

# Chapter 8

## The Effect of the Mandatory IFRS Adoption on Audit Fees in Malaysia

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### **ABSTRACT**

*This study examines the effect of the mandatory IFRS adoption on audit fees in an emergent context, such as the case of Malaysia. Using a comprehensive dataset of all publicly-traded Malaysians companies, the authors quantify an economy-wide increase in the mean level of audit costs after the IFRS transition. The final sample consists of 204 companies listed on the stock exchange of Malaysia, and publishes their information on audit fees in their annual reports allowed on the site of the Malaysian scholarship (Bursa Malaysia). Empirical results suggest that there has been some increase in audit fees in Malaysia after the mandatory adoption of IFRS in 2012. But this increase is considered more or less significant because Malaysia adopted the IFRS voluntarily in 2006. To discuss this meaning, the authors added an additional test that makes the results more robust.*

### **I. INTRODUCTION**

During recent decades, the world has experienced enormous trying to accelerate the internationalization of economies and thus the globalization of capital markets, which have placed the accounting at the heart of the functioning of financial markets.

These events marked the rise of stock markets, and foreign investment which makes investors have gradually emerged as the leading recipient of accounting information. It is therefore considered that the main purpose of accounting is to allow financial statement users to fully appreciate the situation of companies, and the situation of capital markets in general.

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However the diversity of accounting systems worldwide, prevents the development of economic globalization, and after numerous financial scandals (Enron, Parmalat, Vivendi ...) caused by questionable accounting practices that have shaken the financial community, setting of a new accounting system seems to be necessary.

Hence the appearance of the great efforts towards the harmonization of accounting systems in the world, which began mainly in the European Union by the adoption of the Accounting Directives which are considered incomplete, then harmonization consists in reducing the differences between national accounting regulations, then standardization requires the establishment of common rules to standardize the presentation of accounting information, and ultimately the standardization of accounting standards by applying the same accounting rules by all countries, which translates into the emergence of international financial reporting standards IFRS<sup>1</sup> which are established by an international body, the IASB (International Accounting Standards Board), based on a conceptual framework with the primary purpose is to creating a unique language of financial reporting worldwide.

This led the European Union to impose IFRS for all listed European companies, from 2005 at the latest. And several countries have also certified the adoption of IFRS, since it is expected that these standards are in fact intended to enable investors to better understand the economic reality of companies. And hence adhesion or transition to IFRS has become a global phenomenon that affects more and more the developed countries like the European Union, Australia, Russia, developing countries such as China, New Zealand and several other countries in Africa, the Middle East and Asia as the case of Malaysia.

Malaysia can not afford to fall behind in the global movement towards the adoption of IFRS. The Malaysian companies must be in step with the evolution of these financial reporting practices worldwide to ensure that their financial statements presented are accepted around the world. Full convergence of international accounting standards will put Malaysia in a good position for the increased globalization of capital markets, provide financial statements comparable to promote investors' confidence. Malaysia has done well so far and continues to go to the front and so are the other countries in the region.

The objective of our study is to examine the impact of the mandatory adoption of IFRS by Malaysia on the audit engagement, specifically on audit fees.

The pertinence of this research lies in the fact that the adoption of IFRS is in propagation worldwide, this is because of the appropriateness of IFRS coming in order to harmonize the economies worldwide, facilitate comparison of financial statements produced internationally, and creates markets for foreign direct investment.

We view that the adoption of IFRS leads to various costs including those studied by previous research, and among these cost increases generated in the fees paid to auditors in return for their missions. Therefore we find several studies that have examined this topic in different contexts and specifically in the context of economically developed countries namely the European Union, other European countries and other research has studied this subject in the context of developing countries and emerging markets such as countries in Asia and Africa.

Hence compared to previous studies we choose to grasp the effect of the mandatory IFRS adoption on audit fees in an emergent context as Malaysia. Moreover, Malaysia is an emerging country, but it has experienced an economic boom during a short period. Boasting a location in the heart of Southeast Asia, it has become almost a modern country and relative to other emerging economies, it is the most developed. Thus Malaysia has voluntarily adopted the international accounting standards since 2006, and has deployed a lot of effort in this regard so that it can be fully converged with those standards in 2012.

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