

Auditor Change During Listings: Effect On IPO Premiums

Shamsher Mohamad, Universiti Putra, Malaysia

Huson Joher, (Email: huson.aliahmed@curtin.edu.my), Curtin University of Technology, Malaysia

ABSTRACT

The study investigates the relationship between auditing services provided to 213 listed firms over a period from 1996 to 2000 by reputable (or tier 1) and non-reputable (non-tier 1) audit firms and the initial returns at listing. We use market adjusted initial return to reflect the firm's choice of auditor during the initial public offering (IPO's). The findings show that there is an inclination for listed firms to engage tier 1 audit firms, probably due to management's intention of signal the firm's favorable private information and credibility and integrity of reported financial information and ultimately increasing their chances of getting listed. The findings also show that there is no significant difference in the initial returns of IPO's firms irrespective of the reputation of auditors. However, there is a significant difference in the initial return of main and second board firms at listing whether firms are either audited by Tier 1 or non-Tier 1 audit firms. Firms that had upward switch showed higher returns, inconsistent with the auditor reputation hypothesis. This results, however, could be biased by the large number of new firms that did not switch auditors at listing, probably due to lack of time to make changes before listing, and/or have engaged tier 1 auditors at incorporation in anticipation of listing. However, the findings showed significant higher returns for second board firms relative to main board firms. These results do not support the widely held view that firms that seek listing do switch auditors prior to their listing for positive market signalling. The results indicate that auditor's reputation is not an important determinant of the IPO's initial return.

INTRODUCTION

The change of auditors prior to listing has been an issue of interest among academics, investors, and firms management in developed economies due to its effect on under pricing or overpricing of the new issue. It is a statutory requirement in Malaysia for every individual company that goes public to engage the services of merchant banks to help them get listed. In the process, the companies are required to provide prospectus audited by independent auditors to verify the true and fair value of the company. The prospectus normally contains information on assets, historical profitability, economic prospects, investment plans and some form of forecast profits and dividends. The entrepreneurs usually disclose favorable private information about the firm to the potential investors so as to enhance marketability of the offering with good premium. To add more credibility to the basic information provided in the prospectus the management of the firm engages the service of reputable auditor. The reputational standing of the accountants and auditors is potentially a signalling device for conveying the credibility of the information that could be much relied on by the potential investors, as they might not have any other resources to verify the information provided by the listing firm. It may also reduce uncertainty and therefore the level of premiums on the new listings, as investors might be willing to pay a higher offer price for the shares offered. Choice of quality differentiated audit firm might provide a useful setting to ascertain whether potential investors perceive the auditor change as a signal of level of uncertainty in the new issue.

Though the information contained in the prospectus gives potentially useful information to prospective investors there is also a great uncertainty surrounding the pricing of IPO due to limited disclosures practice among the Malaysian companies prior to the listing. In view of the concern about the inherent risks associated with rapid expansion of business activities being financed by the proceeds from the new issue, IPO's represent a classic example of information asymmetries between the pre-issue owners (the 'entrepreneurs') and the investing public.

Entrepreneurs have detailed information on the IPO's companies and its true worth whereas potential investors have limited knowledge of the business and its future economic prospects. Thus independent auditors will serve as signaling device in validating entrepreneurs' claims on private information about the value of the firm to potential stockholders. However, there is no documentation on this important issue in this developing Malaysian new issue market.

Auditor switch prior to the company going public is fairly common and widely alleged as management's effort to seek reputable auditors to reduce uncertainty in developed market. Carpenter and Strawser (1971) explained this phenomena as necessary to sell their offering at the highest possible price. This widely held view suggests that the employment of a reputable audit firm will increase the offer price of the new issue and investors accept lower returns in exchange for greater certainty.

There is ample evidence on under-pricing of the firm's equity securities (Rock, 1986; Beatty and Ritter, 1986; Balvers, Mcdonald and Miller, 1988; and Allen and Faulhaber, 1989). And various explanations have been offered for the underpricing: for example, Baron (1982) proposed that the investment banker is 'better informed' than the issuing company as to the demand of issuing company's securities and therefore underprice to ensure success of the issue; Rock (1986) and Beatty and Ritter (1986) proposed that two classes of IPO investors, 'informed' and 'uninformed' investors are assumed to exist, and underpricing is to entice the informed investors to participate. These explanations imply that there is a positive relationship between ex ante uncertainty and the underpricing (initial return) of the IPO.

With regard to choice of auditors at the time of listing, Simunic and Stein (1987) suggest that auditor product differentiation on the dimensions of control, credibility, and product line motivates management's auditor choice in IPO market. The form of the underwriter agreement, the proportion of common stocks held by outsiders after the IPO, and a measure of uncertainty are related to the choice of auditing firm. Beatty (1989) provides evidence consistent with Simunic and Stein (1987) that larger and less risky IPO clients tend to hire Big Eight auditing firms.

Titman and Trueman (1986) suggests that auditor quality provides useful information to investors in assessing the value of the IPO firm. Two features of their model lead to signaling of the IPO firm's value. First, high quality auditors (or investment bankers) are those individuals with a comparative advantage in establishing the reported information variable that is related to the firm value. Second, the firm is required to pay a 'price premium' for this higher quality audit. These two expected costs of hiring the high quality auditor exceed the expected benefits of misclassification for the low firm value IPO's. The cost-benefit relationship leads the entrepreneur to choose an audit firm that 'signals' firm value to the market.

In view of the importance of the auditors' choice at listing, this paper address the issue of the effect of choice of quality differentiated audit firms on IPO premiums of listed firms in the Kuala Lumpur Stock Exchange. More specifically, the hypothesized relationship between the choice of quality-differentiated audit and the initial return (market premium) of the initial public offers is examined.

The findings have important implications for corporate management decisions, the auditing profession, investment adviser/banker and investors in general. The documentation of the various auditor choice and auditor switch and the effect on the initial return (market premium) on initial public offerings will assist the corporate decision makers to signal news to potential investors before the listing. The findings would also provide information to the audit profession regarding public's perception on the quality and differentiation of quality of audit services. Investment adviser/banker would benefit from the understanding of choice of auditor as a signal of investment adviser/banker reputation and the pricing strategy of the new issues. Finally, the investing public could use this market signal in formulating price expectation of the new issues.

REVIEW OF LITERATURE

The theory of the firm as amended to include agency problem emphasizes the importance of auditing as a monitoring device (Jensen and Meckling, 1976) to validate the management's claim about the true and fair view of the

company to the potential investors who have very limited access to the company's private information. DeAngelo (1981's; 1981b) developed a demand and supply rational for audit quality. Audit quality is defined as the probability that an auditor will both discover the breach of contract (management and investing public) and subsequently report it. An analogy from product differentiation hypothesis is that firms use auditor choice as a signaling device to reveal firm's desirable characteristic. Firms appear to signal ex-ante uncertainty by engaging the services of a reputable audit firm. This signal is credible to the market since the auditor's compensation is higher exhibiting firm-specific reputation capital. Firms with favorable information would prefer the services of highly reputed auditors to reduce uncertainty. A switch to higher prestige audit firm can enhance audit services because of superior industry understanding and hence reduce uncertainty. Management may seek a reputable auditor in an attempt to install a better monitoring system and enhance the principals' faith in the financial reporting system. This would also portray to the potential shareholders the management's integrity and good stewardship of shareholders. It is widely perceived that higher prestige firm have greater incentive not to perform low quality audit (De Angelo, 1981)

It is well documented in the literature that some companies replace their auditors before going public, for reasons of prestige, reputation and greater technical ability (Carpenter and Strawser, 1971). It is also a common practice among Malaysia firms to employ more reputable auditors before listing. The AICPA (1978) and Lurie (1977) examined the various reasons for auditor switch and found that the larger and better-known audit firms were believed to encourage the sales of their shares. Francis and Wilson (1988) also documented that firms may change to higher prestige audit firms (Big-Eight) to increase marketability of the shares.

Unlike the corporate announcement of ex-post events such as earnings, dividends, etc., which reflect real change in corporate performance about expected future prospect of a company, auditor change is an event that convey no direct apparent economic information. Rather, the possible economic effect from such event is the signals associated with different interpretation about the quality of auditor switch by the investors at large (Hagigi et al., 1993).

De Angelo (1981a) found that financial statement users do not directly observe the audit procedure and have only limited information about the auditor contractual arrangement. However, financial statement users develop observable proxies, which are associated with audit quality. DeAngelo (1981b) argues that larger firms have greater incentive to supply high quality audit services to maintain market capital. It is also asserts that size of the audit firm signals audit quality, since larger firm have more clients and accordingly, more future quasi-rents will be lost if the auditor's reputation is tarnished. Dopuch and Simunic (1982) assert that larger audit firms have differentiated themselves from other audit firms in terms of higher audit quality. The assertion on size and quality of audit firms suggests that larger audit firms deliver higher quality audits and are less likely to accede to client's pressure regarding the use of questionable accounting policies and practices. This is designed to build confidence on the financial statement from the auditors. If the company with favorable private information chooses to engage higher prestige audit firm, the market should react favorably when company had such an upward switch. However, a switch to a lower prestige firm (non-Tier 1) is viewed negatively due to the shifting signals of lesser quality standard (Hagigi et al., 1993; Johnson and Lys, 1990). Therefore, the market would probably respond positively to the former and negatively to the latter moves.

From the agency perspective, a company's audited financial statements provide a means for owners to monitor the performance of the firm's manager. Financial statements that are certified by independent professional auditors provide assurance about reliability and credibility. Wallace (1980) suggests that increased credibility of financial statements certified by credible auditors reduce investors' uncertainty about the reliability of the content of financial statements. This suggests that the price effect on shares from auditor switch actually is a proxy for the quality of information under strict professional application of standards of a robust accounting environment. Thus, financial statements attested by a credible auditor provide an attestation about the quality of information certified by accounting profession to investors. In contrast, financial statements that are audited by smaller audit firms, which are less reputable may not reduce investors' uncertainty about the well being of a company. Hence, a costly search by investors to evaluate the true and fair value of the company is perpetrated in such situations. Accordingly, market participants may lower the price they are willing to pay for the securities of such firms that switch to lower quality auditors.

There are also conflicting opinions in some studies. In contrary to the above arguments, some of earlier studies argued that professional standard imply homogeneity across different size of audit firms such that audit quality is independent of audit firm size. It is further argued that audit quality is relatively homogeneous across audit firms assuming all audit firms adhere to Generally Accepted Accounting Principles (GAAPs) and Generally Accepted Auditing Standard (GAASs). Arnett and Danos (1979) viewed that size alone should not be a prime determinant of audit quality. As long as professional standards and qualifications are maintained, it would be unfair to arbitrarily distinguish between more or less prestige audit firms. However, Dopuch and Simunic (1982) argue that that credibility must be associated with an observable characteristic, such as brand name. Since the detailed information of various audit firms are not publicly disclosed, auditors need not be perceived as homogeneous in the quality of their services. Such an attribute is difficult and costly to develop as well as maintain, thus it must have market value. Therefore, market for auditors should be characterized by product differentiation. In other words, there is heterogeneity among the audit firms. From the observed two-tier audit industry structure, Dopuch and Simunic (1982) inferred that higher prestige audit firm is more credible than the others.

DATA AND ANALYSIS

Data

This study covers 213 newly listed firms for the period 1996 to 2000. The information on offer price and the traded price of these firms was extracted from Kuala Lumpur Stock Exchange (KLSE) records, the IPO companies' prospectus and annual reports. For information prior to listing on sampled firms was obtained from the Registry of Companies (ROC). The Composite index proxies the market portfolio and the values of the index was extracted from daily diary of KLSE.

To determine impact of auditor switch prior to going public, the choice of auditors at the time of listing was examined. Auditor changes that occurred more than two financial periods prior to the IPO was not considered as the effect of such changes is remote to have any significant impact on the IPO's' initial return.

Analysis

To determine the price impact of various auditor switches, the audit firms are categorized into two categories, the 'Big Eight' (and subsequently 'Big Five') as Tier 1 audit firms and Non Tier 1 audit firms. Tier 1 firms are used here to proxy higher prestige audit firm with greater reputational capital, whereas the Non-tier 1 firms' proxy the less prestige audit firms with lesser reputational capital. To analyze the impact of auditor switch during IPO, the data on auditors is sorted into six groups in two different categories:

a. IPO with auditor switch

- Switch from non-tier 1 audit firm to tier 1 audit firm – upward switch.
- Switch from tier1 audit firm to non-tier 1 audit firm – downward switch.
- Switch from tier 1 audit firm to another tier 1 audit firm – lateral switch.
- Switch from non-tier 1 audit firm to another non-tier 1 audit firm – lateral switch.

b. IPO with no auditor switch

- Remain with the same tier 1 auditor
- Remain with the same non tier 1 auditor
- The IPO with no auditor switch serves as the control group.

The initial return for a firm going public is defined as the first day gross return to an investor who acquire a share and sells at the closing price on the first day of public trading. The initial return in percentage could be computed by:

$$\text{Initial Return (IR)} = \frac{P_{MC} - P_{IPO}}{P_{IPO}} \times 100\%$$

Where P_{MC} : Market price at the close of first trading day, and P_{IPO} : IPO's offer price.

The return on the market portfolio is computed for the identical time period for each IPO. The market return in percentage is defined as:

$$\text{Market Return (MR)} = \frac{KLCI_{MC} - KLCI_P}{KLCI_P} \times 100\%$$

Where $KLCI_{MC}$: Kuala Lumpur Composite Index at the close of first trading day, and $KLCI_P$: Kuala Lumpur Composite Index at the close of the previous trading day.

The Market Adjusted Initial Return (MAIR) is estimated for all categories of switch sample and is defined as the difference the initial return on the new issue and the return on the market, that is, $MAIR = IR - MR$. The average market adjusted initial return (AMAIR) for each group is computed. Mathematically, it could be expressed as:

$$AMAIR_g = \frac{\sum MAIR_i}{N_g}$$

Where $AMAIR_g$ = average market adjusted initial return of respective groups, $MAIR_i$ = market adjusted initial return of IPO firm, and N_g = number of firms in each of the groups.

It is hypothesized that the IPO's audited by the tier 1 auditor signals lesser ex ante uncertainty than IPO's audited by non-tier 1 auditor, thus earning lower average initial returns (AIR),

$$AIR (\text{Tier 1 Auditors}) < AIR (\text{Non Tier 1 Auditors})$$

Similarly, IPO's with downward auditor switch (i.e. switch from tier 1 auditor to non-tier 1 auditor) resulting an increases the ex ante uncertainty, thus earning a higher initial returns.

$$AIR (\text{Downward Switch}) > AIR (\text{Tier 1 No Switch})$$

However, for the price effect of IPO's with lateral auditor switches (i.e. tier 1 auditor switch to another tier 1 auditor or non-tier 1 auditor switch to another Non Tier 1 auditor) is more ambiguous, and a mix signal is expected. However, the initial returns of IPO with non-tier 1 lateral auditor switch are expected to generate higher initial returns than the IPO with tier 1 lateral auditor switch. This could be expressed as:

$$AIR (\text{Non Tier 1 lateral switch}) > AIR (\text{Tier 1 lateral switch})$$

The student-t statistics are used to test the statistical significance of the findings.

FINDINGS

IPO's – Board Of Listing And Auditor Choice

A summary of the sample of main and second board firms and their auditor classifications is presented in Table 1. The sample consists of 213 initial public offerings with 75 Main Board and 138 Second Board firms. Fifty-seven (76%) of the main board firms and 78 (56%) of the second board firms were audited by tier 1 auditors. Non-tier 1 auditor firms audited the remaining of the sample. This implies the dominance of tier 1 auditor firms for main board firms and a little more than half of the second board firms.

The bias towards choice of Tier 1 auditors indicates the management's preference to signal the companies' credibility, integrity, reliability of the published information and responsibility towards potential investors. The main board IPO's is expected to employ the services of tier 1 auditors to sustain their reputation as larger, more established and less risky firms. Tier 1 auditors' are perceived to be more stringent in providing better quality audit and hence reduce uncertainty.

Table 1: Sampled Main Board And Second Board IPO's And Their Auditor Choice

Listing Board	Auditors Classification				Combined (Tier1 and Non Tier 1)	
	Tier 1 Auditors		Non Tier 1 Auditors			
	Number	%	Number	%	Number	%
Main Board	57	26.8	18	8.4	75	35.2
Second Board	78	36.6	60	28.2	138	64.8
Combined (Main and Second Board)	135	63.4	78	36.6	213	100.0

Auditor Choice And Initial Returns

Table 2 shows initial return of main board and second board firms audited by both Tier1 and Non-Tier1 auditors.

Table 2 : Auditors Choice And IPO's' Initial Return

Listing Board	Auditors Classification			
	Tier 1 Auditors		Non Tier 1 Auditors	
	Mean Return (%)	Std Dev. (%)	Mean Return (%)	Std Dev. (%)
Main Board	95.69	97.76	76.27	54.71
Second Board	133.09	119.58	151.37	108.40
Combined (Main and Second Board)	117.30	112.05	134.04	103.34

Initial return for overall IPO's sample audited by tier 1 and non-tier 1 auditors are 117.30% and 134.04% respectively. However, there is no significant difference ($p = 0.293$) between these initial returns, implying no price effect of auditor choice (tier 1 or non tier 1) decision during listing. Similarly, there are no significant differences ($p > .10$) between initial returns of main board firms audited by either Tier1 or non-tier 1 audit firms. Similar results are observed for second board firms.

For firms audited by tier 1 auditors only, there is a significant difference (at 5% level) in initial returns ($t = 1.996$) between main and second board firms. Similarly, for firms audited by non-tier 1 audit firms only, there is a significant difference (at 1% level) between initial returns ($t = 3.94$) of main and second board firms.

These findings are consistent with the product differentiated hypothesis proposed by DeAngelo (1981a; 1981b). The Tier 1 auditors are perceived to provide higher quality audit service that reduces the IPO's ex ante

uncertainty than Non-Tier1 audit firms and hence resulting in lower initial returns. Despite the observed audit firm's reputational effect on the initial returns, the lower returns of main board firms might also be attributable to the perceived lower risk compared to second board firms which are less stable and more volatile.

IPO's And Auditor Changes

The distributional characteristics of various categories of auditor switch for the newly listed main and second board firms for the period from 1996 to 2000 are presented in Table 3.

Table 3: Auditors And Their Changes In IPO's

Type Of Switches	Main Board		Second Board		Combined (Main and Second board)	
	No.	%	No.	%	No.	%
Tier 1 unchanged (no switch)	56	26.29	60	28.17	116	54.46
Tier 1 to another Tier 1 (lateral switch)	0	0.00	1	0.47	1	0.47
Tier 1 to Non Tier 1 (downward switch)	0	0.00	0	0.00	0	0.00
Non Tier 1 unchanged (no switch)	18	8.45	55	25.82	73	34.27
Non Tier 1 to another Non Tier 1 (lateral switch)	0	0.00	5	2.35	5	2.35
Non Tier 1 to Tier 1 (upward switch)	1	0.47	17	7.98	18	8.45
Total	75	35.21	138	64.79	213	100.00

Table 3 shows that only 24 (about 18%) firms did change their auditors at the time of listing, and majority of the change (18 out of the 24 firms) were in the upward switch (non-tier 1 to tier 1) category. Seventeen of the upward switch firms were from the second board.

Eighty-two percent of the sampled firms did not switch auditors when listing, of which majority is second board firms that engaged the services of tier 1 audit firms. The high proportion of no switch firms might be due to a combination of the following reasons:

- large numbers of IPO's were incorporated shortly prior to the listing, therefore the choice of auditors had been duly considered and was not expected to change within such a short time period.
- firms that were incorporated for a long time, majority changed their auditors earlier than two financial period prior to listing. In the process of complying the capital requirement and profit performance requirements, these firms switch their auditors in anticipation of going public three years or five years ahead.

Auditor Switch And Initial Returns

Table 4 summarize the various categories of auditor switch and their respective initial returns.

Table 4: Various Auditors Switches And IPO's' Initial Return

Type of Switches	Main Board		Second Board	
	Mean Returns (%)	Std Dev. (%)	Mean Returns (%)	Std Dev. (%)
Tier 1 unchanged (no switch)	94.86	98.44	129.15	124.85
Tier 1 to another Tier 1 (lateral switch)	0	0	70.00	-
Tier 1 to Non Tier 1 (downward switch)	0	0	0	0
Non Tier 1 unchanged (no switch)	76.27	54.71	149.58	102.26
Non Tier 1 to another Non Tier 1 (lateral switch)	0	0	171.00	177.84
Non Tier 1 to Tier 1 (upward switch)	142.40	-	150.70	103.45
Total	75	35.21	138	64.79

For main board listings, the initial returns for non-switch tier 1 firms are larger (94.86%) than the initial returns of non-switch non-tier 1 firms (76.27%), the difference is not statistically significant. However, the firms in the upward switch category recorded 142.40% initial returns. For the second board, the tier 1 non-switch firms generated 129% initial returns, which are lower than the non-switch non-tier 1 firms' returns of 149%; the difference is not statistically significant. Firms that had upward switch (from non-tier 1 to tier 1) recorded 150% returns. These findings are basically inconsistent with the auditor reputation hypothesis, which postulates that firms audited by reputable auditors should have lower initial returns due to less uncertainty.

CONCLUSION

The study investigates the relationship between auditing services provided to 213 listed firms by reputable (or tier 1) and non-reputable (non-tier 1) audit firms and the initial returns at listing. The findings show that there is an inclination for listed firms to engage tier 1 audit firms, probably due to management's intention of signal the firm's favorable private information and credibility and integrity of reported financial information and ultimately increasing their chances of getting listed. Investment banker's and other advisors' prefer to engage tier 1 auditors to project a better image that could increase the marketability of the issue and reduce the risk of under-subscription.

The findings show that there is no significant difference in the initial returns of IPO's firms irrespective of the reputation of auditors. However, there is a significant difference in the initial return of main and second board firms at listing whether firms are either audited by Tier 1 or non-Tier 1 audit firms. Firms that had upward switch showed higher returns, inconsistent with the auditor reputation hypothesis. This results, however, could be biased by the large number of new firms that did not switch auditors at listing, probably due to lack of time to make changes before listing, and/or have engaged tier 1 auditors at incorporation in anticipation of listing. However, the findings showed significant higher returns for second board firms relative to main board firms. These results do not support the widely held view that firms that seek listing do switch auditors prior to their listing for positive market signalling. The results indicate that auditor's reputation is not an important determinant of the IPO's initial return. The findings are consistent to those documented by Shamsheer and Annuar (1997) that investors are indifferent to the quality of audit services provided by large and small firms. It is highly probable that investors perceive auditors' services as homogenous. Other variables such as listing board characteristics play a greater role in determining the level of initial returns of initial public offerings.

The findings might be explained by the investors' preference for other factors, such as listing board characteristics, the company and its business risk, the fundamental factors such as profitability and growth, rather than auditor choice and auditor switch as important determinant of initial returns. It is also possible that in the developing market like Malaysia, investors' awareness of market information and reliance on professional expertise are low, financial litigious culture is minimal and corporate governance is still at developing stage. There is limited companies disclosure, the market structure itself has minimal reliance on auditor expertise, and therefore its impact on IPO's is not expected to be significant.

Evidence from a study by Shamsheer, Annuar and Ariff (1993) on new issues newly listed within 1975-1989 suggest that the average initial return in Malaysia on the first trading day is 135%, which is 7.5 times the normal return of 18% per annum. This hefty return might lead to investors to believe that IPO is a sure win. In such a situation, the auditor role in attesting the accuracy and reliability of financial information in IPO's that supposedly reduce the IPO's ex ante uncertainty might be irrelevant.

REFERENCES

1. Allen, F. and G. R. Faulhaber (1989). Signalling By Underpricing in the IPO Market. *Journal of Financial Economics*, 23, 303-323.
2. American Institute of Certified Public Accountants (1978). Commission on Auditors' Responsibilities: Report, Conclusion and Recommendations. (AICPA 1978).
3. Balvers, R. J., W. McDonald, and R. E. Miller (1988). Underpricing of New Issues and the Choice of Auditor as a Signal of Investment Banker Reputation. *The Accounting Review*, 63(4), 605-622.

4. Baron, D. P. (1982). A model of the Demand for Investment Banking Advising and Distribution Services for New Issues. *Journal of Finance*, 37(September), 955-976.
5. Beatty, R. P. and J. R. Ritter (1986). Investment Banking, Reputation, and the Underpricing of Initial Public Offerings. *Journal of Financial Economics*, 16(Jan/Feb), 213-232.
6. Carpenter, C. G. and Strawser, R. H. (1971). Displacement of Auditor When the Clients Go Public. *Journal of Accountancy*, June, 55-58.
7. De Angelo, L. E. (1981a). Auditor Size and Audit Quality. *Journal of Accounting and Economics*, (December), 183-199.
8. De Angelo L. E. (1981b). Auditor Independent, “Low Balling”, and Disclosure Regulation. *Journal of Accounting and Economics*, 113-127.
9. Dopuch, N. and D. Simunic (1982). Competition in Auditing: An Assessment. Symposium on Auditing Research IV, Urbana: University of Illinois.
10. Francis, J. R. and Wilson, E. R. (1988). Auditor Changes: A Joint Test of Theories Relating to Agency Costs and Auditor Differentiation. *The Accounting Review*, 63(4), 663-683.
11. Hagigi, M., B. D. Kluger, and D. Shields (1993). Auditor Change Announcement and Dispersion of Investor Expectations. *Journal of Business Finance & Accounting*, 20(6), 787-802.
12. Johnson, W. B. and T. Lys (1990). Market for Audit Service: Evidence from Voluntary Auditor Change. *Journal of Accounting and Economics*, (January), 281-308.
13. Jensen, M. C. and Meckling, W. (1976). Theory of the Firm: Managerial Behaviour, Agency Cost and Ownership Structure. *Journal of Financial Economics*, 3, 305-360.
14. Lurie, A. G. (1977). Selecting Your Auditor. *Financial Executive*, July, 50-58.
15. Rock, K. (1986). Why New Issues Are Underpriced. *Journal of Financial Economics*, 16(Jan/Feb), 187-212.
16. Shamsheer, M., M.N. Annuar, and M. Ariff (1993). Underpricing and Signalling in the New Share Issues Market. *Stock Pricing in Malaysia – Corporate Financial and Financial Management*, Serdang: University Putra Malaysia Press, 98-118.
17. Shamsheer, M. and M.N. Annuar (1997). Auditing Firm Reputation, Ex Ante Uncertainty and the Underpricing of Initial Public Offerings on the Second Board of Kuala Lumpur Stock Exchange: 1990-1995. *Pertanika Journal of Social Science and Humanities*, 5(1):5, 59-64.
18. Simunic, D. A. and M. Stein (1987). Product Differentiation in Auditing: Auditor Choice in the Market for Unseasoned New Issues. Monograph Prepared for the Canadian Certified General Accountant Research Foundation.
19. Titman, S. and B. Trueman (1986). Information Quality and the Valuation of New Issues. *Journal of Accounting and Economics*, (June), 159-172.
20. Wallace, W. A. (1980). *The Economic Role of the Audit in Free and Regulated Market*. New York: Touche Ross & Co.

NOTES