees paid . This is an unexpected result and agreed to previous study done by Che Ahmad and Abidin, 2008; Craswell et al., 1995; and Craswell and Francis 1999, that found no association between *OPINION* and audit fees.

This finding contradicts with Houghton and Jubb (1999) that argued auditees tend to pay higher fees to the auditor when an audit qualification is issued because these counts on number of test involved to derive to such qualify opinion. Similarly, Bamber et al. (1993) reported that qualified opinions are issued upon a careful considerable time and effort spent by the auditors. However, this theory is contradict with Ashton et al., (1989) they have found clean audit opinions were associated with longer audit delay, which consequently result in higher fees.

Another interesting finding by Teoh (1992), he argued that the auditees threat of switching auditors can influence auditors' opinion and thus, independence. In short, auditors will have to evaluate the situation between being independent and issuing a

qualified opinion or face the likelihood of dismissal. In conjunction with this, new auditor will highly likely spend more time on audit work in order to study and understand their new clients compared with existing clients which will result in high fees too (Che Ahmad and Abidin 2008).

PHASE II : INTERVIEW RESULT FOR AUDITOR'S OPINION

All respondents except Respondent #2 agreed that audit qualification has nothing to do with audit fees. According to their views, it is the auditors' responsibility to perform their duty thoroughly before they made a decision to qualify an account.

[.....] if a company keeps proper record and comply with all standards there is no need for auditor to qualified the accounts, so somehow this is not a reason why audit should charge higher fee (Respondent #4).

[.....] regardless the strategy chosen, external auditor will perform sufficient level of substantive audit procedures to support the auditors opinion. Moreover, the use of expert resources in audit task does not weaken the auditor's responsibility for opinion expressed. This will also not lead to a pricing mechanism (Respondent #1).

Respondent #2 has totally different opinion, [.....] when auditor qualify an account they have to do more ground work, more specifically to qualify Public Listed Company's account need more audit attempt, this will definitely increase the fees (Respondent #2).

However majority views agreed to regression result which p value > 0.05 that audit qualification has no relation with audit fees charged.

**PHASE I : ANALYSIS ON EXISTING DATASET FROM ANNUAL REPORT
AND MULTIPLE REGRESSION RESULTS FOR OBJECTIVE 3**

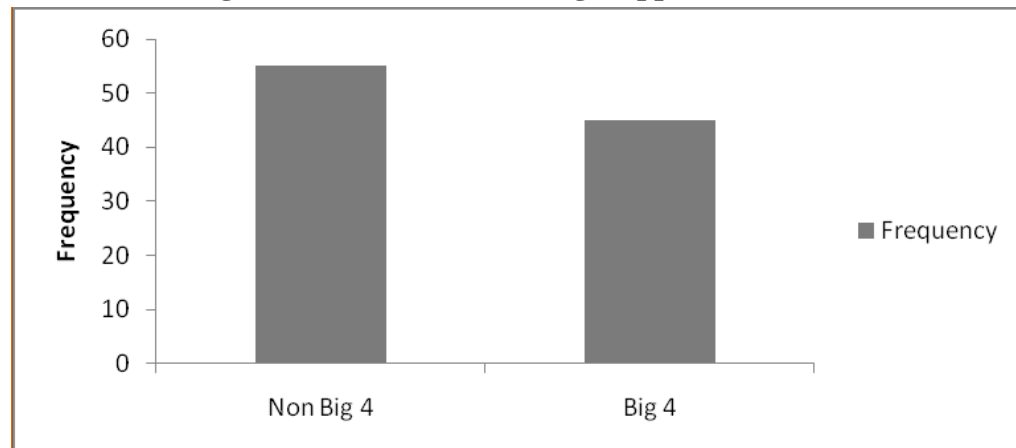
RO 3: To Investigate Relationship Between auditor's size and audit fees

AUDITOR'S SIZE

Auditor's size is measured by auditors' brand name; Big 4 and non-Big 4. The third research objective will determine the preferences of auditees in selecting be their auditors and at the same time test whether brand name of auditors' influences the fees paid.

Big 4 And Non-Big 4 Appointments

Figure 4: BIG 4 and non Big 4 appointment



(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

As of the histogram above, it is interesting to note that 45% of companies in selected sample appointed Big 4 as their independent auditor whereas the remaining 55% appointed Non-Big 4. Iskandar et al., (2010) in his study, revealed that there is no evidence found in differences of auditees satisfaction with audit services between Big 4 and non-Big 4 audit firms. He argues that auditees perceive Big 4 and non-Big 4 to provide equal audit services that satisfy them. This would be a reason of why 55% of

companies picked non-Big 4 as their auditor. From the observation, BDO, Crowe Horwath, SJ Grant Thornton are among closest rival to the Big 4.

Multiple Regressions (Auditor's Size)

The *AUDITOR* variable is statistically insignificant ($p > 0.05$), refer Table 15. This shows Big 4 engaged in Industrial Product Sector do not appear to enjoy an audit fee premium. This finding is consistent with Simunic, 1980; Meshari, 2008; and Firth, 1985 who could not find evidence of fee premium paid to “Big 4” audit firms. Followed by, Chung and Lindsay (1988) found no evidence of a Big 6 premium in the Canadian market. Chung and Narasimhan (2002) have done a survey across 12 countries; they have found auditors are charging higher in developed countries than developing countries. This result agreed to regression result of this study as no premium found in audit fee charged by Big 4 in Malaysia.

PHASE II : INTERVIEW RESULT FOR AUDITOR'S SIZE

Based on prior studies, researchers have found a mix result of auditors' size as one of the determinants on audit fees. However, quantitative data in Phase I have proven that, no premium found in audit fee charged by Big 4 in Malaysia. To be more precise, comments from professionals are looked-for.

[.....] companies pay higher to Big 4 because the auditors have to maintain a huge number of staffs, managers and partners. Moreover, it is an international company with a good system in place. He also added however high fees does not guaranteed a quality audit. For example take a look at what had happen in Enron case. I believe quality of audit is not depend on the auditor firm size, but it depends of the auditors credibility itself (Respondent #4).

Generally, all respondents agreed that if a company wants to upgrade its reputation, they prefer to be audited by Big 4. This finding is consistent with Craswell (1995), that Big Four firms have a wide variety of clients, most of which are large. Results imply that Big 4 firms continue to gain aspect among auditee as a result of the firm's established reputation.

[.....] Big 4 appointment is generally demanded by the shareholders. Big 4 come to play due to its experience auditing Big companies, so this background will be a lot easier for them to audit Public Listed Companies like Sapura. We simply can't give our accounts to mid size audit firm to audit because we believe they don't cater the experience as Big 4 do, and I totally agree the fees are higher with Big 4 (Respondent #5).

According to the comments received, another reason auditee prefers Big 4 is, staffs are well equipped with good facilities and exposed with adequate trainings. Besides, they always send trained team members to perform audit jobs, unlike the non-Big 4 (supported by Respondent #1).

[.....] audit and accounting profession should look as profit centre rather than cost centre because accountants are the person who will advise the direction of a company, but it is sad to note that accountants and auditors are being underpaid unlike other professions like lawyer and etc. Therefore I won't say Big 4 are charging higher fee (Respondent #2).

It can be concluded that, respondents perceived that auditee have to pay higher fees if the accounts were audited by Big 4. However, it was realized that even the fees paid is higher but the fee does not include any premium. This is also confirmed by two respondents (Respondent #1 and #2) who have experiencing working with Big 4. This finding is consistent with output of Phase I.

**PHASE I : ANALYSIS ON EXISTING DATASET FROM ANNUAL REPORT
AND MULTIPLE REGRESSION RESULTS FOR OBJECTIVE 4**

RO 4 To investigate the relationship between **non audit services (NAS)** and audit services fees

NON AUDIT SERVICES (NAS)

As for audit fees, researcher expected a negative effect of NAS on audit fees. If shareholders believe that NAS reduce the reliability of financial statements, then the statutory audit fees should be lesser. It was also argued by prior researcher, negative relationship between audit fees and NAS occur due to tradeoff between audit fees and NAS (Simunic, 1984). In short, the skills, experience and knowledge which was used to doing consultancy services will be reuse during statutory audit in which may reduce cost of resources used and time saving. Table 20 is presented according to total revenue from sample. The range is randomly selected. Even the selected range is wider, some observation can be done through the result, for instance, the minimum revenue recorded is RM 1,000,000 and maximum revenue was RM 10,000,000,000. This is then arranged followed by audit fees and non audit fees paid by companies.

Table 20: Relationship Between NAS and Audit Fees

Years Total revenue (\$ in millions)	N	2010 Avg Revenue in millions	2010 Avg audit fee in thousands	2010 Avg non audit- fee in thousands	2010 Total Avg fees in thousands
10,000,000,000 5,000,000,000	1	5,057,773,000	832,000	208,000	1,040,000
5,000,000,000 1,000,000,000	11	1,388,584,207	793,300	236,450	1,029,750
1,000,000,000 500,000,000	8	691,711,084	262,338	30,075	292,413
500,000,000 100,000,000	35	250,275,628	144,996	28,985	173,981
100,000,000 10,000,000	39	53,693,908	88,545	20,583	109,128
10,000,000 1,000,000	6	6,589,519	89,467	36,500	125,967

(Source : Data extracted from Annual Report 2010, Bursa Malaysia website)

According to Table 20, about 43% of selected sample did not record NAS fees in any page of annual reports. Terms used to define NAS fee in the annual reports were "Non-audit services fees", "Other audit fees "or "Non Statutory Audit". In order to increase effectiveness and efficient of a operation, and to regain appropriate management strategy to boost back competitive advantage of a company, shareholder may demand the board to take up NAS. An expert opinion is believed to bring back a company into profitability footing (Houghton and Ikin, 2001). This can be seen in Table 20, NAS increases with the level of revenue. However, to analyze whether this variable influences audit fee, Phase I does not provide clearer result. This will further analyze using regression results.

Multiple Regressions (LOGNAS)

Table 15, exhibits result for *LOGNAS* is not significant at 0.05 levels, therefore the alternative hypothesis is not supported. Researcher found NAS did not influence audit

fees paid in Public Listed Companies in Malaysia. Similar to this study, Butterworth and Houghton (1995) found the same result that no relationship between audit fees and NAS. Likewise, in Malaysian studies, Md Yusof & Che Ahmad (2000) argue that no statistical evidence to proof relationship between this two variables.

This result contradicts with Firth (2002), who derived to a conclusion based on sample of 314 United Kingdom quoted companies, argued that, a NAS service is demanded by a company and therefore additional audit effort is required. Due to separation of shareholders' and managers' interest, auditors' are expected to provide assurance against the misinterpretation of financial statement even with the acquisition of NAS. This situation expected auditor to increase its effort which the demand for auditing process will goes up and resulted in higher fees.

PHASE II : INTERVIEW RESULT FOR NON AUDIT SERVICES

When question is asked whether auditor should publicly disclose and discharge their responsibilities on NAS, Respondent #1, #2 and #5 disagree with that. They argue that, this is not necessary because so far there was no clear guideline is given for disclosure and moreover, the payment paid to auditors is already very low as compared to other countries.

Below are the respondents' opinions on NAS and audit fees,

[.....] there are number of NAS offered by auditors such as taxation, transfer pricing financial services and etc. NAS is acquire to increase efficiencies of a company by saving the resources. This will not result in decrease in audit fees.

If that happen, then the auditor independence will be questioned (Respondent #5).

[.....] whether to buy NAS or not, it depends on the directors discretion and board's approval, if they feel NAS could fix or upgrade the operation then we will buy that service, with the upgraded system audit work can be done on time and save cost (Respondent #4).

[.] if a company grow Bigger than probably they might need NAS, but this will not affect the audit fees charged NAS is acquired when the company decide to have it for better operation, therefore the fees is not necessary to break it down. After all the fees paid in Malaysia is very low (Respondent #2).

[.....] Probably a separate disclosure is necessary if required by board in annual report otherwise it is not worth reporting since auditing profession is being underpaid (Respondent #2).

On the other hand, all the parties agreed that MIA should provide a clear and reasonable guideline to deal with NAS requirements on the disclosure part and pricing strategy to be followed by auditors.

SUMMARY

This chapter is divided into two sections, Phase I and Phase II. The first phase presents the analysis on existing data on annual report, hypotheses testing procedures, and statistical analyses for testing the conceptual framework adopted in the study, whilst the second phase concerns the respondents perception regarding the issues under investigation, the respondents were auditors and auditees. Each variable presented in the chapter is expected to have some influence on audit fees paid. The result indicates that, the most significant variable affecting audit fees are auditees size and auditees complexity. The other interesting result was other variables like non audit fees, auditor's

opinion and auditor's size are found to have no relation in audit pricing structure in Malaysian companies. Hence, respondents urge the fees structure to upgrade in order to clean up negative publicity that connected with financial scandals and auditing profession.

5 CONCLUSION AND RECOMMENDATION

INTRODUCTION

This is the final section of the research; it will conclude the study by conferring several recommendations for practice and future research. The study began with the main objectives of find determinants of audit fees paid by Public Listed companies in Malaysia and to study the perception of auditees and auditors on the fee. Results of western research namely, US, Australia, UK and etc on audit fees may not necessarily be applicable to all other countries. This motivates the researcher to examine the underpinning variables which explain the audit fee charged in Public Listed Companies in Malaysia. Not only that, the output of this study may initiate more transparency and reliable audit fee computation in Malaysia.

5.1 HIGHLIGHTS OF RESEARCH QUESTIONS IN PHASE I

RQ 1 : What are the factors influencing the amount of audit fees paid?

According to previous study, there are few determinants or company-specific that influence audit fees paid such as its auditees size, risk, complexity, industry specialization, the ownership, audit committee and etc. As for this study, variables tested are total assets as proxies for auditees size, number of subsidiaries as proxy for complexity, leverage (long term debt/total equity); auditor's and the ratio INVREC (Accounts receivable + Inventory / Assets) as proxies of auditees risk. Besides that, the impacts of auditor's opinion (qualified and unqualified), auditor's size and NAS towards

fees paid are reviewed as well. From this review, the researcher found evidence that auditees size and complexity are the main attributes to fees charged in Malaysia. INVREC is influencing the fees but not for leverage. Based on the regression results, it is noticeable that auditor's opinion, non audit services and auditor's size have negative relation with dependent variable. This result may not be consistent with some researchers but all the findings are supported with empirical studies from prior studies. Table 21 represents the summary of findings obtained from regression results. Table 22 exhibits the results obtained from Phase I related to Research Question 1.

Table 21: Findings Hypothesis Testing

H ₁ : Total assets positively related to audit fees Result : Total assets have significant impact on audit fees, p<.05. This supports H₁.
H ₂ : Number of subsidiaries positively related to audit fees Result : Number of subsidiaries have significant impact on audit fees, p<.05. This support H₂
H ₃ : Leverage positively related to audit fees Result : Leverage has insignificant impact on audit fees, p>.05. This does not support H₃
H ₄ : The ratio 'accounts receivable and inventory over total assets' is positively related to audit fees Result : The ratio 'accounts receivable and inventory over total assets' have significant impact on audit fees, p<.05. This support H₄
H ₅ : Auditor's opinion has a positive relation with audit fees Result : Auditor's opinion has insignificant impact on audit fees, p>.05. This does not support H₅
H ₆ : Auditor's size has a positive relation with audit fees Result : Auditor's size has insignificant impact on audit fees, p>.05. This does not support H₆
H ₇ : Non Audit Services has a negative relation with audit fees Result : NAS has insignificant impact on audit fees, p>.05. This does not support H₇

Table 22 : Conclusion on Research Question 1

Research Question 1:		
What are the factors that affect the amount of audit fees paid?		
RO 1 To review auditees size; auditees complexity; auditees risk and its pattern towards audit fees		
Variables	Proxy/Proxies	Results
Auditees size	Total Assets	Significant; size influence audit fees
Auditees complexity	Number of subsidiaries	Significant; complexity influence audit fees
Risk of auditees operations	i) Leverage (Long term debt (excludes deferred taxation / total equity) i) INVREC = The ratio of (receivables + sum of inventory / Total assets)	Leverage does not influence audit fees Significant, INREC ratio have impact on audit fees
RO 2 To investigate relationship between auditor's opinion (qualified/unqualified) and audit fees		
Variables	Proxy/Proxies	Results
Auditor's Opinion	Qualified and Unqualified opinion	Auditor's opinion does not influence audit fees
RO 3 To investigate relationship between auditor's size and audit fees		
Variables	Proxy/Proxies	Results
Auditor's size	Auditors' size; Big 4 or non-Big 4	Auditor's size does not influence audit fees
RO 4 To investigate the relationship between non audit services (NAS) and audit services fees		
Variables	Proxy/Proxies	Results
Non Audit Services	Dollar and cents Non Audit Services acquired	NAS does not influence audit fees

5.2 HIGHLIGHTS OF RESEARCH QUESTIONS IN PHASE II

RQ 2 : What is the perception of auditees and auditors on the amount of audit fees charged in Malaysia?

A short interview has been conducted with professional with Auditing and Accounting experiences. The interview was conducted in 40 to 50 minutes and it was a successful attempt because the respondents' opinions agreed with the results obtained through multiple regression and analysis on existing dataset from annual report. Moreover, this unstructured interview allow researcher to ask some open ended questions which broaden up the intention of researcher to look into future research with more variables for example, internal auditors, ethnicity and etc. Combination of quantitative and qualitative data create a better understanding of research problem than standing alone results from either type and it helps in gathering more evidence to address the research problem or answer the research questions and it is more practical, receives multiple view points; biased and unbiased; subjective and objective.

Table 23 : Conclusion on Research Question 2

Research Question 2: What is the perception of auditees and auditors on the amount of audit fees charged in Malaysia?		
RO 5 To review auditees and auditors perception towards factors influencing audit fees		
<i>Variables</i>	<i>Proxy/Proxies</i>	<i>Interview Results</i>
Auditees size	Total Assets	All agreed size influence fees paid
Auditees complexity	Number of subsidiaries	All agreed complexity influence fees paid
Risk of auditees operations	Leverage (Long term debt (excludes deferred taxation / total equity) INVREC =The ratio of (receivables + Sum of inventory / Total assets)	Leverage is not used in structuring audit pricing in Malaysia Respondents claimed Inventory audit will take time to audit, if the transactions appear to be more complex then audit fee will hike up
Auditor's Opinion	Qualified and Unqualified opinion	Disagree that opinion influence the fees because it perceived as auditors task, however if involves more hours then audit will become expensive
Auditor's size	Auditors' size; Big 4 or non-Big 4	All agreed that Big 4 auditors charge higher than non Big 4
Non Audit Services	Dollar and Cents of Non Audit Services acquisition	All agreed that NAS has no impact of fees. Auditors still perform as usual even with NAS acquisition.

5.3 SUGGESTIONS FUTURE RESEARCH

Expand focus group

To expand the focus groups, the purpose of focus groups is to identify beliefs, opinions, issues, perceptions and concerns related to topic. The number of respondents is too small to be a statistically valid sample. For future studies, this number should be increased. Besides that, interview should be extended to board members as their views are also important because they are the authority party who appoint external auditors. It would be very interesting to do some time-series analysis to test that hypothesis. In order to achieve this, optimal level of audit quality for a specific auditee should identify. Another interesting issue that a future research could examine behavioral research. The focus group respondents seemed very open and honest in expressing their beliefs and opinions even when those comments could reflect negatively on themselves, therefore, more professionals should be interviewed.

Focus on internal audit committee variable

Apart from this, the researcher would extent the study by taking internal audit as a variable to test the fees paid in future. During the interview session, respondents are more interested on internal auditors' role and their comments on the variable seems to be significant on audit fees paid. At the same time, a study should be extended to see the degree of independence of external auditors if they rely more on internal audit task.

Expand study on non audit services

Future research studying the relationship between audit fees and non audit fees should also cover other sectors with the latest data and a larger sample size, as well as cover a longer period of time. In addition, other variables such as return on equity, debt ratio, specialisation of the auditor should be included as well.

5.4 SUGGESTION FOR AUDITORS AND AUDITEES

According to results of this study, leverage is not a determinant of audit fees paid in Malaysia, this must be improved by increasing the weightage of leverage in audit pricing structure. The reason for this is because; if a company has been aggressive in financing its growth with its debt the risk of bankruptcy increases. So, auditors should incorporate this risk in their fees as to compensate their uncertainty exposure.

The auditor is expected to perform all necessary procedures regardless the gap of fees paid to comply with the Malaysian Approved Standards on Auditing, and should be held accountable for any misleading from such standards. This helps the auditors' to make independent decisions even if auditee pays high fee. At the same time, a reasonable audit pricing structure should be available for them to compete in a competitive market. Besides that, auditors should recommend regulators to revise the existing audit fee computation so that it is practical to follow by all parties. Meanwhile the Internal Audit Committee should be responsible for preparing the audit report . In other words, auditees should have a significant involvement in financial reporting not only to increase transparency, but to rebuff increase fees. Practically it helps auditee to control their costs.

5.5 SUGGESTION FOR REGULATORS

Malaysian firms are constrained by audit fees which are among the lowest in the region, which in turn leads the accounting brain drain to neighboring countries. Part of the problem is that many fail to realize the essential value of an audit, regarding it purely as a compliance exercise. Basically, MIA should be educating the public, and aggressively involve in research to ensure all parties aware of auditors' duties and challenges. This way may enhance cooperation from the board and urged Malaysian companies for transition of mind to adopt higher audit fee. The results and discussions of this study can be used to form policies and regulation in MIA to further improve auditor independence in Malaysia. This is because the NAS fees received by auditors is essential to auditor independence especially if the negative relationship exist between audit fees and NAS fees. Regulatory bodies should come up clear guideline to recommend NAS because audit firms may take advantage by increasing their NAS fees and reducing the audit fees.

SUMMARY

This report is a confirmation that audit fees of Malaysia are structured based on few factors considered. Following the much publicised accounting scandals notably in Transmile and Megan Media, there have been calls for tighter regulatory control of auditors. This has particularly put pressure on the role of the accountancy profession. The researcher view on this is, instead of pressuring the auditors to tighten up the ethical standards, the regulators should ponder the audit fees paid to auditors. The fees should correspond to the amount and nature of work performed by an auditor, fewer fees

resulted challenges for auditors to secure adequate resources for audit engagement, consequently fees will be fixed based on the negotiation between auditors and the clients which in turn impair the auditors' independence.