

THE PROHIBITION OF NON-AUDIT SERVICES TO AUDIT CLIENTS IN MALAYSIA (A CASE OF AUDITOR'S INDEPENDENCE)

Prepared by: Lim Siew Chin

ABSTRACT

The issue of banning NAS has been long debated in the accounting profession and ever since the SEC banned nine specific categories in response to addressing the independence of auditors, critics have voiced their different views on this matter. This paper seeks to obtain auditor's perceptions on the consequences of supplying and banning these services in Malaysia with reference to auditor's independence. It then investigates the market reaction to the disclosure of non-audit fees through the collection of secondary data.

This quantitative exploratory research is sampled from public listed companies and auditing firms in Johor Darul Ta'zim and Selangor Darul Ehsan. Results from Independent samples t-tests revealed that the variances between the two groups of auditor is relatively equal in relation to the issues discussed in this paper. Generally, most auditors support the view of banning NAS but did not support the US rules. Many public companies in Malaysia do not engage NAS from their external auditors. Chi-square tests revealed that there were no association between type of auditors and non-audit fees paid to them. However, the study on audit fees proved otherwise. Price model used for the multiple regression analysis proved that there was a decrease in market value after disclosing non-audit fees.

This paper enables the regulation to assess auditor's perception on the necessity of banning certain NAS in Malaysia for the purpose of addressing the issue of independence while providing appropriate evidence on fees paid by listed companies.