

Auditor Change During Listings: Effect on IPO Premiums

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ABSTRAK

Kajian ini meneliti kaitan antara pulangan awal yang diperolehi dari penyenaiaan syarikat di papan pertama dan kedua Bursa Saham Kuala Lumpur (BSKL) dengan syarikat audit yang digunakan dalam penyiapan dan penyemakan prospektus syarikat yang disenaraikan. Syarikat audit dibahagikan kepada dua kumpulan, iaitu syarikat yang ternama (Tier 1) dan syarikat yang tidak ternama (Bukan Tier 1). Diandaikan bahawa syarikat audit yang ternama akan memberi perkhidmatan audit yang berkualiti dan ini dapat mengurangkan tahap ketakpastian pelabur terhadap potensi syarikat yang hendak disenaraikan. Ini menyebabkan pulangan awal dari penyenaiaan adalah lebih rendah jika dibandingkan dengan pulangan awal dari syarikat yang menggunakan perkhidmatan audit dari syarikat audit yang tidak ternama. Penemuan kajian atas 213 syarikat yang disenaraikan di BSKL menunjukkan memang ada kecenderungan firma-firma yang hendak menyenaraikan saham-sahamnya di BSKL untuk menggunakan perkhidmatan syarikat-syarikat audit yang ternama. Tidak terdapat perbezaan yang signifikan antara pulangan awal dari penyenaiaan oleh syarikat yang menggunakan perkhidmatan syarikat audit yang ternama dengan yang tidak ternama. Walau bagaimanapun, pulangan awal syarikat-syarikat yang disenaraikan di papan kedua jauh lebih tinggi dari pulangan awal dari syarikat yang disenaraikan di papan pertama BSKL. Penemuan ini menunjukkan reputasi syarikat audit (iaitu sama ada ternama atau tidak) tidak berperanan sebagai penentu pulangan awal semasa penyenaiaan. Penemuan ini secara keseluruhannya adalah tekal dengan penemuan daripada kajian yang lain (Shamsher & Annuar 1997) yang menunjukkan bahawa pelabur di BSKL tidak membezakan kualiti perkhidmatan audit yang diberikan oleh syarikat-syarikat audit yang ternama dan yang tidak ternama.

ABSTRACT

The study examined the relationship between choice of quality differentiated audit firm and initial return at listing. It is conjectured that the superior audit quality of Tier 1 audit firms helps to reduce ex-ante uncertainty and consequently reduces the initial premiums at listing. The findings show that there is an inclination for listed firms to engage Tier 1 audit firms, and no significant difference in the initial returns of IPOs firms audited by either Tier 1 or Non-Tier 1 audit firms were observed. However, higher significant initial returns for new issues were observed for Second Board firms relative to Main Board firms. The findings do not appear to suggest that the auditor reputation is a determinant of initial returns at listing. The findings are consistent with those documented by Shamsher and Annuar (1997) that investors are indifferent to the quality of audit service provided by Tier 1 and Non-Tier 1 audit firms.

INTRODUCTION

The change of auditors prior to listing has been an issue of interest among academics, investors, and management in developed economies due to its effect on underpricing or overpricing of the new issue. It is a statutory requirement in

Malaysia for every 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 statements as being true and fair view of the company. The

prospectus normally contains information on assets, historical profitability, economic prospects, investment plans and some form of profit forecast and dividends. The entrepreneurs usually disclose favourable private information about the firm to the potential investors so as to enhance marketability of the offering without too much offer premium. To add more credibility to the basic information provided in the prospectus, the management may engage the service of reputable auditor. The reputation of the accountants and auditors is potentially a signaling device for conveying the credibility of the information supplied to potential investors, since investors might not have any other resource to verify the information provided by a 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 if the audit firm is more reputable than the one engaged prior to going public. Choice of quality differentiated audit firm might provide a useful setting to ascertain whether potential investors perceive the auditor change as a signal of the 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 deal of uncertainty surrounding the pricing of IPO, which is further complicated given limited disclosures by companies prior to listing. In view of the concern about the inherent risk associated with rapid expansion of business activities being financed by the proceeds from a new issue, IPO represents a classic example of information asymmetries between the pre-issue owners who are the entrepreneurs and the investing public. Entrepreneurs have detailed information on the companies and their 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 based on private information about the potential value of the firm to stockholders. There is no documentation on this important issue in this emerging Malaysian IPO market.

In view of the importance of the auditors' choice at listing, this paper examines the effect of choice of quality differentiated audit firms on the IPO premiums of newly listed firms in the Kuala Lumpur Stock Exchange (KLSE). The

hypothesised relationship between the choice of quality-differentiated audit and the initial return of the IPOs is investigated.

The findings have 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) from offerings will assist the corporate decision makers to signal inside information 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. Section 2 presents literature on the auditor credibility and initial public offerings. Section 3 provides discussion on methodology, data collection and return measurement techniques. Section 4 provides discussion on findings and the final section summarises the findings of the paper.

REVIEW OF LITERATURE

The theory of the firm as amended to include agency problem emphasises the importance of auditing as a monitoring device (Jensen and Meckling 1976) to validate the management's use of audited statements to convey a true and fair view of the company to the potential investors who have very limited access to the company's private information. DeAngelo (1981a;1981b) developed a demand and supply model for audit quality. Audit quality is defined as the probability that an auditor will both discover the breach of contract (by the management and the investing public) and the ability to 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 favourable information would prefer the services of highly reputed auditors to reduce

uncertainty. A switch to a prestigious audit firm can enhance audit services because of superior industry understanding, which help reduce uncertainty of the value of information in financial statements. 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 audit firm has greater incentive not to perform low quality audit (DeAngelo 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). 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) documented that firms may change to higher prestige audit firms (Big-Eight) to increase marketability of the shares. It is also a common practice among Malaysian firms to employ more reputable auditors before listing. Huson *et al.* (2001) examined the wealth effect of auditor switch among Malaysian listed firms. They documented no evidence of significant wealth effect from auditor switch announcement. Thus, auditor switch in this emerging capital market conveys no information value associated with auditor switch.

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 conveys no direct apparent economic information. Rather, the possible economic effect from such event is the signal associated with different interpretation about the quality of auditor switch by the investors at large (Hagigi *et al.* 1993).

DeAngelo (1981a) found that financial statement users do not directly observe the audit procedure and have only limited information about the auditor contractual arrangement. However, they develop observable proxies for audit procedures and auditor contractual arrangement, which are associated with audit

quality. De Angelo (1981b) argues that larger firms have greater incentive to supply high quality audit services. It is also asserted that the size of the audit firm signals audit quality, since larger ones 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 a favourable private information chooses to engage higher prestige audit firm, the market should react favourably. However, a switch to a lower prestige firm (non-Big-8) 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 managers. 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 applications of standards of a robust accounting environment. Thus, financial statements attested to by a credible auditor provide believable attestation about the quality of information certified by the accounting profession represented by particular auditor 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. Contrary to the above arguments, some of earlier studies are based on the argument that professional standard imply homogeneity across different size of audit firms such that audit quality is independent of firm size. It was 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). However, Dopuch and Simunic (1982) argued 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 to be 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, as are all competitive producing units. In other words, there is heterogeneity among the audit firms. From the observed two-tier audit industry structure, Dopuch and Simunic inferred that higher prestige audit firm is more credible than the others.

Auditor switch prior to the company going public is fairly common and widely explained as one of management's efforts to reduce uncertainty in emerging market. Carpenter and Strawser (1971) explained this phenomenon 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 may be predisposed to accept lower returns in exchange for greater certainty.

There is ample of evidence on underpricing of the firm's equity securities (Rock 1986; Beatty and Ritter 1986; Balvers *et al.* 1988; and Allen and Faulhaber 1989). 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 issue and therefore the issuer underprice to ensure success of the issue. Rock (1986) and Beatty and Ritter (1986) proposed two classes of investors, 'informed' and 'uninformed' investors are assumed to exist, and underpricing is to entice the informed investors to participate to reveal the value of the issue. These explanations

suggest that there is a positive relationship between *ex ante* uncertainty and the underpricing of IPO.

With regard to choice of auditors at the time of listing, Simunic and Stein (1987) suggest that audit firm disassociated themselves by differentiation on the dimensions of control and credibility. 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 which auditing firm is chosen. Beatty (1989) provides evidence consistent with Simunic and Stein (1987) that larger and less risky IPO clients tend to hire the Big Eight auditing firms.

Titman and Trueman (1986) suggests that auditor quality provides useful information to investors to assess the value of the IPO firm. They showed analytically that an entrepreneur has the incentive to choose level of auditor quality that correctly reveals the private information about the firm. They suggest that the more reputable auditors charge a premium price for additional credibility they bring. Such auditors are more likely to uncover and disclose adverse information about the firm.

DATA AND ANALYSIS

Data

This study covers 213 firms listed on the main second boards of KLSE over the period 1996 to 2000. The information on offer price and the traded price of these firms was extracted from KLSE records, the company prospectus and annual reports. Information prior to listing, was obtained from the Registrar of Companies (ROC). The Composite Index is used as a proxy of the market portfolio and the values of the index were extracted from the daily diary of KLSE.

To determine the 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 were not considered.

Analysis

To determine the price impact of various auditor switches, the audit firms are categorised into two categories, the 'Big Eight' (and subsequently 'Big Five') as Tier 1 audit firms and Non-Big

(Non Tier 1) audit firms (Dopuch and Simunic 1982). Tier 1 firms are used to proxy higher prestige audit firm with greater reputational capital, whereas the Non-tier 1 firms' proxy the less prestige audits firms with lesser reputational capital. To analyse the impact of auditor switch during the issue, the data on auditors are sorted into six groups in two different categories:

a. *IPO with Auditor Switch*

1. Switch from no-Tier 1 audit firm to Tier 1 audit firm - upward switch.
2. Switch from Tier1 audit firm to Non-Tier 1 audit firm - downward switch.
3. Switch from Tier 1 audit firm to another Tier 1 audit firm - lateral switch.
4. Switch from non-Tier 1 audit firm to another Non-Tier 1 audit firm - lateral switch.

b. *IPO with No Auditor Switch*

1. Remain with the same Tier 1 auditor
 2. 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 acquires a share and sells at the closing price on the first day of public trading. The initial return in percentage is:

$$\text{Initial Return (IR)} = \frac{P_{MC} - P_{IPO}}{P_{IPO}} \times 100\% \quad (1)$$

Where P_{MC} : Market price at the close of first trading day, and

P_{IPO} : IPO's offer price.

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

$$\text{Market Return (MR)} = \frac{KLCI_{MC} - KLCI_p}{KLCI_p} \times 100\% \quad (2)$$

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. It is defined as the difference between 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.

$$AMAIR_g = \frac{\sum MAIR_g}{N_g} \quad (3)$$

Where $AMAIR_g$: average market adjusted initial return of respective groups

$MAIR_g$: market adjusted initial return of respective groups

N_g : number of firms in each of the groups

It is hypothesized that the IPOs audited by the Tier 1 auditor signals lesser *ex ante* uncertainty than IPOs 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, IPOs 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 IPOs 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 mixed 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 observed values.

FINDINGS

IPOs - 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 auditors audited the remainder. A dominance by Tier 1 auditors firms in the Main Board is little more than half of the Second Board firms. The bias towards choice by 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 IPOs are 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 help reduce uncertainty for inviting public.

Auditor Choice and Initial Returns

Table 2 shows initial return of main board and second board firms audited by both Tier 1 and Non-Tier 1 auditors.

Initial return for overall IPO 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 at acceptance level of .10 between initial returns of Main Board firms audited by either Tier 1 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 .05 acceptance level) in initial returns with a $t=1.996$ for the value of the main and Second Board firms. Similarly, for firms audited by Non-Tier 1 audit firms only, there is a significant difference (at .01 acceptance level) between initial returns with a $t=3.94$ of Main and Second Board firms.

These findings are consistent with the product differentiation hypothesis proposed by DeAngelo (1981a;1981b). The Tier 1 auditors appears to provide higher quality audit service that reduces the IPOs' *ex ante* uncertainty more than Non-Tier 1 audit firms. This results in lower initial returns for firm engaging Tier 1 auditor. Despite the observed audit firm's reputation 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 that are less stable and more volatile.

TABLE 1
Sampled main board and second board IPOs and their auditor choice

| Listing Board | Auditors Classification | | | | | |
|----------------------------------|-------------------------|------|---------------------|------|-------------------------------|-------|
| | Tier 1 Auditors | | Non Tier 1 Auditors | | Combined (Tier1 and NonTier1) | |
| | 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 |

TABLE 2
Auditors choice and IPOs' 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 |

IPOs and Auditor Changes

The distributional characteristics of various categories of auditor switch for the newly listed Main and Second board firms are presented in Table 3.

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 switches (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 these, a majority is from Second Board firms that engaged the services of Tier 1 audit firms. The high proportion of no-switch firms may be due to a combination of factors.

The large numbers of IPOs 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. Possibly firms that were incorporated for a long time, a majority of firms changed their auditors earlier than two financial periods prior to listing. In the process of complying with the capital and profit performance requirements, these firms switched their auditors in anticipation of going public three years or five years ahead.

Auditor Switch and Initial Returns

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

For the 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

TABLE 3
Auditors switch during IPOs

| Type of Switches | Main Board | | Second Board | | Combined (Main and Secondboard) | |
|---|------------|-------|--------------|-------|---------------------------------|--------|
| | 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 4
Auditors switches and IPOs' 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 |

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

This paper investigates the hypothesised relationship between the firms' choice of quality differentiated audit firms (reputable (or Tier 1) and non-reputable (Non-Tier 1)) audit firms and the initial returns at listing. The findings appear to suggest that there is an inclination for newly listed firms to engage Tier 1 audit firms, probably due to management's intention of signaling the firm's favourable private information and credibility of the reported financial information. 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 also show that there is no significant difference in the initial returns of IPOs firms engaging Tier 1 and Non-Tier 1 audit firms. However, there is a higher and significant initial return for Second Board firms at listing compared to Main Board firms. Firms that had upward switch (Tier 2 to Tier 1) showed higher returns as compared to lateral change in the same tier, inconsistent with the auditor reputation hypothesis. This results, however, could be biased by the large number of newly listed 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. These results do not support the widely held view that firms that seek listing do switch auditors prior to their listing for positive market signaling. The results indicate that auditor's reputation is not an important determinant of the IPOs initial return. These findings are consistent to those documented by Shamsher and Annuar (1997) that investors are indifferent to the quality of audit services provided by Tier 1 and Non-Tier 1 audit firms. It is highly probable the differences in the listing board characteristics are important determinant of initial returns at listing.

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