

AUDIT FEES AFTER IFRS ADOPTION: EVIDENCE FROM MALAYSIA

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Abstract: The new IFRS demand detailed disclosure, which requires more effort and time to conduct an audit engagement. Moreover, the report by the Institute of Chartered Accountants in England and Wales highlights that among the major IFRS related costs is the increment in auditing costs. Thus, the question of whether IFRS adoption in Malaysia would affect audit fees is questionable. An advanced data structure, panel data analysis, for a 5-year period (2004-2008) was utilized. The panel data regression results revealed a significant increase in the audit fees in the post-IFRS adoption period. This study provides evidence concerning the complexity of the new and amended IFRS, which results in auditors having to increase audit pricing to compensate for the increased audit effort.

Keywords: Audit Fees, Malaysia, IFRS, Panel Data Analysis, Fixed Effects Model
JEL Classification: M42

1. Introduction

The International Accounting Standards Board (IASB) is an accounting standard setting body that is responsible for promoting a single accounting standard that can be applied worldwide (Jacob and Madu, 2009). In order to promote further convergence between the local GAAP and international accounting standards and practices, IASB has amended some existing standards and adopted certain new standards called 'International Financial Reporting Standards' (IFRS). The first IFRS– IFRS 1: First-time Adoption of International Financial Reporting Standards– was issued in June 2003.

Nowadays, the convergence of IFRS is a global phenomenon and the trend is escalating further. IFRS has been accepted as a mandatory transition in many countries, such as in the European Union (EU), Australia, New Zealand, Russia, Africa, Bahrain, the US, South Africa, Singapore and Malaysia (Bebbington and Song, 2007). IFRS provides considerable advantages to many parties, such as the public listed companies and their shareholders, regulators, financial professionals as well as local and international investors (Thomas, 2009). Tyrrell *et al.* (2007) listed several advantages of IFRS adoption: (i) enhances the perceived quality and status of financial reports, (ii) set up costs to develop local standards are eliminated, and (iii) boosts the efficiency of national and international financial markets due to increased understandability, comparability, and reliability of financial statements. This is further supported by Zeghal and Mhedhbi (2006) based on the argument that harmonization with

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international accounting standards would promote the quality of financial information and enhance the comparability of accounting information within the international setting. Garcia-Ayuso (2003) pointed out that the only solution to the imperfect market, which has a negative economic impact on the shareholders, is when international harmonization is achieved.

Nevertheless, to some companies, the transition to the international single accounting standards is regarded as a major transformation. The issue of IFRS complexity has become a major concern among the preparers of financial statements, directors and auditors. Since the new IFRS drive increases the disclosure, it demands for a higher effort and time to extensively verify and provide assurance concerning the audited financial statements (Hoogendoorn, 2006). Moreover, as the core attribute of IFRS is fair value accounting (Lhaopadchan, 2010), the anxiety grows immeasurably when the management has to exercise greater judgment in the IFRS environment. This can be observed in the statement made by Love and Eickemeyer (2009, p.57).

“The ‘transition auditing’ period will carry a higher level of risks than auditing does currently, as both management and auditors will grapple with a financial reporting system that differs from the system to which they are accustomed...”

Vieru and Schadewitz (2010) affirmed that the problem of complexity and lack of companies’ preparation increase the risk in audit assignment and that the problem becomes more serious for newly introduced standards. Griffin *et al.* (2009) pointed out that even though some IFRS are comparatively similar to the local standards, they are actually more detailed and require more disclosure, which entails more audit effort¹ and increases audit risk. Indeed, Harvey and Keer (1983, p.11) noted, “the more standards there are, the more costly the financial statements are to produce”. The complexity of IFRS has been conceded from the report by the Institute of Chartered Accountants in England and Wales, which highlighted that among the major IFRS related costs is the additional auditing cost (ICAEW, 2007).

In Malaysia, the public listed companies have also been exposed to a major challenge due to the adoption of 21 IFRS, beginning 1 January 2006, by the Malaysian Accounting Standards Board (MASB). This resulted from the MASB’s attempt to move Malaysia closer to the global convergence of accounting standards. Thus, many parties are in doubt as

¹ In the Malaysian context, the concern about the increase in audit effort was raised by many parties prior to the mandatory IFRS adoption year. For instance, in an informal interview with the Chief Finance Officer (CFO) of one (1) of the major Malaysian public listed companies, he expressed his concern that the new IFRS was expected to incur higher costs and more audit hours, which would result in a delay in earning announcements and audit report. Moreover, a similar worry was raised by the auditors. In a discussion with some senior auditors of the audit firms in Malaysia, they acknowledged that they really need extensive training on the requirements of the new standards to ensure that they are compatible to IFRS. Hence, the factors discussed above are likely to increase audit effort, and, subsequently, audit fees.

to whether all Malaysian IFRS standards could be applied due to the complexity and vagueness of several standards.

2. Literature Review and Hypothesis Development

Simunic (1980) theorized that total audit costs should consist of: (i) the resource cost component, which depends on the level of audit effort and (ii) the liability loss component, which depends on the expected cost of the client's business risk. In line with the insurance theory, there are three (3) considerations that need to be taken by auditors in charging audit fees, in which auditors: (i) evaluate the expected liability loss components in the audit commitment, (ii) prepare a proposal based on the financial position of the clients, and (iii) ascertain the level of audit verification needed in the engagement process (Pratt and Stice, 1994). Accordingly, the level of audit fees to be charged can be determined. Seetharaman *et al.* (2002) provided evidence that there is a positive relationship between the litigation risk and the client's audit fees across the liability regime. The researchers conclude that the legal environment or local regime of the client's country contributes to the determination of the audit fees. The evaluation of the client's business risk is important in setting the audit process. The traits of the audit environment and client's business nature might influence the auditor's assessment in the audit plan. Thus, any changes in the regulatory environment and disclosure requirements might affect the audit-pricing decision (Vieru and Schadewitz, 2010).

The enforcement of new or more stringent legislation is expected to enhance auditor's independence and improve financial reporting quality. For instance, it is anticipated that a mandatory auditor assignment will improve the quality of the audited financial statement compared to that from an impartial external auditor. However, some would argue that a mandatory auditor assignment would eliminate auditor-client negotiation and raise auditor pricing control, which in turn could lead to higher audit fees. In this context, Jeong *et al.* (2005) examined the implications of the revised Act of External Audit (AEA) in 1989. The amended AEA mandated the mandatory auditor assignment system in order to maintain the degree of competition among Korean auditors. Nevertheless, the researchers predicted that this new regulation would bring more bargaining power to the auditor since the assigned auditors have monopoly power on audit engagement. The data consists of 2,025 firm-year observations of the Korean Stock Exchange from 1999 to 2002. Both the pooled regression and two (2) from the four (4) yearly regression results support the claim that mandatory assigned auditors lead to higher audit fees compared to freely selected auditors.

The passage of SOX 2002 was regarded as the most noteworthy transformation in the accounting regulations concerning US public listed companies. The extensive requirement under SOX 2002 would definitely affect the audit effort that an auditor should undertake to accomplish the tasks. Since audit fees reflect an auditor's effort, Cosgrove and Niederjohn (2008) examined the effect of SOX 2002 on the cost of audit that

companies should bear. The study employed cross sectional data for two (2) years (2003 and 2004) immediately following SOX 2002 of active US companies. The ordinary least square (OLS) analysis was conducted on 6,838 observations with the SOX binary variable included in the audit fee model. The results reveal that the audit fees increased sharply by 51% during the first year of compliance, which was in 2003. Therefore, the researchers concluded that the new regulations under SOX had a significant positive effect on audit fees. Similarly, Bhamornsiri *et al.* (2009) examined the impact of new rulings released in 2002, namely SOX 404, concerning the responsibility of the management and auditor to report on internal control assessment in US. In order to see its immediate impact, data for the first two (2) years of compliance (2003 and 2004) for 474 companies were utilized. The study revealed a significant increase in audit pricing by 65% in the first year and 9% in the second year of SOX 404 adoption.

The recent transition to the new IFRS was regarded as a significant regulatory transformation to the accounting field. Since changes to the new regulation have a significant link to the level of audit fees, Griffin *et al.* (2009) utilized data for six (6) years from 2002 to 2007 in order to examine any significant effects of the three (3) different policies: (i) spillover effect of SOX 2002 in the US, (ii) Corporate Law Economic Reform Program Act of 2004 (CLERP 9) in Australia or the local New Zealand Stock Exchange (NSX) governance rules 2004, and (iii) transition to New Zealand IFRS 2007 with early adoption effective 1 January 2005 to the New Zealand audit and non-audit fees. The regression results reveal that audit fees did not change in 2002-2003 but increased significantly from 2004-2007. The results provide evidence that the significant increase in audit fees is associated with the year prior to IFRS adoption, the adoption year and in the following IFRS adoption years.

As outlined by the complexity theory, any change in the environment, which is non-linear and unpredictable, is considered as a complex system (Andersen, 1999; Nunn, 2007). Ding *et al.* (2008) believe that the transformation from IAS to IFRS is regarded as a major accounting event in the auditing arena that is supposed to affect audit fees. The changes in standards and regulations have increased the difficulties in the audit process.

From the factors discussed above, it is expected that audit pricing will be higher in the post-IFRS adoption year due to the increase in agency costs. Hence, the hypothesis is: There is an increase in audit fees after IFRS adoption.

3. Research Design

The final sample for this study consists of 3,050 company-year observations from the companies listed on the main board and the second board of Bursa Malaysia, of which, 2,210 observations were from the main board and 840 observations were from the second board. The study covers

the period of five (5) years from 2004 to 2008. All the financial² and non-financial data were hand collected from the annual reports of Bursa Malaysia. The annual reports were downloaded from the Bursa Malaysia Company Announcement webpage.

The experimental variable, IFRSYR, is the dichotomous variable indicating '1' for post-IFRS adoption period and '0' for the pre-IFRS adoption period. The hypothesis of the study was tested based on the modified audit fee model³ derived from Simunic (1980):

$$\ln FEE_{it} = a + \beta_1 IFRSYR_{it} + \beta_2 \ln ASSETS_{it} + \beta_3 CR_{it} + \beta_4 DR_{it} + \beta_5 LOSS_{it} + \beta_6 REC_{it} + \beta_7 INV_{it} + \beta_8 SQSUBS_{it} + \beta_9 YEND_{it} + \beta_{10} AUDCHG_{it} + \beta_{11} BIG4_{it} + \beta_{12} INDBD_{it} + \beta_{13} BDMTG_{it} + \beta_{14} DUAL_{it} + \beta_{15} SH - INS_{it} + \beta_{16} SH - BLOCK_{it} + \beta_{17} INDUST_{it} + a_i + u_{it}$$

Subscript it represents panel data notation; i = cross-sectional units, t = period from 2004-2008. The details for the variables are given in Table 1.

In this study, a more promising data structure, panel data analysis, was used in order to provide a richer interpretation and powerful understanding of the effect of IFRS on audit pricing. Panel data analysis mitigates the problem of omitted variables bias by capturing the unobserved effect and mitigates heterogeneity bias (Baltagi, 2005).

Initially, the Breush Pagan Lagrangian Multiplier (LM) test for random effects was conducted to determine the existence of the unobserved effect in the random effects model. The random effects model is only valid when the variance of the model is not zero (0). After the validity assumption of the random effects model is met, the next decision is to either rely on the random effects model or the fixed effects model results. The decision to choose an appropriate model is based on the Hausman specification test by Hausman (1978). A significant value for the chi-square statistic of the Hausman test indicates the existence of correlation between the composite error term and the independent variables in the model. Thus, the fixed effects model is considered a suitable model.

² The related financial data are deflated by the average Consumer Price Index (CPI) to account for a general price increase over the sample period. The CPI for 2004 until 2008 are 97.1, 100, 103.6, 105.7 and 111.4, respectively.

³ Audit effort is modeled in this study. The audit pricing model is actually the proxy for audit effort. The reason is that when an extra burden of work is assigned to auditors, they normally demand more hours to complete the tasks. Extra hours mean that audit firms have to increase their operating costs for each audit engagement. As a result, a higher fee is charged to the clients to compensate for the increase in audit efforts attached to an audit engagement.

Table 1. Description of variables

Variables	Exp. Sign	Description
InFEE		Natural log of the external audit fee
α		Intercept
IFRSYR	+	Post-IFRS adoption period (code 1 for data after IFRS adoption, 0 before IFRS adoption)
InASSETS	+	Natural log of total assets
CR	-	Ratio of current assets to current liabilities
DR	+	Ratio of total debts to total assets
LOSS	+	Current year income (code 1 if company suffering losses, 0 otherwise)
REC	+	Ratio of accounts receivable to total assets
INV	+	Ratio of inventories to total assets
SQSUBS	+	Square root of the number of subsidiaries operated by clients.
YEND	+	Month fiscal year end (code 1 if the company fiscal year ends between 31 December and 31 March, 0 otherwise)
AUDCHG	-	Change of auditor variable (code 1 for new auditor, 0 otherwise)
BIG4	+	Firm's auditor (code 1 if client audited by Big 4, 0 otherwise)
INDBD	+	Proportion of independent directors on the board
BDMTG	+	Number of board meetings in a year
DUAL	+	CEO duality (code 1 if CEO is also chairman of the board, 0 otherwise)
SH-INS	-	Percentage of shares owned by non-independent directors
SH-BLOCK	-	Percentage of shares owned by independent block holders (> 5% shares)
INDUST	+	Industry effect (code 1 if the company is under technology, consumer and construction industry, 0 otherwise).
a_i		Unobserved company level effect
u_{it}		Disturbance term

4. Results and Analysis

4.1. Descriptive Statistics

Table 2 reports the descriptive statistics for the dependent and independent variables. The mean of audit fees paid by clients is RM212,531.76 (RM542,681.24 standard deviation). The minimum audit fee paid to the auditor is RM7,239 and the maximum fee is RM15,983,842. Simon *et al.* (1992) revealed that in 1987 to 1988, the Malaysian public listed companies paid an average audit fee of only RM114,000. The amount of audit fees charged by auditors has almost doubled over the past 20 years. Approximately 51.9% of the firm-year observations represent the post-IFRS adoption (IFRSYR) sample while the remaining 48.1% represent the pre-IFRS adoption sample.

The mean for the log total assets (lnASSETS) is 19.65 with a standard deviation of 1.31. The average total assets are comparable to Abdul Wahab *et al.* (2009), with 20.34, also using Malaysian data. On average, 65.2% of the observations are audited by the Big 4 auditors (BIG4) while the remaining 34.8% engaged non-Big Firms. The results demonstrate that the Malaysian audit market is dominated by the Big 4 firms in line with the assertion made by Zulkarnain (2009). The mean Big Firms variable is consistent with Simon *et al.* (1992) and Abdul Wahab *et al.* (2009) with 68%, 68.9% of public listed companies in Malaysia being audited by Big Firms. For the corporate governance variables, the mean number of board meetings (BDMTG) is 5.27 times. However, comparing to Western countries, such as the US, the mean board meeting is higher than Malaysia as revealed by Boo and Sharma (2008) at 9.89 times and as reported in Carcello *et al.* (2002) at 7.54 times. On average, 27.3% of the sample companies have CEOs who also hold the position of the chairman of the board (DUAL).

Table 2. Descriptive statistics of variables for audit fee model

Variables	Mean	St. Dev.	Minimum	Maximum
<i>Dependent Variable</i>				
FEE	RM212,531.76	RM542,681.24	RM7,239	RM15,983,842
<i>Experimental Variable</i>				
IFRSYR	0.519	0.500	0	1
<i>Control Variables</i>				
lnASSETS	19.654	1.309	15.78	26.39
CR	2.752	4.674	0.017	111.218
DR	0.435	0.305	0.004	7.331
LOSS	0.225	0.418	0	1
REC	0.153	0.123	0	0.918
INV	0.112	0.112	0	0.814
SQSUBS	3.823	2.080	0	17.69
YEND	0.739	0.439	0	1
AUDCHG	0.041	0.199	0	1
BIG4	0.652	0.476	0	1
INDBD	0.415	0.118	0	2.7
BDMTG	5.273	2.047	0	30
DUAL	0.273	0.445	0	1
SH-INS	0.110	0.150	0	0.740
SH-BLOCK	0.403	0.225	0	0.998
INDUST	0.267	0.443	0	1

Source: The data were obtained from the annual reports of the companies listed on the main board and the second board of Bursa Malaysia.

4.2. Regression Results

4.2.1. Diagnostic Tests and Validity Tests

Based on the modified Wald's test for groupwise heteroscedasticity statistic results, the audit fees resulted in $\chi^2(610) = 5.2e+05$, significant at 0.01 level. Thus, the findings indicate the presence of heteroscedasticity. The heteroscedasticity problem is corrected by obtaining the White Heteroscedasticity-corrected standard error or robust standard error. Thus, the panel regression results of this study are derived based on robust standard errors. There is no multicollinearity problem since the Variance in Factor (VIF) for all variables is less than 2.5. The correlation and autocorrelation problem are encountered when fixed effects regression is used.

The validity test of the Breush Pagan LM test shows the existence of unobserved effects in the random effects model. Nevertheless, the Hausman test signifies that a correlation exists between the error terms, and, hence, requires the use of the fixed effects model.

4.2.2. Fixed Effects Regression Results

Table 3 depicts that the R^2 for the fixed effects regression model is 0.367, indicating that 36.7% of the variation in audit fees can be explained by the independent variables. The remaining 63.3% is explained by other factors. The results also show that the F-value of 34.42 is highly significant (p-value= 0.000). This indicates that the relationship between the dependent (audit fees) and its independent variables in the fixed effects regression model is highly significant. The low adjusted R^2 is due to the validity test requirement to use the fixed effects model.

From Table 3, the experimental variable IFRSYR shows that the p-value of 0.000 for the post IFRS year is lower than $\alpha = 0.01$. With a positive coefficient of 0.068, the hypothesis is supported at the 1% level of significance. The results suggest that the adoption of IFRS significantly increases the amount of audit fees.

4.2.3. Additional Analysis

In order to determine which of the three post adoption years has a major contribution to the increase in audit fees, dummy variables IFRSYR1, IFRSYR2 and IFRSYR3 are added in the audit fee model. The IFRSYR1 variable is dichotomous, indicating '1' for the first year of adoption and '0' for the other years. Likewise, IFRSYR2 represents the second and IFRSYR3 represents the third year of adoption with a dummy variable coded '1' for the second (third) year of IFRS adoption and coded '0' if not. The regression analysis was re-estimated with the inclusion of the three (3) variables (IFRSYR1, IFRSYR2 and IFRSYR3) to replace the IFRSYR variable. The regression results reveal that the audit fees did not increase significantly during the first year of adoption ($\beta=0.015$, $p=0.157$). The

significant increase in audit fees began in the second ($\beta=0.067$, $p=0.000$) and extended to the third year ($\beta=0.086$, $p=0.000$) of adoption. The possible reason for this finding might be due to the phase convergence practice, in which MASB might decide to adopt the easier standards first and the complicated standards later. For instance, the most complex and controversial standard, namely, FRS 139 had been deferred so that MASB could resolve some complex issues and make sure that all parties have sufficient knowledge and skills to apply such a standard

Table 3. Fixed effects regression results for audit fees

Variables	Expected Sign	β	t-value	p-value
Constant		3.295	4.43***	0.000
IFRSYR	+	0.068	5.76***	0.000
lnASSETS	+	0.385	9.19***	0.000
CR	-	-0.006	-1.67*	0.095
DR	+	0.067	2.28**	0.023
LOSS	+	0.054	3.42***	0.001
REC	+	0.090	0.75	0.456
INV	+	0.517	2.01**	0.045
SQSUBS	+	0.140	3.65***	0.000
YEND	+	-	-	-
AUDCHG	-	-0.028	-0.82	0.413
BIG4	+	0.115	3.15***	0.002
INDBD	+	0.339	4.62***	0.000
BDMTG	+	-0.001	-0.24	0.808
DUAL	+	-0.026	-0.97	0.331
SH-INS	-	-0.002	-1.50	0.135
SH-BLOCK	-	-0.001	-1.24	0.216
INDUST	+	-	-	-
N	3,050			
F Ratio	34.42			
Significant	0.000			
R Square	0.367			
Hausman Test Chi ²	43.93			
Sig. of Hausman Test	0.000			

***, **, * represent statistical significance at the 1%, 5%, and 10% level, respectively.

5. Discussion of Results

The R^2 of the fixed effects model of 36.7% is highly significant in explaining the audit fee model. Since the fixed effects model eliminated time-constant variables⁴, it possibly leads to a low R^2 as compared to the pooled OLS regression and random effects model regression. For instance, the adjusted R^2 for the pooled OLS is 76.52% and the adjusted R^2 for the random effects model is 77.54%. Even so, the fixed effects result is still higher than the studies conducted by Low *et al.* (1990) at 6.12%, and Gonthier-Besacier and Schatt (2007) of between 36.3% and 39.3%.

The hypothesis results are consistent with a number of previous studies that investigated the impact of regulatory change on audit fees (Cosgrove and Niederjohn, 2008; Jeong *et al.* 2005; Ettredge *et al.* 2007; Hoitash *et al.* 2008; Ghosh and Pawlewicz, 2009; Ebrahim, 2010). For instance, a study by Jeong *et al.* (2005) investigated the impact of the revised act in Korea. The pooled regression for four (4) years found that the more stringent the regulation, the higher the audit fees. Similarly, Hay and Knechel (2010) discovered that the deregulation of audit had a positive significant relationship with audit fees. In the US, several studies had tried to examine the impact of the passage of SOX 2002. In line with the results of this study, Cosgrove and Niederjohn (2008) discovered that audit fees increased by 51% during the first year of SOX compliance (2003). Similarly, Ettredge *et al.* (2007) found that the audit fees promptly increased in the first year of SOX enforcement. Furthermore, based on the longer post compliance period (2003-2005), Ghosh and Pawlewicz (2009) revealed that the audit fees increased 74% during the post-SOX compliance period.

In the context of IFRS adoption, the results of this study are consistent with the previous literature concerning the effect of IFRS adoption, that is: (i) improved accounting quality (Daske and Gebhart, 2006), (ii) positive market reaction (Armstrong *et al.* 2010), and (iii) enhanced forecast accuracy (Hodgdon *et al.* 2008; Cheong *et al.* 2010). The findings of this study are consistent with Griffin *et al.* (2009) who believe that a significant increase in audit fees over 2004 to 2006 was possibly associated with IFRS adoption in New Zealand, but not related to the other changes in regulations.

The results of this study, together with the evidence from previous research, confirm that, in general, IFRS are complicated standards (Hoogendoorn, 2006). In line with the claim made by Carlin *et al.* (2009), the complexity of IFRS appears to concern not only the part of accounting

⁴ Two (2) time-constant independent variables were removed from the analysis due to the requirement to use the fixed effects regression model. In the panel data analysis, when there is a correlation between the unobserved variables and the independent variables, the fixed effects model would drop the unobserved variables and time-constant explanatory variables. The reason is that the fixed effects model demeaned the data (subtracted the mean value from each observation), thus, the variables that are constant over time have the same measure at each panel wave as their mean value (Tarling, 2009).

treatments but also the difficulty in adhering to the detailed reporting and disclosure requirements (Griffin *et al.* 2009). Bernhut (2008) also believes that the content of IFRS is too comprehensive, which contributes to its complexity. The reason behind the increment in audit pricing is due to the extra burden put on the auditors. The additional costs include overtime costs to perform additional audit works or the costs of hiring new auditors. Moreover, in order to ensure that the auditors are equipped with sufficient knowledge on IFRS, they are sent to undergo training programmes, which would boost the training costs (Joshi *et al.* 2008). Stovall (2010) believes that the increment in audit costs together with other costs such as training costs, internal control assessment costs and capability of accounting information system costs would have some impact on the economic position of the country adopting IFRS.

Concerning the control variables, the results indicate that eight (8) out of 14 variables (excluding time constant control variables) are significantly associated with audit fees. First, the size of client, which is measured by its total assets (InASSETS), is significant at the 0.01 level with a positive relationship, thus, implying that the bigger the client's company, the more audit fees charged by the auditors. The results demonstrate that large companies consist of bulky transactions, and, thus, require more compliance and substantive test samples (Che-Ahmad and Houghton, 1996). Second, similar to the measurement of size component, all the risk measurements are significant in explaining audit fees. This includes the current ratio (CR), debt ratio (DR) and the loss in the current year (LOSS). The results of these control variables signify that auditors are concerned about the client's risk assessment when charging audit fees. This is consistent with the suggestion by Mellett *et al.* (2007) who suggest that auditors really need to be aware of the existence of litigation risks in case of incorrect audit reports. Third, for the component of complexity, two (2) out of three (3) measurements have a significant impact on audit fees, namely, the ratio of inventories to total assets (INV) and the number of subsidiaries (SQSUBS), while the ratio of account receivables to total assets (REC) has no significant association with audit fees. The results suggest that the higher the degree of difficulty in audit engagement, the higher the audit fees. In this study, the significant coefficient of INV proves that inventories are the most complicated items of current assets. Likewise, the higher the number of subsidiaries (SQSUBS), the more the audit fees charged by the auditors. As subsidiaries are normally located at different geographical areas and the nature of operations vary, auditors have to put a lot of effort into testing the samples and design substantive procedures. Fourth, as expected, the Big 4 auditors are positively associated with audit pricing. The significant result implies that Big 4 auditors charge a higher price than non-Big 4 auditors. The premium is charged on the clients as a reflection for brand name reputation (Moizer *et al.* 2004), difference in quality of services (DeAngelo, 1981), higher overhead costs (Gonthier-Besacier and Schatt, 2007) and higher quality of financial statements

(Naser and Nuseibeh, 2007) provided by Big Firms as opposed to non-Big Firms.

Fifth, on the corporate governance attributes, only one (1) out of five (5) variables is significant in determining audit fees. Concerning the board characteristics, the independent directors on the board (INDBD) variable has a positive significant impact on audit fees, while the number of board meetings (BDMTG) and duality function of the CEO and board chairman (DUAL) are insignificant. The finding of this study suggests that the independent directors on the board succeed in their roles as a monitoring mechanism to produce a higher quality financial statement, which increases audit costs. Carcello *et al.* (2002) believe that the presence of independent auditors alleviate the chances of deceptive financial statements. Moreover, there is no strong evidence to support the importance of management ownership (SH-INS) and the percentage of shares held by the block holders (SH-BLOCK) to mitigate agency costs of the companies.

6. Conclusion

This study attempts to investigate the impact of IFRS adoption on the audit pricing paid by the clients. It is motivated from many assertions that IFRS is a complex standard that requires more audit effort. Using the 5-year data consists of pre and post IFRS adoption period; the panel data regression was conducted on a sample of 3,050 firm-year observations. All financial and non-financial data used in this study were hand collected from the annual reports of Bursa Malaysia. Simon *et al.* (1992) believe that hand collected data from the annual reports would guarantee a more accurate data and eliminate non-response bias that normally occurs in questionnaire surveys. To the best of the researcher's knowledge, this is the first study that attempts to investigate the effect of IFRS adoption on audit fees several years after mandatory adoption. Prior research, such as Griffin *et al.* (2009), only concentrated on the first year of mandatory IFRS adoption in New Zealand public listed companies.

The results of the fixed effects model support the hypothesis that there is a significant increase in audit fees after the IFRS adoption. The result is consistent with several previous studies concerning the impact of changes in regulation on audit pricing including Cosgrove and Niederjohn (2008), Ettredge *et al.* (2007), Hoitash *et al.* (2008), Bhamornsiri *et al.* (2009) and Ghosh and Pawlewicz (2009). Most importantly, the findings of this study also provide further support to the ICAEW report that the additional auditing cost is one (1) of the most crucial costs of IFRS (ICAEW, 2007).

This study was conducted in the period where not all IFRS have been adopted by the MASB due to the decision to opt for 'a stage-by-stage' convergence in Malaysia. As the target of MASB is to achieve full convergence by 2012, future research could investigate whether the impact of a current stage convergence holds in the IFRS full convergence phase.

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