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An Empirical Study of Auditors Switching, Corporate Governance and Financial Performances of Malaysian Public Listed Companies (PLCs)

(Kajian Empirikal berkenaan dengan Pertukaran Juruaudit, Tadbir Urus Korporat dan Prestasi Kewangan Syarikat Tersenarai Awam (PLC) Malaysia)

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ABSTRACT

In the past years, regulators and the business communities had expressed worries about the alarming rate at which firms or corporations collapse due to the mismanagement and manipulation of resources as seen in the cases of Enron, WorldCom in the United States of America; and to be specific in Malaysia, the cases of Megan Media Holdings Berhad and Transmile Group. Auditor switching is evident and the disorder of auditor switching often takes place in Malaysia; however, as time goes by, it is decreasing. Thus, this paper seeks to empirically examine the effect of auditor switching and corporate governance on financial performance of Malaysian PLCs. Secondary data on a total number of 100 PLCs from years 2009 to 2013 are used. The results reveal that the effect of auditor switching on performance does not vary with duality role and the board size. However, the independent director does not cause a good firm performance. Nonetheless, auditors do not have a direct effect on financial performance since they are not directly involved with the management of the firms which negates the results of previous study. Therefore, this paper has vital impact in that regulators and the public need to be educated through awareness campaigns to emphasize on the auditors' roles as agents in understanding the impact of the association between corporate governance and financial performance. Furthermore, auditor switching should embrace not only rotation of audit partners, but rotation of audit firms as well in view that this will help in infusing discipline from the top to the bottom of the audit firms and the companies.

Keywords: Corporate governance; CEO/chairman duality; board size; independent directors; auditor switching; financial performance; Return on Assets (ROA); Return on Equity (ROE); Tobin's Q; Malaysia

ABSTRAK

Sejak beberapa tahun kebelakangan ini, pihak berkuasa tempatan dan komuniti perniagaan telah menyatakan kebimbangan mengenai kadar kejatuhan firma atau syarikat yang disebabkan oleh salah tadbir urus dan manipulasi sumber seperti yang terjadi keatas kes Enron dan WorldCom di Amerika Syarikat dan kes Megan Media Holdings Berhad dan Transmile Group di Malaysia. Pertukaran juruaudit dan gangguan keatas pertukaran juruaudit sememangnya telah terbukti berlaku di Malaysia walaupun pada kadar yang menurun. Oleh itu, kertas kerja ini adalah bertujuan untuk mengkaji secara empirikal tentang kesan pertukaran juruaudit dan tadbir urus korporat terhadap prestasi kewangan PLC di Malaysia. Data sekunder daripada sejumlah 100 PLC dari tahun 2009-2013 digunakan dalam kajian ini. Keputusan kajian menunjukkan pertukaran juruaudit tidak memberi kesan berbeza terhadap prestasi firma serta peranan dualiti dan saiz lembaga pengarah. Di samping itu, pengarah bebas tidak menunjukkan hasil yang baik keatas prestasi firma. Kajian juga mendapati bahawa juruaudit tidak mempunyai kesan langsung terhadap prestasi kewangan kerana mereka tidak terlibat secara langsung dengan pengurusan firma dimana ini bertentangan dengan hasil kajian sebelumnya. Oleh itu, dapatan kajian ini memberi impak penting kepada pihak berkuasa tempatan serta orang ramai perlu dididik melalui kempen kesedaran terhadap penekanan peranan juruaudit sebagai ejen bagi mengukuhkan hubungan antara tadbir urus korporat dan prestasi kewangan. Tambahan pula, pertukaran juruaudit yang perlu diamalkan bukan sahaja dalam putaran rakan kongsi audit, tetapi putaran firma audit kerana ini akan membantu menyemai disiplin dari peringkat atasan ke peringkat bawahan firma audit dan syarikat.

Kata kunci: Tadbir urus korporat; CEO/pengerusi dualiti; saiz lembaga pengarah; pertukaran juruaudit; prestasi kewangan; pulangan atas aset; pulangan atas ekuiti; Tobin's Q; Malaysia

INTRODUCTION

In the past years, regulators and the business communities had expressed worries about the alarming rate at which firms or corporations collapse due to the mismanagement and manipulation of resources as seen in the cases of Enron, WorldCom in the United States of America; and specifically in Malaysia, the cases of Megan Media Holdings Berhad and Transmile Group. Thus, making effective corporate governance important in order to ensure that businesses are run smoothly. In order to cope with these challenges, the Sarbanes–Oxley (SOX) Act (2002) was released to prevent the auditor from rendering most non-audit services to its clients' firms alongside the imposition of a 1-year cooling-off period for former auditors getting jobs from their clients as well as a rotation of audit partners every 5 years. In order to complement the above, the Securities Commission in Malaysia issued the Malaysia Code of Corporate Governance (MCCG) to nurture more desirable corporate governance mechanisms (board appointments, size, composition, committee, independence, mandate, and expectation of the management, etc.) amongst PLCs. In addition, the Bursa Malaysia required all PLCs to have corporate disclosures in terms of social, cultural, economic, technological, political and ecological responsibilities. Therefore, as a follow up, auditors are required to act as corporate agents to ensure that the corporate governance mechanisms and disclosures provide true and fair view as many users (stakeholders) rely on this information for financial decisions. Firms can engage known auditors to assure external investors of the reliability of financial disclosures in order to reduce the agency issues (Anderson, Kadous &Koonce 2004). Therefore, auditors render a corporate governance function in standardizing a firm's financial reporting process (Ashbaugh & Warfield 2003). Now, the issue arises as to why the auditors are being switched by firms, as well as the relationship between their relevance and the effectiveness of corporate governance and financial performance of firms.

Even though the corporate governance structures have been developed at both country – and firm-levels, the differences in the settings of the nations and the companies may not make for achievement of best practices intended in terms of transparency, accountability and integrity at all the spheres of management. Therefore, there is a need to determine the effect of governance mechanism combination on firm performance, because an isolation of the mechanism will not make for effective evaluation of the latter. In order to comply with the above assertion, our attention is directed towards the effect on corporate performance due to auditor switching and governance mechanism (duality role, board size and independent directors).

Auditor switching could from the corporate governance perspective be a function of government control/ownership; foreign influence; board size; composition of the board; size of the company; manager/auditor relationships; shareholders protection; chairman/CEO duality roles; compensation for auditors; and de-listing from stock market.Meanwhile from the financial performance perspective, it could be in terms of losses; merger and acquisitions; government regulations; accounting standards and auditing guidelines; capital markets regulations; going concern issues; financiers; etc. (Pong 1999; Wolk et al. 2001; Nazir et al. 2012; Suyono et al. 2013).

Previous study on auditor switching had concentrated on mature audit and capital markets such as the United States (US), United Kingdom (UK), and Australia (Woo & Koh 2001) where the markets are relatively stable in terms of competition and large client environment that is controlled by big international accounting firms (Pong 1999; Wolk et al. 2001). Few studies made in the developing economy have focused on the causes of auditor switching rather than the effect (Nazir et al. 2012; Suyono et al. 2013).

To the best of our knowledge, no extant research has examined auditor switching and linking it tocorporate governance with financial performance. Previous studies just paid their attentions primarily on the relationship between each pair of these three variables, such as the connection between corporate governance versus financial performance, corporate governance versus auditor switching, and auditor switching versus financial performance. Theoretically, applying auditor switching as mediator appears to be the most reasonable path at answering the "how" question on corporate governance leading to financial performance. Therefore, the encouragement for this study is that it adds to the body of knowledge in an emerging economy with limited shareholder protection.

The outcome of this study may provide support for regulators of other emerging markets afraid of the insinuation of auditor competition and switching for confidence in financial reporting in the absence of strong regulatory support. Furthermore, a study that relays auditor switching to management changes, motivates for managerial opportunism and signalling, is of future importance to policymakers and scholars apprehensive of the role of audits in corporate performance.

The rest of the paper is organised as follows: The next section presents literature review focusing on auditor switching, corporate governance and financial performance. Section 3 explains the research methodology employed. Section 4 is on data analysis. Section 5 discusses the results and the last section concludes the findings.

LITERATURE REVIEW

There are three theories that explain the reasons for auditor switching. Agency theory is used when the rationale for auditor switching is associated with agency-related incentives for higher quality audit (Francis & Wilson 1988;

Nyakuwanika 2014). For signalling theory, management teams in relation to agency issues are more likely to use it as the reason forswitching to higher quality auditors, since it provides better signal of promising expectations and indicates that shareholders' interests are being properly monitored. For insurance theory, management teams who experience losses due to material misstatements are more likely to use it. The audit "insured" companies, are presumed to give better audit reports and provide useful insight to improve company performance. Nevertheless, there are argumentsin the inadequacyof explaining the reasons and rationale for the remarkable statistics of auditor switching. This is because they neglect the behavioural factors and present only partial explanation regarding auditor switching (Beattie &Fearnley 1998). Moreover, corporate governance mechanisms influence company's auditor switching determination (Lin & Liu 2010).

AN OVERVIEW OF MALAYSIAN CORPORATE GOVERNANCE

Malaysia is among the earliest to perform corporate governance reforms in the Asian region (Securities Commission Malaysia 2011). Malaysian Code of Corporate Governance (MCCG 2012), Capital Market Master Plan, as well as Financial Sector Master Plan are the fundamental references of the development for Malaysian corporate governance. These frameworks provide the information on the background rules as well as the prescription on implementation towards sound corporate governance. According to MCCG 2012, corporate governance is described as action and formation of companies' activities towards strengthening the prosperity as well as accountability of companies in order to achieve long-lasting shareholders' value and the consideration of other stakeholders' benefits. To express it in simple words, it is a function of managing companies as to provide accountability to stakeholders. The functions are oversight, managerial, compliance, and external audit, where inter-relatedness with each other takes place in order to achieve sound corporate governance practices.

RELATIONSHIP BETWEEN CORPORATE GOVERNANCE, AUDITOR SWITCHING, AND FINANCIAL PERFORMANCE

CORPORATE GOVERNANCE VS. FINANCIAL PERFORMANCE

The impact of CEO/chairman duality on corporate performance has been extensively debated as there are different findings from different research. Tian and Lau (2001) stated that there is a favourable association between CEO/chairman duality and financial performance in terms of operation efficiency (ROA and ROE) and financial strength (shareholder's right ratio). On the other hand, according to Hsu et al. (2012), the relationship of CEO/chairman duality and company's financial performance is congruent with agency theory, whereby segregation of duty between CEO and BOD chairman promotes effective observation and control of CEO; hence, leading to good financial performance. Peng et al. (2007) found that CEO/chairman duality brings both pros and cons to financial performance as it acts as a two-edged sword. In a contradictory view, Valenti et al. (2011) discovered the lack of support in the relationship between CEO/chairman duality and financial performance. Past studies had shown consistent results in their research of the association between CEO/chairman duality as well as auditor switching. In the research of Lin and Liu (2010), it is revealed that CEO/chairman duality has significant relationship with auditor switching, whereby a company is more likely to change to a smaller audit firm when the CEO simultaneously holds the BOD chairman's position. According to Ianniello et al. (2013), the result is similarto the research of Lin and Liu (2010), whereby it stated that there is a negative association between CEO/chairman duality and the choice of reputable auditor. Hence, our first hypothesis is as follows:

H_1 The effect of auditor switch on performance varies with CEO duality

For board size, there are different perspectives with respect to the association with financial performance based on different research. Among the 174 sampled companies in United States (US), a positive association had beenfound between board size along with company's financial performance (Belkhir 2008). The results are proven by the consideration of company's size, leadership structure of board, CEO tenure, independence of board, and ownership structure as control variables. On the other hand, Beiner et al. (2003) stated that there is a negative association between company's board size andfinancial performance. This is because the benefits from large board size are offset by the drawbacks such as collaboration, communication, and decision making difficulties. Past research had shown inconsistent results in the association between company's board size as well as auditor switching. According to Ianniello et al. (2013), large company's board size is deemed to have an unfavourable impact on corporate governance because it results in organizational and coordination issues. Due to this reason, a company with large board size switches to a reputable and large auditor for it wantsto be perceivedas improvingits financial statement's quality. In the research of Lin and Liu (2010), it is revealed that the effects of company's board size in Chinese listed firms towards the auditor switching is inconclusive. It may indicate that due to the lack of competency in corporate governance, companies' board size does not influence the effective oversight function of the companies. Hence, our second hypothesis is as follows:

H_2 The effect of auditor switch on performance varies with board size

Past researchers investigated the link between the presence of independent directors andfinancial performance from different perspectives. It is found that there is a significant positive association between the presence of independent directors in Thai bank and financial performance (Pathan et al. 2008). The result implies that independent directors are important as they have greater oversight than other directors towards Thai banks in view that they have a reputation in the market. Saat et al. (2011) conducted a more comprehensive research, whereby it examined this relationship in the Malaysian context from the view of capable independent financial director, superior independent director, and existence of family members in BOD. It was found that independent directors have positive relationship with financial performance when there is a capable independent financial director or superior independent director. However, there was a negative association when there is family member as a director. Past studies had shown consistent results in the relationship between independent directors and financial performance. According to Abidin et al. (2006), there is a less chance of auditor switching issue to occur with the presence of independent directors in the company board. In addition, Zhang et al. (2013) observed that when the percentage of independent director is higher, the auditor switching issue is less likely to happen. The presence of independent directors is quantified by independent director rate; thus, it is implied that there is negative association between independent directors in company board and auditor switching. Our last hypothesis is as follows:

H_3 The effect of auditor switch on performance varies with independent directors

AUDITOR SWITCHING VS. FINANCIAL PERFORMANCE

Auditor switching leads to the decline in trustworthiness and reliability of financial reports. A slump in the companies' stock prices or a rise in the companies' costs of capital may happen after the announcement of auditor switching. Nevertheless, there is a controvert view formed by Chang et al. (2008) who explored the impactof switching auditors from a Big 4 to a non-Big 4 audit firm from 2002 to 2006. It was found that investors do not consider the switch to non-Big 4 auditors as bad news; and thus, market reaction is not unfavourable. The study of Chan et al. (2011) analysed the stock and earnings performance of companies after auditor switching. It found that the companies' financial performance is positive after auditor switching, regardless ofthe switching among or between the Big 4 and non-Big 4 auditors.

MEDIATING ROLE OF AUDITOR SWITCHING BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

Lennox (1998) and Ismail et al. (2008) showed that companieswith poor corporate governance prefer to switch their auditors when there is modified opinionfrom auditor. This is because modified opinions reveal that the management teams are poor in managing the affairs in the companies as these opinions are given when the auditors are unable to conclude that the financial statements are of true and fair view. These management teams tend to "opinion shopping"; which is seeking malleable auditors who are of relatively inferior quality and willing to support and accept their particular accounting treatments that may not correspond with common financial reporting standards (Chow & Rice 1982; Weiner 2012). When the auditor is switched due to the poor corporate governance, there is a market reaction to this matter. The market reaction may impact the company's financial performance, either in a positive or negative way, depending on the type of announcement (Persons 1995; Chang et al. 2008; Lin & Liu 2010; Chan et al. 2011). Yet, the consequence towards the company's financial performance is unfavourable as the investors may feel anxious if negative information is being hidden in the auditor switching issues. On that basis, it is necessary to investigate the mediating role of auditor switching in the relationship between corporate governance and financial performance.

METHODOLOGY

This research uses quantitative research approach. Malaysian PLCs were chosen as the samples because PLCs have more contribution towards the growing economy. PLCs can enlarge the shareholder base by engaging credible investors, who provide sizable capital investment. Malaysia was chosen as it is an emerging country with her own peculiar laws, culture and technology. This study adopts the annual reports, which weredownloaded from Bursa Malaysia website according to the selected Malaysian PLCs listing from years 2009 to 2013 for corporate governance and auditor switching data in order to determine if auditor switching had persisted in line with the studies of Malek (2005) and Abdul Nasser et al. (2006). It also adopts Datastream (web-based) for financial performance measurements from years 2009 to 2013 in order to achieve consistency.

As identified by Hair et al. (2005), a sample size is appropriate and adequate if there are 100 to 200 samples. Moreover, there are at least 50 samples needed as to achieve low bias of standard error (*standard* deviation of the sampling distribution) in a research that involves a single mediator variable (MacKinnon et al. 2002). Therefore, sample size of this study is set at 100 samples. Simple random sampling was applied to avoid the result being biased. Allowance of incomplete data such as PLCs having incomplete set of annual reports from years 2009 to 2013 was taken into account for data analysis purpose. Those PLCs with incomplete data were not chosen for this research. Cleaning data process is allowed when checking for the normality of data. A summary of research variables are as followed:

TABLE 1. Operationalisation of variables

Variables	Items	Proxies	Operationalisation
Independent Variables	Corporate Governance	CEO/chairman duality (DUAL)	DUAL = 1, if BOD chairman is not CEO DUAL = 0, if BOD chairman is the CEO Related studies: Tian and Lau (2001); Lin and Liu (2010); Valenti et al. (2011);Hsu et al. (2012); Ianniello et al. (2013); Yang and Zhao (2014)
		Board size (SIZE)	Aggregation of board members in the board. Related studies: Beiner et al. (2003); Belkhir (2008); Pathan et al. (2008); Lin and Liu (2010); Ianniello et al. (2013)
		Presence of independent directors (ID)	Quantified by the percentage of independent directors over total directors. Formula: $\frac{\text{independent directors}}{\text{Total directors}}$ x 100%
Dependent Variables	Financial Performance	Return on assets (ROA)	Measured the efficiency of company in utilizing its assets. Formula: $\frac{\text{Net income}}{\text{Average of total assets}}$ Related studies: Tian and Lau (2001); Beiner et al. (2003); Belkhir (2008); Pathan et al. (2008); Peng et al. (2007); Chan et al. (2011); Hsu et al. (2012); Yang and Zhao (2014)
		Return on equity (ROE)	Conventional measure of shareholders' gain. Formula: $\frac{\text{Net income}}{\text{Average shareholder equity}}$ Related studies: Tian and Lau (2001); Beiner et al. (2003); Pathan et al. (2008); Valenti et al. (2011); Yang and Zhao (2014)
		TOBIN's Q	Ratio of market value of firm over sum of assets. Formula: $\frac{\text{Total market value of firm}}{\text{Total assets}}$ Related studies: Beiner et al. (2003); Belkhir (2008); Yang and Zhao (2014)
	Auditor switching	AS	AS = 0, if auditors have not been switched AS = 1, if auditors have been switched Related studies: Ismail et al. (2008);Chadegani et al. (2011); Nazri et al. (2012); Weiner (2012)
Control Variable	Company size	CSIZE	Logarithm of assets aggregation of company. Formula: log (total assets) Related studies: Tian and Lau (2001); Beiner et al. (2003); Belkhir (2008); Pathan et al. (2008); Peng et al. (2007); Hsu et al. (2012)

Regression analysis is applied and four regression models are formed, which are:

Model 1: $FP = \alpha + \beta\ CG + \varepsilon$
Model 2: $AS = \alpha + \beta\ CG + \varepsilon$
Model 3: $FP = \alpha + \beta\ AS + \varepsilon$
Model 4: $FP = \alpha + \beta 1\ CG + \beta 2\ AS + \varepsilon$

Where: A – Intercept
B – Regression coefficient
E – Error term
CG – Corporate governance
AS – Auditor switching
FP – Financial performance

In addition, the Sobel test used in examining the mediation effect (Warner 2013), is An Interactive Calculation Tool for Mediation Test credited to Preacher and Leonardelli (2010). In this research, it is used to compare the extent of indirect impact of CG on FP to depict null hypothesis, H_0: DE equivalent to 0. The indirect effect of CG on FP is obtained by testing the product of the D (CG to AS path) and E (AS to FP path) coefficients. DE = (F– F'), where F is the simple effect of CG on FP that is not controlled by AS, and F' is the CG to FP path coefficient with the mediation effect of AS. There is statistically significant effect of DE product if z-test statistic is greater than +1.96 or below –1.96.

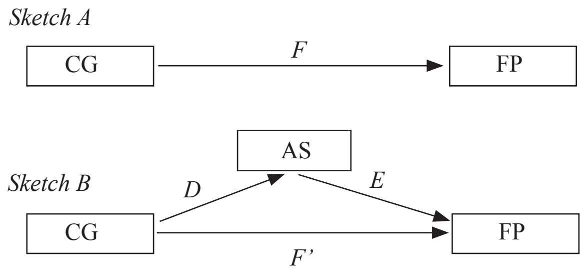

FIGURE 1. Sketch A: A direct action diagram of how CG influences FP
Sketch B: A mediation model diagram of how CG influences FP via AS

DATA ANALYSIS

SAMPLED COMPANIES PROFILING

TABLE 2. Sectors of sampled companies

Sectors	Total
Industrial Products	31
Trading/Services	16
Consumers Products	20
Others	33
	100

As shown by the above Table 2, the sector distributions are not consistent with each other due to the simple random sampling technique used in the research. Moreover, no particular sector had been chosen as to avoid any bias on particular sector in terms of the effectiveness of corporate governance, frequency of auditor switching, and firm performance.

TABLE 3. Characteristics independent variables and mediating variable of sampled companies

Variables	Year	2009	2010	2011	2012	2013
		N / %	N / %	N / %	N / %	N / %
DUAL	BOD equal to CEO	21	21	17	15	13
	BOD not equal to CEO	79	79	83	85	87
BOARD SIZE	0-3	0	0	0	0	0
	4-7	63	61	62	63	62
	8-11	34	35	37	36	37
	≥12	3	4	1	1	1
ID (%)	0-10	0	0	0	0	0
	>10-20	0	0	1	0	2
	>20-30	9	8	8	9	8
	>30-40	34	35	35	36	36
	>40-50	40	35	40	34	27
	>50	17	22	16	21	27
AS	No switch	100	79	80	82	83
	Switch:					
	-To Big 4	0	4	6	4	3
	-To Non-Big 4	0	17	14	14	14

The Table 3 above shows the characteristics of sampled companies. It reveals that more than 75% of sampled companies from years 2009 to 2013 had no CEO/chairman duality in their companies. It implies that most sampled companies complied with MCCG; i.e. requiring the separation of position between BOD chairman and CEO as to ensure a balance between power and authority when making decisions. As the percentage of separation of both positions increases, it shows that Malaysian companies view it as an important feature for sound corporate governance.

For board size, Harper (2006) indicated that the most effective board size consists of 4 to 10 members, but it can go up to maximum of 12 members. It shows that most of the sampled companies have a total four to seven board members from years 2009 to 2013, which is within the range of 61% to 63% for years 2009 to 2013. The second highest board members in board size are between eight to eleven; which is in the range of 34% to 37% of the sampled companies from years 2009 to 2013. Therefore, the sampled companies fulfilled the requirement of the most effective board size as stated by Harper (2006).

For the perspective of independent director (in percentage), it indicates that there is a wide range between percentages of independent directors in sampled companies within years 2009 to 2013. The frequency of independent director (in percentage) for range 30 to 40 and 40 to 50 is the highest. It is in the range of 34% to 36% for category >30-40 and 27% to 40% for category >40-50 from years 2009 to 2013. Only less than 30% of sampled companies have more than 50% of independent directors over total directors from years 2009 to 2013. Overall, the presence of independent directors in most of the sampled companies is only 50% or less. MCCG requires that more than one third of the members should be independent directors on the board, and as such, the companies only fulfilled the one third requirement. Nonetheless,they should increase the independent directors to two third for a sound corporate governance.

By categorizing the sampled companies from auditor switching aspect, it is noticed that huge difference occurred between the switch and no switch of auditorsfrom years 2009 to 2013, where the ratio is at 1:3. The percentage of no switch is higher due to the culture (long audit tenure) adopted in sampled companies from years 2009 to 2013. Malaysian companies tend to maintain a long-term relationship with other parties as it is believed that relationship is the key to success (Malek 2005). For the sampled companies that switch their auditors, the direction of switching is more towards non-Big 4 firms. It may be due to factors such as hiding the reasons behind the auditor switching (Chadegani et al. 2011) as they tend to give lower monitoring quality.

REGRESSIONS ANALYSIS

TABLE 4.Summary of regression analysis

Model		Unstandardized Coefficients		t-value
		B	Std. Error	
		Model 1: CG and FP		
ROA	(Constant)	-0.091	1.895	-0.048 ns
	CSIZE	0.719	0.189	3.807**
	DUAL	0.267	0.697	0.384 ns
	SIZE	0.362	0.160	2.259*
	ID	-7.120	2.340	-3.043**
R^2 = 0.072		F value = 9.608		
Adjusted R^2 = 0.065		F significance = 0.000		
ROE	(Constant)	-2.621	2.926	-0.896 ns
	CSIZE	1.491	0.292	5.108**
	DUAL	0.344	1.076	0.319 ns
	SIZE	0.558	0.247	2.256*
	ID	-9.676	3.614	-2.677**
R^2 = 0.090		F value = 12.238		
Adjusted R^2 = 0.083		F significance = 0.000		
Tobin's Q	(Constant)	0.768	0.114	6.723 ns
	CSIZE	-0.009	0.011	-0.754 ns
	DUAL	-0.115	0.042	-2.745**
	SIZE	0.010	0.010	1.039 ns
	ID	-0.474	0.141	-3.357**
R^2 = 0.046		F value = 6.007		
Adjusted R^2 = 0.039		F significance = 0.000		
		Model 2: CG and AS		
AS	(Constant)	0.268	0.117	2.304 ns
	CSIZE	-0.021	0.012	-1.841 ns
	DUAL	-0.089	0.043	-2.076*
	SIZE	-0.004	0.010	-0.361 ns
	ID	0.097	0.144	0.676 ns
R^2 = 0.015		F value = 6.007		
Adjusted R^2 = 0.007		F significance = 0.100		

		Model 3: AS and FP		
ROA	(Constant)	-0.860	1.072	-0.803^{ns}
	CSIZE	0.743	0.184	4.041**
	AS	0.391	0.741	0.528^{ns}
R^2 = 0.032			F value = 8.197	
Adjusted R^2 = 0.028			F significance = 0.000	
ROE	(Constant)	-3.417	1.649	-2.072^{ns}
	CSIZE	1.549	0.283	5.473**
	AS	1.044	1.140	0.916^{ns}
R^2 = 0.057			F value = 15.123	
Adjusted R^2 = 0.054			F significance = 0.000	
Tobin's Q	(Constant)	0.576	0.065	8.901^{ns}
	CSIZE	-0.004	0.011	-0.353^{ns}
	AS	0.024	0.045	0.526^{ns}
R^2 = 0.001			F value = 0.214	
Adjusted R^2 = -0.003			F significance = 0.807	
		Model 4: CG, AS, and FP		
ROA	(Constant)	-0.242	1.905	-0.127^{ns}
	DUAL	0.317	0.700	0.453^{ns}
	SIZE	0.364	0.160	2.270*
	ID	-7.175	2.342	-3.063**
	AS	0.562	0.731	0.769^{ns}
	CSIZE	0.731	0.190	3.856**
R^2 = 0.073			F value = 7.798	
Adjusted R^2 = 0.064			F significance = 0.000	
ROE	(Constant)	-2.967	2.941	-1.009^{ns}
	DUAL	0.458	1.081	0.424^{ns}
	SIZE	0.562	0.247	2.275*
	ID	-9.801	3.615	-2.712**
	AS	1.288	1.128	1.142^{ns}
	CSIZE	1.518	0.293	5.187**
R^2 = 0.092			F value = 10.057	
Adjusted R^2 = 0.083			F significance = 0.000	
Tobin's Q	(Constant)	0.763	0.115	6.635^{ns}
	DUAL	-0.114	0.042	-2.689**
	SIZE	0.010	0.010	1.046^{ns}
	ID	-0.476	0.141	-3.367**
	AS	0.020	0.044	0.455^{ns}
	CSIZE	-0.008	0.011	-0.713^{ns}
R^2 = 0.047			F value = 4.839	
Adjusted R^2 = 0.047			F significance = 0.000	

Notes: * represents $P < 0.05$ (significant); ** represents $P < 0.01$ (significant); ^{ns} represents non-significant

SOBEL TEST

TABLE 5. Summary of Sobel test

Independent Variable	Mediating Variable	Dependent Variable	t-value	Full/Partial Mediation
CEO/chairman duality	Auditor switching	ROA	-0.511^{ns}	Full
		ROE	-0.837^{ns}	Full
		Tobin's Q	-0.516^{ns}	Full
Board size	Auditor switching	ROA	-0.319^{ns}	Full
		ROE	-0.367^{ns}	Full
		Tobin's Q	-0.320^{ns}	Full
Presence of independent director	Auditor switching	ROA	0.415^{ns}	Full
		ROE	0.543^{ns}	Full
		Tobin's Q	0.418^{ns}	Full

Note: ^{ns} represents non-significant

DISCUSSION

Model 1 in Table 4examines the association between corporate governance and financial performance. CEO/chairman duality is not statistically strong and significant (p-value < 0.01) and negatively correlated with Tobin's Q only with a t-value of -2.745. The result is consistent with Hsu et al. (2012). This suggests that the separation of position for BOD chairman and CEO leads to better overseeing of the management on behalf of shareholders. For board size, no statistically significant linear dependence of the mean of Tobin's Q is detected. On the other hand, it is statistically significant (p-value < 0.05) and positively correlated with ROA and ROE with a t-value of 2.259 and 2.256 respectively. The result is consistent with Belkhir (2008). This suggests that large board size plays better roles in monitoring the management and leads to a better decision-making.There are also strong statistically significant (p-value < 0.01) linear dependence of the means of ROA, ROE, and Tobin's Q on independent directors detected. It is negatively correlated with ROA, ROE, and Tobin's Q with t-value of -3.043, -2.677, and -3.357 respectively. This suggests that independent directors do not necessarilyresult in good performance. When they do not play their roles properly, it can prompt faulty investment decisions. The result is inconsistent with Pathan et al. (2008), who stated that independent directors could oversee the management and retain market's reputation.

Model 2 in Table 4 examines the relationship between corporate governance and auditor switching. No statistically significant linear dependence of the mean of auditor switching on board size and presence of independent directors is detected. However, CEO/chairman duality is statistically significant (p-value < 0.05) and negatively correlated with auditor switching with a t-value of -2.076. This is inconsistent with past studies; for instance, Lin and Liu (2010) and Ianniello et al. (2013). It is due to the fact that all the past studies were conducted in foreign countries. In Malaysia, there is a long-term relationship with auditor when there is CEO/chairman duality, leading to the low tendency of auditor switching. Moreover, the importance of auditor is of less concern; and a high power distance in Malaysia that focuses on top-down relationship causes no objection from board members and independent directors when a less important decision such as auditor switching decision is made.

Model 3 in Table 4 examines the association between auditor switching and financial performance. No statistically significant linear dependence of the mean of auditor switching is detectedon financial performance. This reveals that auditors do not have a direct effect on financial performance as auditors are not those who manage the company. The result is inconsistent with Chang et al. (2008) who discovered that companies made positive earnings regardless of their switching to big 4 or non-big 4.

Model 4 in Table 4 examines the association between corporate governance, auditor switching, and financial performance. The overall results and significance level of model 4 are the results of the combination of models 1, 2, and 3.

According to Table 5 above, there are full mediating effects of auditor switching. When examining the relationship between corporate governance and financial performance, a significant relationship exists between them. However, when auditor switching is added as a mediator, no significant relationship exists between corporate governance and financial performance; with the justification being that the auditors are not part of the firm's decision-making body. Thus, they have to operate at the whims and caprices of those who appointed them regardless of what the law says. The implication here is, therefore, the term or tenure of the auditors should be specific, at least three years as in Nigeria as specified by the Companies and Allied Matters Act 2004 (CAMA 2004 amended) if they were to be re-appointed. Moreover, the law should be stringent in regard to the exit and entry which may be factored along the line of global best practices, experience and reputation Geiger and Raghunandan (2002).

CONCLUSION

In a nutshell, the association connecting corporate governance, auditor switching, and financial performance is evident. Companies should be more focused on corporate governance and auditor switching as to enhance their financial performances. The regulators are not only to ensure the rotation of partners, but the changing of audit firms to ensure effective compliance with the law by client firms as well as the need to bring in new methods or approaches to the audit process that bring about better understanding on the part of the management and the members of the public. However, Malaysian PLCs are still having low awareness on the importance of auditors even though all the hypotheses proposed in this study are supported. Therefore, more efforts are needed from the government to facilitate and educate the public on the importance of auditors to companies.However, this research suffered from few limitations. Firstly, the data used are secondary data and there is uncertainty over the data quality, especially where they are not made available on a timely manner and where they might have been manipulated before the publication to suit the interest of the managers and shareholders. Secondly, this research covers PLCs only. Thirdly, it emphasises only on the nominal variable for auditor switching. It is suggested that interview be conducted to explore this relationship especially in regard of getting the views of the client firm or company in line with the theory of Customer Perceived Value. Additional information can be obtained due to the flexibility in expressing words. Moreover, the future researchers can include private companies as samples to strengthen the representativeness of the study. Furthermore, considering the qualitative variables such as the reasons for auditor switching as the proxies in future research will be an enhancement to the required knowledge base in studies of this nature.

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