

The Determinants of External Auditors' Independence for Politically Connected Firms in Malaysia

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ABSTRACT

The auditing profession is a major concern for stakeholders and has been in a quagmire for the past years. To overcome the concern, client firms must take the initiative to assure that the management does not put pressure on the external auditors. Therefore, firms need to take part in positively influencing external auditors' independence to reduce the complexity of audit procedures, and consequently, improve external auditors' independence. Thus, the determinants of factors are needed to assure and maintain the independence of the external auditors at any time to perform their audit work. Hence, the main objective of this study is to examine the determinants of external auditors' independence among politically connected firms in Malaysia. The determinants are classified into two which are, first, auditor attributes namely, audit tenure and non-audit fee, and second, audit committee characteristics which consist of audit committee's independence and audit committee's diligence. Four hypotheses were developed and tested using a total of 46 sample firms from 2014 to 2018 with 230 firm-year observations. This study used secondary data from which the information was obtained from annual reports and DataStream. The results reveal that non-audit fee and audit committee's diligence influenced external auditors' independence, whereas audit tenure and audit committee's independence did not. Altogether, this study has provided useful information and implications for the professional bodies and Bursa Malaysia to help strengthen the principles of auditors' independence in politically connected firms.

Keywords: Auditor Attributes, Audit Committee, Auditor Independence, Political Connection

The independence of external auditors reported various situations in different countries globally. As in the United Kingdom (U.K.), the audit regulators found that their auditors continuously mislead the regulatory targets and affect their independence. The U.K.'s Financial Reporting Council in 2019 took actions in tightening the ethical rules as well as the auditing standards for the auditors to work based on the guidelines. Besides that, it was required to separate the operations of audit and non-audit businesses for the audit firms (Trentmann, 2019). Besides, the Australian Securities and Investments Commission also reported on the same issue regarding the provision of non-audit services to audit clients. This has raised concerns that the external auditors' independence is compromised by providing consulting work to the same audit client (Tadros & Poljak, 2019). On the other hand, the Singapore market faced numerous quality failure compared to independence failure (Mason, 2018). It was mentioned that they are continuously upkeeping proper regulations to combat these quality problems. Hence, it was notified that several factors may cause external auditors' independence to be compromised.

Even though there is a law that upholds the auditors' independence, there are still endless issues regarding it. From the global perspective, the Public Company Accounting Oversight Board (PCAOB) in 2019 banned two firms and one individual due to the violations of auditors' independence. Compromised independence of auditors would reduce the stakeholders' trust towards the firms and consequently, resulting in a negative perception of the firms' position. Hence, auditors' independence plays an important role in this matter. Otherwise, corporate scandal will grow continuously and consequently give negative effects on the audit profession.

In Malaysia, the famous corporate scandal involving the politically connected firm purported on the issue which involved the Big Four Firms. The politically connected firm was reported in The Edge Markets (2019) that their external auditors, Deloitte and KPMG, were being investigated for over-involvement in the 1 Malaysia Development Berhad (1MDB) scandal. The New Straits Times (2019) reported that the Securities Commission (SC) had found that all previous auditors of 1MDB, which were Ernst and Young as the first auditor, and replaced by KPMG then Deloitte, had signed off 1MDB's accounts without any qualifications. Hence, SC declared that the audit firms failed to report immediately on the irregularities that fall under Section 276(3)(b) of the Capital Markets and Services Act 2007 (CMSA). Also, KPMG as the former auditor of 1MDB from 2010 to 2012, announced that their audited accounts were not of true and fair assessments due to the lack of access to documents. The Malaysian Institute of Accountants (MIA) addresses the independence requirements for audit and review engagements under Section 290 of the MIA By-Laws that they can report and make a conclusion on the financial statements. The users of audit report such as creditors, shareholders, suppliers, potential investors, government, general public, competitors and trade unions use the audit report upon decision making. Independence can be compromised and that causes threats which can either be self-interest threat, self-review threat, advocacy threat, familiarity threat or intimidation threat which falls under Section 100 of the MIA By-Laws. According to PricewaterhouseCoopers (PwC) (2019), independence underpins these fundamental principles of integrity, objectivity and professional behaviour. Therefore, auditors' independence is important to serve the client and to deliver an audit opinion.

Reporting on the independence violation by external auditors, the non-audit fee also acts as an indicator for external auditors' independence. PwC International (2016) stated that they believed the audit committees are the best to rely on in deciding what services their external auditors can provide for the company. A schedule of permissible non-audit services and fee-cap was published and worked as a guideline for the external auditors as well as the audit committees of a firm. However, it was reported recently by Channel News Asia (2019) that an audit firm was fined over breaches of audit independence. The independence violation by the external auditor was due to the audit firm's engagement in non-audit relationships when the audit was being conducted, along with disclosure issues. Besides, auditors may jeopardize their independence due to the large size of audit fees and to avoid losing fees from an engagement. Consequently, this affects the auditors' motivation to act independently. Hence, MIA as an authorized body should embrace the monitoring process of independence issues. The joint study in 2018 by MIA-ACCA-SC Malaysia discovered that for auditors to deliver a true and fair audit opinion, audit

committees should be the most critical aspect. A more robust discussion between the audit committees and external auditors throughout the audit process may improve auditors' independence.

Altogether, this study aims to determine the external auditors' independence for politically connected firms in Malaysia. It is expected that firms with the government intervention have a good internal audit function and are willing to pay higher external audit fees for a higher quality audit work (Norziaton et al., 2015). A higher-quality audit work explains the auditors' independence in serving a compelling role and should provide an objective opinion on the integrity of financial statements. Since this study focuses on politically connected firms in Malaysia, it can be considered unique. Having independent auditors conducting audits can convince all investors and the public of the quality of audits given by auditors. This study is motivated by the lack of previous research solely on politically connected firms in Malaysia in regards to the auditors' independence. Furthermore, it also aims to create awareness between auditor and client and that both sides need to complement each other, especially to fulfil auditors' request to come out with objective opinions as well as truer and fairer views. In summary, auditors are already being provided with guidelines to act as an independent auditor. Compromised independence of auditors made by politically connected firms would reduce the stakeholders' trust towards the firms and consequently, resulting in a negative perception of the firms' position. Besides, the government will also bear the consequences based on the fact that the firm is politically connected. Hence, it is vital for external auditors to be independent and to give a true and fair audit opinion.

The remainder of this paper is structured as follows: The following section briefly explains the literature review and hypotheses development. The third section describes the research design. The results of the study are reported in the fourth section followed by the conclusions and the implications of the study which are presented in the final section.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 AUDIT TENURE AND EXTERNAL AUDITOR INDEPENDENCE

Restrictions imposed on the length of audit tenure are an important obligation that firms must comply with. The issue of unconscious bias can be mitigated when firms comply with the requirements outlined by the Malaysian Institute of Accountants (MIA) in the By-Laws. Many previous studies were done to examine the relationship between the length of audit tenure and auditors' independence. Most of the findings showed that long audit firm tenure between the audit clients and the external auditors reduced the tendency of external auditors to issue qualified audit reports (Bamber & Iyer, 2007; DeFond et al., 2002; Carcello & Nagy, 2004). A long audit tenure between the auditor and the client influences the external auditor to distort the audit procedures and to create a feeling of self-satisfaction and lack of innovation (Shockley, 1982). Lengthy audit tenure was a major threat to auditors' independence (Alleyne, 2006). The external auditors are concerned in serving the professional rules and regulations governing auditors' independence, yet to balance the role against the external users while preserving their interests. This, in turn, may impair the independence of external auditors. Furthermore, Salawu (2017) also examined the influence of prolonged audit tenure on auditors' independence using the Generalized Method of Moments (GMM) approach. The result revealed a negative significant relationship between lengthy audit tenure and auditors' independence.

The audit report is valued by the investors as a means of refining the company's financial information. Okolie (2014) examined the relationship between audit tenure and auditors' independence in earnings management. As a result, longer audit tenures appeared to reduce opportunities for earnings management (Frankel et al., 2002; Myers et al., 2003). Hence, there is a significant impact of audit tenure on auditors' independence found in the study. In contrast, some studies show no significant effect on auditors' independence due to the audit tenure factor. Shockley (1981) in his study analysed the judgments from four different groups which consist of big eight partners including CPA firms (local and regional), commercial loan officers and financial analysts. The findings showed that there was no significant relationship between an audit firm's tenure and the client. This can be supported by Rahmina and Agoes (2014) in their study that explored the relationship from the perspectives of all audit-related personnels in audit firms in Indonesia whereby audit tenure did not affect auditors' independence. From the audit-

related personnel's perspective, audit tenure gives them more time to better understand the client's operations and can be more efficient in performing the audit service without compromising independence.

Audit tenure may have significant implication on auditors' independence. However, there are policies and regulations outlined to control the length of the auditor-client relationship which could give a positive effect on perceived auditors' independence (Bakar et al., 2005). Due to that, auditors can perform audit work accordingly. Besides, some studies found that a longer audit tenure give a significant benefit to the auditors' knowledge. Some clients preferred extended audit tenures since auditors with short audit tenures may affect the quality of the audit reports. Thus, the following research hypothesis is developed:

H₁: There is a significant positive relationship between audit tenure and external auditors' independence in politically connected firms.

2.2 NON-AUDIT FEE AND EXTERNAL AUDITORS' INDEPENDENCE

Non-audit fees are paid to the auditors upon the performance of non-audit services to the same audit client. Non-audit services can be in terms of tax services, management advisory and any services akin to the internal audit function. In 2016, the European Union (EU) statutory audit legislation established a guideline on permissible and blacklisted types of non-audit services for external auditors. Also, it provides the limit of fee cap for external auditors in providing non-audit services which is a maximum of 70% from average fees paid for the past three consecutive financial years. Malaysia does have limitations in providing non-audit services to the same audit client based on the approval of the audit committee of the client firm. Hence, there is an urgency to standardize the restrictions on non-audit services globally (PricewaterhouseCoopers, 2016).

Onulaka (2019) in his study found a negative significant relationship between non-audit fees and auditors' independence. He indicated that since auditors are allowed to offer non-audit services, this may lead to lower fees for non-audit work, and to reduce below the market price in order to engage more in non-audit services. Furthermore, from the perceptions of auditors in Bahrain, auditors who engaged in non-assurance services with the audit client impaired the independence and objectivity of the auditors (Albaqali & Kukreja, 2017). This explains that when there is a dominance of non-audit fees, external auditors' independence is faltering. Performing non-audit services to the same audit client as if those external auditors are auditing their work (Frankel et al., 2002). Besides, Chung and Kallapur (2003) found that there is a significant negative association for non-audit services, not just on the quality of financial reporting but also it reduces the external auditors' independence.

On the other hand, some studies found a significant positive relationship between non-audit fees and external auditors' independence. The study conducted by Akinbowale and Babatunde (2017) showed a positive significant relationship between non-audit services and auditor independence. The engagement in non-audit service is considered necessary and essential for the auditors to enhance their knowledge regarding client's information. Additionally, performing non-audit services allows the auditors to widely assess the transactions and operations of the audit client.

However, Ashbaugh et al.(2003) studied the relationship between non-audit services and external auditors' independence and found no significant association. Even though auditors provide audit and non-audit services to the same audit client, they are expected to be independent all the time, in fact, in their appearance. This explains the auditors' ability to distinguish their roles when conducting the services. Zhang et al. (2016) supported the result and found that external auditors' independence was not affected and jeopardized due to providing non-audit services. Some studies lacked evidence to demonstrate that auditors' independence was influenced by non-audit services, thus found inconclusive results. Non-audit services caused the auditors to assess the lower risk of misstatement in the client's transactions. Nevertheless, the same study found that this service benefitted the auditors and clients as well in terms of transfer of knowledge (Joe & Vandervelde, 2007). This explains that previous studies resulted in a mixed outcome with strong explanations. Hence, this study particularly aims to determine whether non-audit fees influenced external auditor independence. Thus, the following research hypothesis is developed:

H₂: There is a significant relationship between non-audit fee and external auditors' independence in politically connected firms.

2.3 AUDIT COMMITTEE'S INDEPENDENCE AND EXTERNAL AUDITORS' INDEPENDENCE

One of the important key characteristics of an audit committee's effectiveness is its independence from management (Blue Ribbon Committee, 1999; Public Oversight Board, 1993). Independence is defined as that of a person who does not have a relationship with the corporation that may obstruct independence from the corporation and the management. To reinforce objectivity, integrity and independence in performing duties, audit committee's independence is an important criterion that needs to be fulfilled by firms. The agency issues regarding monitoring mechanism can be mitigated when firms employ the mandatory requirements set by Bursa Malaysia Listing Requirements (BMLR) in Para 15.09 (b). The condition was adopted from the Malaysian Code on Corporate Governance's (MCCG) best practices where it recommended an audit committee should comprise of all non-executive directors, a majority of whom are independent (BMLR, 2018).

From the manager's perspective, the presence of independent directors among the audit committee members established a relationship with auditors' independence. The study revealed that audit committee members comprising the majority of independent directors could safeguard the independence of external auditors (Muhamad Sori et al., 2007). In a study conducted by Beattie et al. (1999), they examined the relationship between audit committee's independence and auditors' independence among finance directors, audit partners and financial journalists. The study resulted in a positive relationship where the audit committee consists of independent non-executive directors who gave substantial enhancement to auditors' independence. A significant relationship was found by Muhammad Sori et al. (2009) study which stated that audit committee members that are truly independent and committed could assure external auditor independence.

Moreover, an independent audit committee was found to have more ability to exercise their powers over management. This could help auditors to resist pressures received from the top management of the client (Carcello & Neal, 2003). Additionally, having a majority of independent non-executive directors among the audit committee could prevent the dismissal of external auditors. Based on general perceptions of external auditors' independence, many studies revealed that audit committee formation has a significant positive impact on auditors' independence (Teoh & Lim, 1996; Alleyne et al., 2006). In terms of financial fraud, Beasley et al. (2009) discovered that non-independent audit committee members contribute to more incidence of financial statement fraud. Abbott et al. (2003a) on the other hand, found that companies that tend to have majority independent audit committees did not commit financial fraud which exhibits better quality in financial reporting, hence improves auditor independence.

However, some studies revealed there was no significant factor between the existence of audit committees and external auditors' independence (Gul, 1989; Cheung & Hay, 2004). There is a need to understand the importance of having an audit committee in a company, which consists of independent directors. The independent audit committees can perform better and are able to function properly. It was claimed by previous researchers that the importance of independence to auditors is the same for the audit committee (Power, 1997; Deli & Gillan, 2000). An independent audit committee could also enhance the communication network between external auditors and management. This will enable the auditors to provide a quality financial report, as well as enhance the independence of the external auditors. When a company has an independent audit committee, it is expected to influence external auditor independence. Thus, the following research hypothesis is developed:

H₃: There is a significant relationship between audit committee's independence and external auditors' independence in politically connected firms.

2.4 AUDIT COMMITTEE'S DILIGENCE AND EXTERNAL AUDITORS' INDEPENDENCE

One of the important guidelines of an audit committee in carrying out their work is being diligent. It was suggested that the audit committee should have direct communication with the external auditor to discuss any specific issues as appropriate and key audit matters (Blue Ribbon Committee Report, 1999). Accordingly, the BMLR 2018 Para 15.17 sets out the rights for the audit committee to hold meetings in the absence of other directors and employees whenever necessary. The attendance of those other directors and employees are only upon the audit committee's invitation (BMLR, 2018). According to Menon and Williams (1994), the effectiveness of the audit committee depends on the number of meetings held during the financial year as more frequent meetings would signal its diligence.

Omondi (2017) examined the relationship between internal factors and external auditors' independence among practising accountants in Kenya. He found that there was a positive significant relationship as a higher frequency of audit committee meetings improved auditors' independence. When more meetings and discussions take place between the audit committees and the auditors, it further enhances them to allocate issues of internal control, financial reporting and any matters that arise. These frequent discussions gave a positive influence on external auditors' independence. The study by Muhammad Sori et al. (2009) showed the same result claiming that an active audit committee would better preserve auditors' independence to provide quality financial reporting.

A higher frequency of audit committee meetings means the effectiveness of audit committee's activities. The increased audit committee's activities might signal an effort to resolve any financial irregularities (Hoitash et al., 2009). Besides, it improves auditors' independence and any material weaknesses can be controlled. Other than that, in terms of association with earnings management, the more often a committee meets, it contributes to fewer earnings management in a company. Yet, it helps to further enhance the external auditors' independence and also improves the quality of financial reporting (Xie et al., 2003). Financial reporting fraud can be combated (Beasley et al., 2009) and there would be less probability of misstatements in financial reporting (Abbott et al., 2000) due to frequent meetings.

Persistent meetings and interactions for committees and auditors help to reduce the confrontational intensity, as well as to reduce negotiations between external auditors and the management (Beattie et al., 1999). This shows that auditors can act independently without pressure from the management. The frequent meetings are also able to reduce information asymmetry between audit committees and the auditors, hence it would help reduce the agency problem. However, the BMLR 2018 does not specify or recommend a minimum number of meetings or guidelines for the audit committee. This study determines whether there is any relationship between audit committee's diligence and external auditors' independence. Thus, the following research hypothesis is developed:

H₄: There is a significant relationship between audit committee's diligence and external auditors' independence in politically connected firms.

3.0 RESEARCH METHOD

3.1 DATA COLLECTION

The sample covers five years, from 2014 until 2018. The annual reports were downloaded from the official Bursa Malaysia websites as the main data source to gather information on audit committee characteristics, firm size and non-audit fees. Information on audit fees was also collected manually from the annual reports as a measurement for external auditors' independence. On the other hand, the data on audit tenure of the politically connected firms were collected from DataStream. This study covers five years since the observation was required on whether these firms complied with the audit rotation requirement issued by the Malaysian Institute of Accountants (MIA). There are a total of 46 politically connected firms, resulting in the observations of 230 firms. This was in line with previous studies (Simunic, 1980; Wahab et al., 2015; Salawu, 2017) where they identified factors that influenced auditor independence.

3.2 EXTERNAL AUDITORS' INDEPENDENCE MODEL

The dependent variable in this study is the external auditors' independence. The dependent variable is measured by the value (Ringgit Malaysia) of audit fees paid to the external auditors by the audit client (Palmrose, 1986, 1988; Moizer, 1997; Craswell, Stokes & Laughton, 2002; Wooten, 2003; Okolie, 2014; Salawu, 2017). Audit tenure is measured based on the five years using the same external auditors or change of auditors within the period to audit the client (Hay et al., 2006) from 2014 until 2018. The continuous services of the same external auditors or change of auditors within five years may indicate a relationship between auditors' tenure and external auditors' independence (Hay et al., 2006). Consistent with previous studies (Hay et al., 2006; Wahab et al., 2015; Zhang et al., 2016) non-audit fee is measured using total non-audit fees paid to the external auditors' independence. Audit committee's independence is measured based on the total number of independent directors to the overall total number of members in the audit committee which used the same measurement as in previous studies (Norziaton et al., 2015; Zhang, Zhou and Zhou, 2007). The frequency of audit committee meetings represents the diligence of the audit committee's members. This measurement of audit committees' diligence is based on what was used in previous studies such as Song and Windram, (2004) and Xie et al., (2003) which include the number of committee meetings held during the financial year. The study used two control variables which are audit client firm size and leverage of the sample firms. For audit client firm size, the measurement used for this variable is the natural log of total assets (Salawu, 2017; Okolie, 2014; Adeniyi & Mieseigha, 2013; Carcello & Nagy, 2004). Whereas, the measurement for leverage is based on previous studies (Salawu, 2017; Zhang et al., 2016) which calculated the ratio of total liabilities to total assets.

The general model specification for auditors' independence was stated as follows:

$$\text{AudIND} = \beta_0 + \beta_1 (\text{AudTEN}) + \beta_2 (\text{NAF}) + \beta_3 (\text{ACIND}) + \beta_4 (\text{ACDIL}) + \beta_5 (\text{SIZE}) + \beta_6 (\text{LEV}) + \varepsilon$$

Where:

AudIND = Audit fee paid by client firm to the external auditor (Natural logarithm of audit fees).

AudTEN = The continuous of same or change of external auditors within the five years (1 equals to 1st of the external auditor up until 5 equals to 5th year).

NAF = A total non-audit fee paid by the audited firm (Natural logarithm of non-audit fees).

ACIND = The proportion of independent non-executive directors to the audit committee.

ACDIL = The number of meetings for the audit committee to discuss key audit matters.

SIZE = Total assets owned by the firm (Natural logarithm of total assets).

LEV = Ratio of total liabilities to total assets.

E = Error term

4.0 RESULTS AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

The descriptive analysis of this study is shown in Table 1. The minimum score for external auditors' independence is 4.320 and a maximum value of 6.610 scores. The mean value of external auditors' independence is 5.204 with a standard deviation of 0.466. This measures the extent to which the data dispersed around the mean. Next, the mean score for audit tenure is 2.960, with a minimum score of 1 and a maximum score of 5.000. This indicates that the politically connected firms abide by the rule of changing external auditor for every five years is approximately 59.2%. The result also shows the mean value for the non-audit fee is 3.971, with a minimum value of 0 and a maximum value of 6.830. This indicates that there are firms that do not engage in non-audit and assurance services from the same external auditors among the politically connected firms in Malaysia.

Also, the mean score for audit committee's independence is 0.891, with a minimum value of 0.500 and a maximum value of 1.000. This indicates that the average score of independent directors in the audit committee for this study is approximately 90%. For audit committee's diligence, the mean score is 6 meetings, with a minimum value of 2 and a maximum score of 18 meetings. Additionally, for audit client

firm size, this variable is calculated using the log of total assets. Based on the result, the average log of total assets for the firms is 9.360 with a minimum value of 7.440 and a maximum value of 11.100. The difference between the minimum value and the maximum value is 3.660 attributed to the gap of total assets of sample firms used in this study. The result also shows the mean score for leverage is 0.300 with a minimum score of 0 and a maximum score of 1.840 which indicates that there are politically connected firms with zero outstanding debt in their capital structure.

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
AudIND	4.320	6.610	5.204	0.466
AudTEN	1.000	5.000	2.960	1.417
NAF	0.000	6.830	3.971	1.798
ACIND	0.500	1.000	0.891	0.142
ACDIL	2.000	18.000	5.557	2.026
SIZE	7.440	11.100	9.361	0.694
LEV	0.000	1.840	0.303	0.263

Note: AudIND is External Auditor Independence, AudTEN is Audit Tenure, NAF is Non-Audit Fee, ACIND is Audit Committee Independence, ACDIL is Audit Committee Diligence, SIZE is Audit Client Firm Size and LEV is Leverage.

4.2 PEARSON'S CORRELATION ANALYSIS

Table 2 indicates that multicollinearity is within the acceptable range and all the variables remained. The results revealed that non-audit fee has a low but positive correlation with external auditor independence at 0.349. This implies that external auditors, who are engaged in audit and assurance services with the firm, also performed non-audit services and received non-audit fees. It may impair the external auditors' independence. Other than that, the result shows that audit committee's diligence also has a low but positive correlation with external auditors' independence at 0.359. This indicates that firms with a higher frequency of meetings held have higher external auditors' independence compared to firms with a lower frequency of meetings held. Besides, the control variables, which are audit client firm size and leverage have a moderate positive correlation with external auditors' independence with the Pearson correlation of 0.610 and 0.411 respectively. This result reflects that the larger firm size and highly leverage firm would provide higher external auditors' independence. However, audit tenure and audit committee's independence are significantly associated with external auditors' independence. Audit tenure and audit committee's independence have slightly positive correlations of 0.115 and 0.064 respectively.

Table 2: Pearson's Correlation Analysis

Variables	AudIND	AudTEN	NAF	ACIND	ACDIL	SIZE	LEV
AudIND	1						
AudTEN	0.115	1					
NAF	0.349	0.175	1				
ACIND	0.064	0.050	-0.015	1			
ACDIL	0.359	-0.014	0.187	0.004	1		
SIZE	0.610	0.083	0.239	0.031	0.374	1	
LEV	0.411	-0.025	0.076	0.027	0.215	0.280	1

Note: AudIND is External Auditor Independence, AudTEN is Audit Tenure, NAF is Non-Audit Fee, ACIND is Audit Committee's Independence, ACDIL is Audit Committee's Diligence, SIZE is Audit Client Firm Size and LEV is Leverage.

4.3 MULTIPLE REGRESSION ANALYSIS

The results in Table 3 show that the value of adjusted R^2 is 0.462 with an F-value of 31.969, an indication that 46.2% of the variation in the external auditors' independence is explained by the model.

Table 3: Multiple Regression Analysis

Independent variables	Coefficients	t-statistics	p-value
(constants)	0.344	4.270	0.000
AudTEN	0.016	0.708	0.479
NAF	0.013	3.733	0.000***
ACIND	0.161	0.891	0.374
ACDIL	0.013	2.205	0.028**
SIZE	0.036	9.206	0.000***
LEV	0.090	2.931	0.004***
R ²	0.462		
Adjusted R ²	0.448		
F-value	31.969		
p-value	0.000		

*p<0.10; **p<0.05; ***p<0.01

Note: AudTEN is Audit Tenure, NAF is Non-Audit Fee, ACIND is Audit Committee Independence, ACDIL is Audit Committee Diligence, SIZE is Audit Client Firm Size and LEV is Leverage.

For the non-audit fee, the results show that the coefficient is significantly positive (0.013, t-statistic=3.733) at a significant level of ($p<0.01$). Such finding indicates that the non-audit fee has a significant positive relationship with external auditors' independence, hence, accepting the second research hypothesis (H2) that predicted a significant positive relationship between non-audit fee and external auditors' independence in the politically connected firms. It can be seen that a non-audit fee is a determinant of the external auditors' independence by restraining self-serving bias and reducing the auditors' reliance on non-audit fees (Francis, 2006). The result of this study is strongly supported by Akinbowale and Babatunde (2017) who found a significant positive relationship between non-audit fee and external auditors' independence. It explains the necessity for external auditors to perform non-audit services to the same audit client that it could further enhance on assessing the client's information. Besides, the auditors could gain more knowledge with regards to the client's business operations and transactions. Repeated interactions between the external auditors and management may create self-serving bias, but the result shows that non-audit fee reduces the problem of self-serving bias among the external auditors.

Moreover, this study also reveals that there is a significant relationship between audit committee's diligence and external auditors' independence at ($p<0.05$) for politically connected firms. The coefficient of the audit committee's diligence is significantly positive at (0.013, t-statistics=2.205) which supports research hypothesis 4. The finding is consistent with the study by Omondi and Ochieng (2017) who found the frequency of audit committee meetings is a substantial factor for auditors' independence. This is because it increases the possibility for the audit committee and the external auditor to discover internal control issues or any financial irregularities. At the same time, a higher number of meetings enhances the interactions and discussions between the audit committee and external auditors that would eventually reduce agency problems and information asymmetries.

However, the coefficient of the audit tenure (AudTEN) is not significant at (0.016, t-statistic= 0.708). Hence, research hypothesis 1 (H₁) is rejected as the result shows no relationship between audit tenure and external auditors' independence in politically connected firms. The result of this study is supported by Shockley (1981), which shows an insignificant association between audit tenure and external auditors' independence. It is also consistent with Rahmina and Agoes' study (2014) that found no significant relationship between audit tenure and audit quality, thus it does not affect external auditors' independence. It is due to a long audit tenure that enhances the auditors' knowledge and the understanding of the client's operation which allows external auditors to be more efficient in performing the audit service. However, it does not influence external auditors' independence.

Hypothesis 3 predicts that there is a significant relationship between audit committee's independence and external auditors' independence for politically connected firms. The result of this study does not support the research hypothesis as the coefficient of audit committee's independence (ACIND) is insignificant at (0.161, t-statistics= 0.891). Hence, research hypothesis 3 (H3) is rejected. The result is consistent with Gul (1989) and Cheung and Hay (2004) who found that the existence of an audit committee does not influence the independence of external auditors which is consistent with this study. Since this study is set up within the Malaysian environment, there may be different policies and governance reasons.

For the control variables, this study shows that the coefficient of audit client firm size is significantly positive at (0.036, t-statistics= 9.206), $p < 0.01$). This study shows that larger audit client firm size influences more on external auditors' independence compared to smaller firms which are consistent with Carcello and Nagy (2004). A larger firm of audit client tends to minimize financial fraud and it gives certainty to external auditors to act independently. Besides that, because of their size, larger firms are more visible to the public. This, in turn, makes them adhere to the stipulated rules and take precautions not to give pressures to the external auditors. This study implies that politically connected firms with a high total of assets tend to influence more on external auditors' independence than politically connected firms with lower total assets. For leverage, the result shows that the coefficient is significantly positive at (0.090, t-statistics= 2.931, $p < 0.01$). The result of this study is not consistent with that in Simunic (1980) who claimed that leverage is a risk that could cause auditors being exposed to loss. Okolie (2014), however, found an inconclusive result. Thus, this study supports the study conducted by Low, Tan and Koh (1990) that the more liabilities a company has, the auditors would be more independent in performing audit work.

5.0 CONCLUSION

The uniqueness of the institutional environment corporate setting in Malaysia with the presence of politically connected firms further motivated this research to examine the effects on external auditors' independence who are engaged with these firms. The main objective of this study is to determine the factors influencing external auditors to act independently at the time of performing audit and assurance services in politically connected firms in Malaysia. This study examines the relationship between auditors' attributes and audit committee's characteristics of external auditors' independence. The result of this study shows that there is a significant relationship between non-audit fee and external auditors' independence in politically connected firms in Malaysia. The result shows that an auditor who receives high non-audit fees will further enhance external auditors' independence. This study also shows a significant relationship between audit committee's diligence and external auditors' independence among politically connected firms. This study shows that the frequency of audit committee meetings held in politically connected firms could improve external auditors' independence. It is indicated that the higher frequency of meetings would allow the audit committee members to have more discussions with the external auditors on ways to deter internal control issues within the company and information asymmetry between them which eventually reduces agency problems. An insignificant relationship between audit tenure and audit committee's independence and external auditors' independence in politically connected firms was evidenced, hence hypothesis 1 and 3 are rejected.

This study provides useful information for the legal authorities in Malaysia. For instance, the legal authority such as the Audit Oversight Board may want to supervise the independence of external auditors while performing audit work. Particularly in politically connected firms, surveillance is highly recommended as auditors may receive pressures due to the presence of political interest. Secondly, the setting of this study focuses on politically connected firms in Malaysia. These firms are required to comply with rules made by Bursa Malaysia. This study is useful for policymakers to establish and revise regulations that must be followed by firms who are the audit clients, and also the external auditors. Bursa Malaysia needs to develop a regulation that can enhance and assure external auditors' independence, together with rules to be followed by the audit client on the interactions with auditors during the

performance of the audit. The Malaysian Institute of Accountant (MIA), on the other hand, needs to uphold its By-Laws that allows the external auditors' full access to the audit client's information. To further enhance the By-Laws, a penalty should be imposed for failing to provide the information requested by the auditors.

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