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The Effect of Director-Auditor Link on Non-Audit Services Fee

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ABSTRACT

Despite concerns on joint-provision of audit and non-audit services, not many studies have been conducted on examining the factors influencing companies to purchase non-audit services from their auditor. The attachment theory postulates that non-audit services purchasing decisions are influenced by the director-auditor link. Using 759 sample companies listed on Bursa Malaysia in 2007, the OLS regression results show a significant positive relationship between director-auditor link and non-audit services fee. The finding adds to the limited literature on the factors influencing companies to purchase non-audit services from their auditor and suggests the need for active involvement of shareholders in the auditor selection process.

Keywords: Attachment theory, auditor choice, auditor-auditee relationship, director-auditor link, interlocking directorships, non-audit services fee

INTRODUCTION

Joint provision of audit with non-audit services has received a considerable amount of attention due to the possible negative effects on auditor independence. It is argued that providing non-audit services to audit clients creates conflicts of self interest (Svanstrom & Sundgren, 2012) in the sense that an auditor might give in to client pressure to avoid jeopardising or losing lucrative non-audit services or be reluctant to adversely report on items involving non-audit services (Firth, 2002). However, despite these concerns, not many studies have been conducted on examining the factors influencing companies to purchase non-audit services from their auditors. The limited research may probably be due to the lack of data since many countries do not have any requirements regarding the disclosure of non-audit services. For example, listed companies in Malaysia

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and the United States only required the disclosure of non-audit services in 2001. Thus, the primary purpose of this study is to examine the factors affecting the joint provision of audit and non-audit services focussing on the director-auditor link. The attachment theory postulates that purchasing decisions related to non-audit services are influenced by the director-auditor link.

LITERATURE REVIEW

Besides auditing services, accounting firms also provide some other services. Among them are accounting related consultancy, forensic accounting, taxation, management accounting, secretarial services, management information systems and internal controls. As has been contended by Chien and Chen (2005), audit firms need to provide non-audit services to gain various benefits, which, among others, are competitive advantages, personnel attraction and retention, meeting client's needs and risk diversification. Non-audit services have become an issue in auditing due to the joint provision of audit with non-audit services. Even though joint provision could be beneficial in terms of cost saving through knowledge spillover (Barkess & Simnett, 1994; Svanstrom & Sundgren, 2012), the possible effects on auditor independence have become a concern (see for example DeFond, Raghunandan & Subramanyam, 2002; Hay, Knechel & Li, 2006; Quick & Warming-Rasmussen, 2009). In Malaysia, the government's concerns on this matter have led to the imposition of a mandatory requirement for the disclosure and the prohibition of joint provision of audit with some types of non-audit services. The *By-laws (On Professional Ethics, Conduct and Practices)* of the Malaysian Institute of Accountants (2010) have prohibited auditors from providing valuation services, litigation support services, dispute resolutions and some corporate finance services to their audit clients. For listed clients, the *By-laws* also prohibit auditors from providing accounting and bookkeeping services, internal audit services, staff lending and design and financial information technology services.

Prior studies have identified three (3) factors that may affect the non-audit services fee. While many believe that companies with higher agency conflicts will demand higher audit quality (see for example DeFond, 1992; Firth & Smith, 1992; Francis & Wilson, 1988), the level of agency conflict is postulated to be negatively related to non-audit fee. Firth (1997) hypothesised that higher agency conflict companies will purchase lesser non-audit services in order to protect an auditor's independence (especially when it is perceived independence). In a study, Firth (1997), who used data from 500 of the largest British listed companies for the year 1993, found significant positive relationships between directors' shareholdings and the largest owner's shareholdings with non-audit services fee; Firth also found a significant negative relationship between leverage and non-audit services fee. In an earlier United States study by Parkash and Venable (1993), data from 860 observations

during the period from 1978 to 1980 were used, with similar evidence collected.

Audit services fee is believed to have a negative relationship with non-audit fee. This belief is due to the possible 'loss leader' practised by auditors, where the auditor charges a lower price for audit services in order to attract the non-audit service work (Hay *et al.*, 2006). Besides that, the use of an incumbent auditor may also increase the level of efficiency of the auditor due to knowledge-spillovers and hence, may save cost (Barkess & Simnett, 1994; Simunic, 1984). However, prior research has generally found a positive relationship (see for example Barkess & Simnett, 1994; Hay *et al.*, 2006; Houghton & Jubb, 1999). Peel and Clatworthy (2001) had argued that the positive relationship may be due to the audit services fee being inflated at the expense of the non-audit services fee, where the portion of non-audit services fee is included as audit services fee. Meanwhile, Firth (2002) posits that the positive relationship as due to the demand for non-audit services because of certain company specific events and the occurrence of these events may lead to higher audit efforts (thus increases the amount of audit services fee). Firth (1997) had suggested that the cost-saving of knowledge-spillover (if it exists), may be kept by the auditor if competition for audit and non-audit services is limited.

It has also been hypothesised that the type of audit opinion has an effect on the amount of non-audit services fee charged by the auditor. While audit production costs and audit risks are likely to be higher for auditors who issue qualified audit opinions (Francis, 1984; Palmrose, 1986; Simunic, 1980), Houghton and Jubb (1999) argue that an audit qualification could increase the amount of non-audit services fee charged due to the audit services fee recoup strategy by the auditor. They add that the additional costs borne by the auditors by their decision to issue an audit qualification are not necessarily recouped through the audit services fee alone but also through the non-audit services fee (where an incumbent auditor also provides non-audit services to the client). The auditors may make use of non-audit services as a means of relieving billing constraints for audit services since the non-audit services fee is less price-sensitive and less constrained to increase (Houghton & Jubb, 1999). Prior studies by DeFond *et al.* (2002) and Houghton and Jubb (1999) have both found support for these arguments.

HYPOTHESES

Past studies have shown that interlocking directors have the tendency to select the same auditor across the companies in which they serve. This may be due to the fact that these directors may have developed an attachment with a particular auditor with whom they have previously worked. The evidence of these occurrences (termed as director-auditor link) have been shown by Davison, Stening and Wai. (1984) and Jubb and Houghton (1998) in Australia and Malek and Che Ahmad (2011) in Malaysia.

The strength of interpersonal and inter-organisational attachment is expected to

grow when relationship-specific skills are necessary to adequately perform the tasks required (Meyer, Rigsby & Boone, 2007). Such assets may consist of well-grounded communication patterns and the development of trust among those individuals involved in boundary-spanning roles; knowledge of the peculiarities of a firm's accounting system; and understanding of the client's product market to forecast the likely value of inventory (Levinthal & Fichman, 1982). For example, when specialised knowledge or skill-sets are needed, which may be specific to a particular organisation, then, significant investment is required at the personal and the organisational level in the relationship (Meyer *et al*., 2007). One immediate benefit of continuing a relationship is a substantial saving in time and effort for both the client and auditor in familiarising the auditor with the client's accounting procedures (Levinthal & Fichman, 1982).

Most of the non-audit services provide beneficial and important inputs to directors (which will then be used by the directors in the decision-making process), hence, besides emphasising upon the quality of the services itself, directors also require that the providers of these services are those whom they can personally trust. The familiarisation of the quality of work of auditors (through experience working in the interlink companies) and mutual trust between interlink directors and interlink auditor will result in the interlink directors being more favourable towards an interlink auditor in the appointment for the providers of the non-audit services.

From the auditor's perspective, interlink auditors may also use their influence power (which exists due to mutual dependence and mutual trust) upon the interlink directors to purchase additional services from them. In a profession in which clients are loyal to their existing relationships, networking offers one of the best ways of finding leads for new business opportunities (Harding, 1996). This suggests that the attachment created by the director-auditor link may lead to the existence of opportunities for new businesses (which, in this case, is providing non-audit services) for the auditor.

Therefore, it is argued that director-auditor links are related to non-audit fees, hence, leading to the following hypothesis:

H_1: The director-auditor link is significantly and positively related to the non-audit services fee.

In order to capture the possible different influence by different types of director, the following hypotheses are tested:

H_{1a}: The director-auditor link generated by executive interlocking directors is significantly and positively related to the non-audit services fee.

H_{1b}: The director-auditor link generated by non-executive interlocking directors is significantly and positively related to the non-audit services fee.

H_{1b1}: The director-auditor link generated by independent non-executive interlocking directors is significantly and positively related to the non-audit services fee.

METHODOLOGY

The initial population of this study was all companies listed on the Bursa Malaysia Main Board and Second Board in the year 2007, totalling 863 companies. A total of 104 companies (23 newly-listed companies, 39 financial companies, 8 financial year-end-change companies and 34 incomplete information companies) were excluded from the sample, which brings the final sample to a total of 759 companies.

For the testing of hypotheses $H_1 - H_{1b1}$, the Ordinary Least Square (OLS) non-audit services fee model is used and is replicated and modified from Firth (1997) and Parkash and Venable (1993). The model takes the following form:

$$\begin{aligned} LNAS = {} & \beta_0 + \beta_1 DIRLINK + \beta_2 LAFEE \\ & + \beta_3 OPINION + \beta_4 ET\_CC \\ & + \beta_5 ET\_FC + \beta_6 BFOUR \\ & + \beta_7 LASSET + \beta_8 LSUBS \\ & + \beta_9 INVREC + \beta_{10} LEV + \beta_{11} ROE \\ & + \beta_{12} DIROWN + \beta_{13} INITIAL \\ & + \beta_{14} BOARD + \beta_{15} INSTHLDG \\ & + \beta_{16} ISSUE + \beta_{17} GROWTH \\ & + \beta_{18} RESTATE + \beta_{19} LgOWN \\ & + \beta_{20} LAGE + \beta_{21} DLOSS \\ & + \beta_{22} LAGOPINION + \beta_{23} QUICK \\ & + \mu \end{aligned}$$

LNAS is measured by natural logarithm of total non-audit services fee paid by the company to its auditor. Consistent with Courtney and Jubb (2002) and Jubb and Houghton (1998), the director-auditor link is measured by the number of interlocking companies (companies in which the directors of the observed company also served as directors) audited by the focal company's auditor. H_1 is measured by the number of interlocking companies generated by all directors of the focal company audited by the observation company's auditor. H_{1a} is measured by the number of interlocking companies generated by executive directors of the focal company audited by the observation company's auditor, H_{1b1} is measured by the number of interlocking companies generated by non-executive directors of the focal company audited by the observation company's auditor and H_{1b2} is measured by the number of interlocking companies generated by executive directors of the focal company audited by the observation company's auditor. Other variables are measured as follows:

LAFEE = Natural logarithm of audit services fee
OPINION = 1, unqualified audit opinion 0, otherwise
ET_CC = Proportion of Chinese directors
ET_FC = Proportion of foreign directors
BFOUR = 1, brand name auditor 0, otherwise
LASSET = Natural logarithm of total assets
LSUBS = Natural logarithm of number of subsidiaries
INVREC = Proportion of inventory and receivables to total assets
LEV = Ratio of long-term debt to total equity

ROE = Proportion of net profit to total shareholders' equity
DIROWN = Percentage of directors' shareholdings
INITIAL = 1, newly appointed auditor 0, otherwise
BOARD = 1, main board companies 0, otherwise
INSTHLDG = Percentage of shares owned by institutional holdings
ISSUE = 1, acquired additional funding 0, otherwise
GROWTH = Sales growth over last fiscal year
RESTATE = 1, restatement of prior year audit account 0, otherwise
LgOWN = Percentage of shares owned by the largest shareholder
LAGE = Natural logarithm of number of years listed
DLOSS = 1, loss in prior and current year 0, otherwise
LAGOPINION = 1, unqualified audit opinion in prior year 0, otherwise
QUICK = Ratio of current asset (less inventory) to current liabilities

RESULTS

Descriptive and Univariate Analysis Results

Table 1 and Table 2 below present the descriptive statistics and univariate test results for samples of companies based on companies which purchase non-audit services from its auditor (purchaser companies) and companies which do not purchase non-audit services from its auditor (non-purchaser companies).

Table 1 shows that purchaser companies have twice the number of director-auditor links than non-purchaser companies and the results of the t-test of mean differences between the two groups are significant (at a 1 % significance level) for all the hypotheses variables. On average, the purchaser companies' auditors audit 1.77 of interlocking companies, while non-purchaser companies' auditors only audit 0.88 of interlocking companies. Based on types of interlocking director, the purchaser companies' auditors audit 0.45 of executive directors' interlocking companies, 1.56 of non-executive directors' interlocking companies and 1.08 of independent directors' interlocking companies, while non-purchaser companies' auditors only audit 0.20 of executive directors' interlocking companies, 0.78 of non-executive directors' interlocking companies and 0.61 of independent directors' interlocking companies.

Meanwhile, Table 2 shows significant frequency differences of the interlink auditor between purchaser and non-purchaser companies (at a 1 % significance level). While a majority of non-purchaser companies are audited by non-interlink auditors, a majority of purchaser companies are audited by interlink-auditors (60 %) and interlink auditors from non-executive interlocking directors (56 %). In addition, 49 % of purchaser companies are audited by interlink auditors from independent interlocking directors and 25 % are audited by interlink auditors from executive interlocking directors.

Table 3 presents a matrix of the Pearson-Correlation for all the variables.

TABLE 1
Descriptive Statistics and Univariate Test Results of Continuous Variables for Purchasers and Non-Purchasers of Non-Audit Services

Variable	Purchaser of NAS (Sample= 428)		Non-Purchaser of NAS (Sample= 331)		t-test (2 tailed)
	Mean	Std. Deviation	Mean	Std. Deviation	
DIRLINK	1.77	2.26	0.88	1.45	-6.556*
EDLINK	0.45	0.94	0.20	0.56	-4.625*
NDLINK	1.56	2.09	0.78	1.34	-6.229*
INDLINK	1.08	1.57	0.61	1.12	-4.851*
LAFEE	5.17	0.44	5.08	0.37	-3.267*
ET_CC	0.54	0.31	0.6	0.27	2.688*
ET_FC	0.05	0.11	0.05	0.12	0.143
LASSET	8.7	0.65	8.45	0.5	-5.884*
LSUBS	1.14	0.47	1.1	0.38	-1.267
INVREC	0.28	0.19	0.32	0.19	2.781*
LEV	0.29	0.94	0.23	0.34	-1.096
ROE	0.13	0.77	-0.01	1.15	-1.83
DIROWN	33.9	25.81	37.61	23.13	2.059*
LDELAY	1.97	0.13	2.01	0.12	3.644*
INSTHLDG	56.27	25.75	46.86	25.5	-5.021*
GROWTH	0.21	0.66	0.24	1.03	0.431
LGOWN	30.16	16.72	27.11	16.37	-2.517#
LAGE	1.04	0.38	0.95	0.35	-3.167*
QUICK	2.35	3.44	3	22.15	0.532

*Significant at 1 % level
#Significant at 5 % level

The variables representing director-auditor links (DIRLINK, EDLINK, NDLINK and INDLINK) are all found to be significant and positively correlated with LNAS. LNAS is also found significant and positively correlated with variables such as LAFEE, ET_BC, BFOUR, LASSET, LSUBS, LEV, ROE, BOARD, INSTHLDG, RESTATE, LGOWN, LAGE and QUICK but significantly and negatively correlated with ET_CC, INVREC, DIROWN, LDELAY and DLOSS. Meanwhile, as expected, the correlations among the hypotheses variables are significant and considerably high. Thus, this supports the inclusion of the hypotheses variables separately, one after the other into the multivariate regressions. Among the independent variables, the correlations are found to be less than 0.5, except for correlations between LASSET with LSUBS, LASSET with BOARD and LGOWN with INSTHLDG.

Multivariate Analysis Result

Table 4 presents the results of OLS regressions. All models are significant at

TABLE 2
Descriptive Statistics and Univariate Test Results of Dummy Variables for Purchasers and Non-Purchasers of Non-Audit Services Companies

Variable		NAS Purchaser (Sample = 428)	Non- Purchaser (Sample = 331)	Pearson chi-square test
OPINION	Unqualified Other	294 (88.82%) 37 (11.18%)	374 (87.38%) 54 (12.62%)	0.3661
BFOUR	Big 4 Non-Big 4	258 (77.95%) 73 (22.05%)	237 (55.37%) 191 (44.63%)	41.922*
INITIAL	Change Non-Change	14 (4.23%) 317 (95.77)	28 (6.54%) 400 (93.46%)	1.909
BOARD	Main Second	269 (81.27%) 62 (18.73%)	280 (65.42%) 148 (34.58%)	23.426*
ISSUE	Issue Non-Issuance	52 (15.71%) 279 (84.29%)	65 (15.19%) 363 (84.81%)	0.0392
FISDEC	December Others	178 (53.78%) 153 (46.22%)	250 (58.41%) 178 (41.59%)	1.630
RESTATE	Restate None	161 (48.64%) 170 (51.36%)	149 (34.81%) 279 (65.19%)	14.770*
FOREIGN	With Without	185 (55.89%) 146 (44.11%)	251 (58.64%) 177 (41.36%)	0.5789
DLOSS	Loss None	36 (10.88%) 295 (89.12%)	77 (17.99%) 351 (82.01%)	7.456*
LAGOPINION	Unqualified Others	306 (92.45%) 25 (7.55%)	395 (92.29%) 33 (7.71%)	0.0066
Director -Auditor Link	DIRLINK Others	198 (59.82%) 133 (40.18%)	181 (42.29%) 247 (57.71%)	22.941*
	EDLINK Others	84 (25.38%) 247 (74.62%)	62 (14.49%) 366 (85.51%)	14.252*
	NDLINK Others	186 (56.19%) 145 (43.81%)	166 (38.79%) 262 (61.21%)	22.745*
	INDLINK Others	162 (48.94%) 169 (51.06%)	141 (32.94%) 287 (67.06%)	19.919*

*Asymptotic Significance at 1 % level (two-tailed)
Asymptotic Significance at 5 % level (two-tailed)

a 1 % significance level. However, the adjusted R-squared of around 0.14 is lower than previous studies by Firth (1997) of 0.32 and Parkash and Venable (1993) of 0.26. This implies that around 14 % of variation in non-audit services fee is explained by the model.

The results show the significant and positive coefficient of DIRLINK at a 1 % significance level which implies that the greater the director-auditor link, the higher the audit services fee. Meanwhile, the coefficient for variables EDLINK and NDLINK are positive and significant at a 5

TABLE 3
Pearson Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
1	1																									
2	.29*	1																								
3	.21*	.57*	1																							
4	.28*	.38*	.40*	1																						
5	.22*	.85*	.35*	.86*	1																					
6	.21*	.38*	.26*	.36*	.32*	1																				
7	.03	.04	-.02	.04	.04	-.00	1																			
8	-.14*	-.25*	-.12*	-.25*	-.18*	-.25*	.09#	1																		
9	.01	.04	-.03	.04	.05	.06	-.04	-.35*	1																	
10	.27*	.38*	.21*	.36*	.33*	.23*	.04	-.10*	.10*	1																
11	.31*	.45*	.30*	.44*	.39*	.77*	.09#	-.26*	.09*	.23*	1															
12	.12*	.26*	.26*	.23*	.18*	.76*	-.07	-.09*	-.11*	.05	.54*	1														
13	-.14*	-.22*	-.17*	-.21*	-.18*	-.12*	-.01	.19*	.00	-.12*	-.34*	-.13*	1													
14	.08#	.10*	.14*	.09#	.09#	.21*	.02	-.17*	.04	.02	.22*	.15*	-.06	1												
15	.06	.05	.02	.05	.05	.08#	.07	.00	.00	.07	.11*	.06	-.11*	-.12*	1											
16	-.11*	-.15*	-.02	-.15*	-.11*	-.15*	.11	.36*	.18*	-.09#	-.13*	-.05	.08#	.02	-.02	1										
17	-.06	-.04	-.08#	-.03	-.05	.01	-.09#	.02	-.03	-.15*	-.04	.00	.12*	-.04	-.00	.00	1									
18	.20*	.22*	.14*	.22*	.19*	.34*	.07	-.15*	.05	.19*	.52*	.25*	-.23*	.01	.08#	-.06	-.03	1								
19	.22*	.31*	.14*	.32*	.29*	.32*	.17*	-.26*	.12*	.24*	.48*	.13*	-.23*	.05	.02	-.12*	-.04	.36*	1							
20	.03	.03	.03	.02	-.00	.10*	.08#	.01	-.04	.01	.08#	.08#	-.02	.09#	.03	.08#	.02	.04	.01	1						
21	-.01	.01	.05	.00	.00	.00	.05	-.04	.01	-.02	.03	-.01	-.04	.04	.03	-.06	.04	.04	.02	.04	1					
22	.16*	.19*	.18*	.16*	.15*	.17*	-.05	-.02	-.03	.10*	.18*	.16*	-.10*	.06	.04	-.01	.02	.09*	.07#	-.01	.01	1				
23	.09#	.14*	.02	.16*	.14*	.01	.16*	-.16*	.13*	.21*	.11*	-.18*	-.05	-.01	.01	.00	-.02	.17*	.58*	-.13*	-.03	.01	1			
24	.14*	.22*	.18*	.21*	.18*	.25*	-.06	-.16*	.12*	.17*	.27*	.26*	-.22*	-.04	.04	-.22*	-.04	.21*	.19*	-.17*	.01	.14*	.06	1		
25	-.11*	-.10*	-.06	-.10*	-.11*	-.15*	-.26*	-.02	.04	-.09#	-.27*	-.06	-.02	-.08#	-.03	-.08#	-.05	-.25*	-.21*	-.02	-.10*	-.00	-.14*	-.01	1	
26	.00	-.06	-.09#	-.06	-.01	-.02	.58*	.10*	-.03	0.01	.04	-.09*	.02	.09#	.01	.08#	-.04	.00	.06	.01	.06	-.00	.11*	-.10*	-.21*	1
27	-.02	-.02	.01	-.02	-.02	-.13*	.04	-.00	-.02	-.04	-.03	-.12*	-.09*	-.03	.00	-.04	-.02	.04	.05	.07#	.19*	-.03	-.04	-.04	-.04	.03

* Correlation is significant at the 1 % level (2 tailed) # Correlation is significant at 5 % level (2 tailed)

1. LNAS 2. DIRLINK 3. EDLINK 4. NDLINK 5. INDLINK 6. LAFEE 7. OPINION 8. ET_CC
9. ET_FC 10. BFOUR 11. LASSET 12. LSUBS 13. INVREC 14. LEV 15. ROE 16. DIROWN
17. INITIAL 18. BOARD 19. INSTHLDG 20. ISSUE 21. GROWTH 22. RESTATE 23. LGOWN 24. LAGE
25. DLOSS 26. LAGOPINION 27. QUICK

% significance level but the coefficient for variable INDLINK is insignificant. These results imply that the director-auditor link created by executive and non-executive directors have an influence on the non-audit services fee while the director-auditor link created by independent directors do not have an influence on non-audit services fee. Overall, the results support the hypotheses that the greater the director-auditor link, the higher the non-audit services fee. Therefore, the results confirm the prediction of the preferences of Malaysian companies for interlink auditors in non-audit services fee decisions as a result of attachments developed through director-auditor links. The attachments created by director-auditor links develop trust regarding the quality of services provided by interlink auditors and at the same time, gives an opportunity for interlink auditors to influence the interlink director to purchase additional services from them. For the control variables, BFOUR, LASSET and RESTATE are found to be positively significant across all the regressions at a 1 %significance level, which is consistent with earlier studies by Firth (1997), Houghton and Jubb (1999) and Parkash and Venable (1993).

TABLE 4
Results of OLS Regression of Non-Audit Services Fee

Variable	Predicted Sign	OLS Regression			
		Panel A Coefficient (t-value)	Panel B Coefficient (t-value)	Panel C Coefficient (t-value)	Panel D Coefficient (t-value)
Constant		-4.121## (-2.31)	-4.078## (-2.28)	-4.035## (-2.25)	-3.999## (-2.23)
DIRLINK	+	0.717* (2.47)	-	-	-
EDLINK	+	-	0.912** (1.91)	-	-
NDLINK	+	-	-	0.589** (1.91)	-
INDLINK	+	-	-	-	0.466 (1.37)
LAFEE	+/-	-0.420 (-0.99)	-0.460 (-1.08)	-0.431 (-1.01)	-0.478 (-1.12)
OPINION	-	-0.085 (-0.28)	-0.038 (-0.12)	-0.086 (-0.28)	-0.056 (-0.18)
ET_CC	+/-	-0.434 (-1.34)	-0.443 (-1.36)	-0.429 (-1.32)	-0.458 (-1.41)
ET_FC	+/-	-0.191 (-1.63)	-1.211** (-1.65)	-0.1214** (-1.66)	-1.260** (-1.72)
BFOUR	+	0.765* (4.05)	0.872* (4.84)	0.814* (4.36)	0.853* (4.61)

TABLE 4 (continue)

Variable	Predicted Sign	OLS Regression			
		Panel A Coefficient (t-value)	Panel B Coefficient (t-value)	Panel C Coefficient (t-value)	Panel D Coefficient (t-value)
LSUBS	+	-0.165 (-0.52)	-0.130 (-0.41)	-0.149 (-0.47)	-0.119 (-0.37)
INVREC	+	0.115 (0.25)	0.121 (0.26)	0.099 (0.21)	0.096 (0.21)
LEV	-	0.100 (0.81)	0.086 (0.70)	0.102 (0.82)	0.098 (0.79)
ROE	-	0.063 (0.80)	0.065 (0.81)	0.061 (0.77)	0.061 (0.76)
DIROWN	+	-0.005 (-1.53)	-0.005 (-1.55)	-0.005 (-1.53)	-0.005 (-1.51)
INITIAL	-	-0.161 (-0.46)	-0.163 (-0.47)	-0.177 (-0.51)	-0.170 (-0.49)
BOARD	-	0.162 (0.77)	0.162 (0.77)	0.162 (0.77)	0.168 (0.79)
INSTHLDG	+	0.005 (1.21)	0.006 (1.31)	0.005 (1.22)	0.005 (1.24)
ISSUE	+	0.171 (0.76)	0.156 (0.69)	0.175 (0.78)	0.179 (0.79)
GROWTH	+	-0.073 (-0.81)	-0.079 (-0.88)	-0.068 (-0.76)	-0.066 (-0.74)
RESTATE	+	0.401* (2.46)	0.405* (2.48)	0.425* (2.62)	0.431* (2.65)
LGOWN	-	-0.004 (-0.57)	-0.004 (-0.57)	-0.004 (-0.61)	-0.004 (-0.58)
LAGE	-	0.158 (0.66)	0.119 (0.50)	0.164 (0.69)	0.168 (0.70)
DLOSS	+	-0.193 (-0.80)	-0.193 (-0.80)	-0.202 (-0.83)	-0.196 (-0.81)
LAGOPINION	-	0.022 (0.06)	-0.018 (-0.05)	0.005 (0.01)	-0.038 (-0.10)
QUICK	+/-	-0.003 (-0.69)	-0.004 (-0.73)	-0.003 (-0.70)	-0.003 (-0.71)
Adj-R^2		0.1414#	0.1386#	0.1386#	0.1365#

*Significant at 1 % level (one-tailed)
**Significant at 5 % level (one-tailed)
Significant at 1 % (two-tailed)

CONCLUSION

Using the data of 759 listed companies on Bursa Malaysia in 2007, this study has shown the effect of the director-auditor link on non-audit services fee. Consistent with the initial prediction, the results of the OLS regression show that the director-auditor link has significant positive effects on non-audit services fee paid to the auditor. In addition, the OLS regression results also show that the director-auditor link created by executive and non-executive directors have influence on non-audit services fee while the director-auditor link created by independent directors do not have an influence on non-audit services fee. Overall, the results confirm the prediction of the preference of companies for their interlink auditor in non-audit services decisions as a result of the attachments developed by the director-auditor link. The findings support the influence of attachments created by the director-auditor link on auditing in Malaysia. While the joint provision of audit and non-audit services are usually linked to the impairment of the auditor's independence, the findings suggest the need for active involvement of shareholders in the auditor selection process.

Despite the concerns of impairment on auditor's independence from providing additional services to audit clients, not many studies have been conducted in understanding the factors influencing companies' decision to purchase additional services from their auditors. In particular, this study adds to the growing literature on the influence of interlocking directorships (especially the director-auditor link) and the factors influencing joint provision of audit and non-audit services. For future studies, it is suggested to consider corporate governance as one possible factor in influencing non-audit fees and to separate the data of non-audit fees into different categories.

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