



DURATION OF AUDITOR AND CLIENT RELATIONSHIP IN MALAYSIA

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AUGUST 2003

ACKNOWLEDGEMENT

Our deepest gratitude and special thanks to those directly as well as indirectly involved with the accomplishment of this project. Your contributions and encouragement are greatly appreciated.

They are, among others:

Prof. Dr. Mohd Sahar bin Sawiran
(Director, UiTM Johor 2002)

Prof Madya Dr. Hj. Mohamed Hashim Mohd Kamil
(Director, UiTM Johor 2003)

and

All UiTM Staffs involved

TABLE OF CONTENTS

	Page
ABSTRACT	1
 CHAPTER 1: INTRODUCTION	
1.1: Introduction	2
1.2: Focal Issue	5
1.3: Objectives of the study	6
1.4: Importance of the study	7
 CHAPTER 2: LITERATURE REVIEW	
2.1: Literature Review	9
 CHAPTER 3: RESEARCH METHODOLOGY	
3.1: Variable Analysis and Hypothesis Development	15
3.2: Research Methodology	19
3.3: Data Analysis	20
 CHAPTER 4: FINDINGS AND DISCUSSION	
4.1: Analysis of Results	22
4.2: Findings of Research Question 1	22
4.3: Findings of Research Question 2	23
4.4: Findings of Research Question 3	24

ABSTRACT

The main purpose of this study is to examine the duration of the auditor's relationship with a client and factors that affect audit firm tenure in Malaysia. The duration of the auditor and client relationship has been considered to be possibly affecting the independence of the auditor. In the past several studies have been conducted using audit firm tenure as an independent variable. This study examine the duration of the auditor relationship with a client in Malaysia to determine which factors contribute to changes in that relationship. On examination of 297 companies listed on the KLSE over a period of eleven years it was observed that the overall mean audit tenure is six years. This study established evidence that there is no difference in the mean audit tenure between Big5 and non-Big5 audit firms. This study also established evidence that audit tenure is affected by the size of the client company but not by the growth of the client company, the size of the audit firm and the client risk. The findings of this study will provide additional insight into the nature of the auditor and client relationship in Malaysia and may be helpful in future audit research to shape the nature of an independent variable for tenure and thereby improving the future audit research process.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Independence of an auditor is an important factor to instill confidence in the minds of the stakeholders about the true and fair position of the financial statements reported. Independence is an impartial mental attitude maintained by the auditor that portrays to others that he or she is independent. Apart from impartiality independence also includes the quality of integrity and objectivity but does not mean that the auditor must be free from all economic, financial and other relationships. It is the significance of the relationship that should be taken into consideration.

Recently there is a growing concern among the academicians and researchers around the world to study the duration of the auditor and client relationship with reference to several related quantitative and qualitative factors, as there is a strong belief that duration of the relationship has got impact on the independence of the auditor. While the nations around the world adopt different practices to regulate the duration of the auditor and client relationship this study on the audit tenure will definitely throw further light on this subject apart from attracting the attention of the concerned authorities for remedial measure, if required.

There are two distinct schools of thought to regulate the tenure of the relationship. One school suggests the compulsory rotation of the audit firm after few years while the other school believes in the compulsory rotation of the audit or engagement partner. Those who
