

Big Audit Firm: Do Thai Firms With Good Board And Audit Committee Structures Use It As A Monitoring Tool?

Wonlop Buachoom

Faculty of Accountancy, Rangsit University, Pathumthani, Thailand,
wonlop.b@rsu.ac.th

Ittidej Seangpuang

Faculty of Accountancy, Rangsit University, Pathumthani, Thailand,
ittidej.se@rsu.ac.th

Abstract

As big audit firm can provide better audit quality which results in good monitoring to support effective corporate governance system, this study aims to determine the relationship between corporate governance mechanisms, such as board and audit committee structures, and use of big audit firms as a monitoring function of Thai listed firms. To examine this relationship, the logistic estimator is applied for the data of 442 listed firms in the Thai stock market for 15 years from 2001 to 2015. The results from the logistic analysis show that good corporate governance mechanisms have association with use of big audit firms; that is, board independence, and audit committee meeting frequency have significant positive relationship with selecting big audit firms as monitoring tool of Thai listed firms, but dual role of leadership on board results in the opposite association.

Keywords: corporate governance, board of directors, audit committee, big audit firm, audit quality, Thailand

Introduction

When conflicts between owners and agents are addressed as the firm is managed by the agents who are not the owners of the firm, the owners need to ensure that the agents carry out their duties based on the best interests of the owners. Thus, the monitoring provision is introduced to oversee activities of the executives (Puffer & Weintrop, 1991). Corporate governance mechanism suggests monitoring system in terms of separation of decision control function from decision management function (Fama & Jensen, 1983b). The board of directors and its subcommittees as core elements of corporate governance play particular roles on behalf of the owners in overseeing the activities within the firm (Fama & Jensen, 1983a, 1983b). The board of directors acts as a connection between owners and executives. It not only serves the firm as a supervisor, but also helps to monitor behaviour of executives to ensure that executives of the firm act for the benefit of the owners rather than for themselves (Adams, Hermalin, & Weisbach, 2008; Stiles & Taylor, 2001).

Thus, the monitoring function of the board is one of good internal control mechanisms for controlling activities of executives (Beasley, 1996; Fama & Jensen, 1983a, 1983b; Hermalin & Weisbach, 1991). At the same time, an audit committee plays its roles to support the monitoring function of board of directors (Adams et al., 2008; Chhaochharia & Grinstein, 2007; Vafeas, 1999). The audit committee helps to review the information about managerial activities and decision-making which are performed by the executives (Adams et al., 2008; Gendron & Bédard, 2006; Klein, 1998, 2002a, 2002b).

This committee also oversees financial reports, reviews adequacy of the internal control and risk management process, reviews audit function as well as supervises both external and internal auditors (Nam & Nam, 2004). The board and audit committee generally use an annual audit as one of the monitoring instruments to determine activities of executives, by checking the way in which the firm's statements have been prepared and reported (Cadbury Committee, 1992). This helps to identify that whether their performance is carried out in line with the best interest of the owners. To serve the monitoring function, the board and audit committee appoint auditors as an independent and effective monitoring tool in determining the firm's financial statements which reflect performance of executives (Holm & Laursen, 2007; Lin & Liu, 2009). The particular reason for hiring auditors is that the owners typically need quality information to determine the decision-making of executive.

One important source of trustworthy information is financial statements which are reviewed by certificated independent auditors. Significantly, to ensure high-quality of disclosed information in financial reports, audit quality is in demand of the shareholders. Generally, the shareholders believe that a better audit quality, which ensures transparency and no significant mistakes in financial reports, comes from auditors from big audit firms, because they want to protect their reputation and avoid costly allegation (Francis & Yu, 2009; Lennox & Pittman, 2010). Besides, there are more in-house experienced auditors in big audit firm. This helps to deal with particular issues of the clients, so this means that there should be more peers who provide apt suggestions in producing better audit quality (Francis & Yu, 2009; Lin & Liu, 2009; Michaely & Shaw, 1995).

In Thailand, the major corporate governance mechanisms in monitoring executives' activities, in order to protect shareholders' interests, are the board of directors and audit committee. Thence, the success of overseeing may depend on the selected monitoring tool. Obviously, the Thai listed firms hire external auditors to act as a monitoring function in determine the performance of executives, and the auditors from big audit firms are generally entrusted that they can provide higher quality in supporting monitoring function of the board and audit committee. Therefore, this study aims to investigate the relationship between structures of the board and audit committee, and use of big audit firms as monitoring tool of the Thai firms in the stock market.

Literature review and hypotheses development

Corporate governance and audit function

In Thailand the corporate governance system was reformed after the Asian financial crisis, which indicated that a weak corporate governance system, such as poor protection of minority shareholders from expropriating of majority shareholders, and poor information disclosure standard, was the main cause (Nam & Nam, 2004; Pathan, Skully, & Wickramanayake, 2007). To upgrade the level of corporate governance in Thailand, regulations and rules of both the Securities Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) are formulated to suggest the roles of boards of directors in establishing a good corporate governance system in listed companies, and an audit committee is required to support monitoring function of the board in all Thai listed companies.

Moreover, all listed companies are required to disclose their information in an annual report, together with an auditor's report, based on related accepted accounting standards (The National Corporate Governance Committee, 2012). For appropriate monitoring function based on good corporate governance, the selection of an independent auditor should be a particular factor, because the independence of an auditor evidently has a positive influence on probability of the auditor to find and report some misstatements in the financial report, reflecting the mistakes of the executives (DeAngelo, 1981).

In other words, the independent auditor provides effective monitor, so the good corporate governance system prefers an audit function with high quality, such as auditors from big audit firms, to support monitoring provision.

Board of directors and audit function

Board of directors' characteristics usually influence on ability in monitoring management functions to protect shareholders' wealth (Beasley, 1996). Agency theory suggests that independence of the board of directors can reduce the self-interest of executives as well as lead the board to discharge their duties to monitor executives better (Black, 2001; Weisbach, 1988). Consequently, monitoring function of independent directors can influence better shareholders' wealth. Thus, some studies, such as O'Connell and Cramer (2010), Rouf (2011), Sami, Wang, and Zhou (2011), and Lei and Song (2012), report that independence of the board of directors helps to improve value of the firm. This not only results in better firm value, but board independence also helps to protect the firm from fraud, as found in studies of Beasley (1996) and Lennox and Pittman (2010). As mentioned, the board of directors can effectively monitor the management team when it can work independently, so when the board of directors is influenced by managers, its effectiveness could be generally decreased. For the case where a chairman of the board also serves as the chief executive of the firm (i.e. CEO), the monitoring mechanism, which is provided by the board of directors to review executives' activities, is no longer effective and trustworthy. In effect, shareholders' interests may be diminished (Bhagat & Bolton, 2008; Erah, Samuel, & Izedonmi, 2012).

From this it can be concluded that good board structures with strong independence influence on effective monitoring to protect rights of shareholders, but weak board structures result in poorer protection for shareholders' benefits. Particularly, there is evidence reporting that the firms with weak board structures tend to switch to smaller auditor with lower audit quality to sustain the control and benefits on hand of executives rather than serving owners' interests (Lin & Liu, 2009; Shan, 2014). Therefore, it can imply that the firm with good board structure tends to use auditors from big audit firms to maintain higher audit quality as effective monitoring tool, leading to increase in firm value and decrease in fraud. Therefore, the following hypotheses are formed in line with this evidence.

H1a: Board independence is positively related to use of big audit firms.

H1b: Dual role of leadership on board is negatively related to use of big audit firms.

Audit committee and audit quality

Audit committee independence usually increases effectiveness of the board's monitoring function, because the functions of the audit committee, including reviewing financial reporting as well as overseeing activities of executives, are linked to the success of the board of directors. When an audit committee works independently, it can effectively monitor executives' behaviour on behalf of the board. As a result, a successful performance of the board leads to shareholders' wealth maximization. The study of Tornyeva and Wereko (2012) shows that audit committee independence is positively related to firm value, while Beasley, Carcello, Hermanson, and Lapides (2000), Abbott, Park, and Parker (2000), Klein (2002a), and Lennox and Pittman (2010) find that companies with more independence of the audit committee are related to lower fraud and earning management. This supports the view that when the audit committee works independently, it can review financial reporting and oversee management's activities effectively. Normally, an audit committee holds regular meetings with both external and internal auditors. The meeting of an audit committee and auditors can help the committee consider financial reports and apply policies to assess the practice of the executives.

Thus, more meetings of the committee should result in a better monitoring mechanism which can convince executives to perform their duties better. Therefore, Azam, Hoque, and Yeasmin (2010) report that meeting frequency of an audit committee results in better protection for firm value. Moreover, Beasley et al. (2000) and Lennox and Pittman (2010) support that companies tend to commit fraud when their audit committees have less frequent meetings. Significantly, there is evidence posits that the audit committee functions relate to audit quality of auditors who are appointed to support monitoring function in performing to protect shareholders' benefits (Abbott et al., 2000). With regard to the previous studies, it can be concluded that an audit committee with good characteristics prefers high audit quality as monitoring function to enhance better firm performance and to eliminate fraud and earning management. Thus, the following hypotheses are formed to determine the relationship between audit committee's characteristics and use of auditors from big audit firms.

H2a: audit committee independence is positively related to use of big audit firms.

H2b: audit committee meeting frequency is positively related to use of big audit firms.

Methodological approach

Data and samples

To measure variables of the empirical models, this study hand-collects data from financial statements, the database of the Stock Exchange of Thailand (SET), and the disclosure reports concerning additional information (Form 56-1) of each sample for the period of 15 years from 2001 to 2015. This study excludes some types of companies, such as companies in the MAI industry, companies under rehabilitation (REHABCO), the property fund sector, and companies in the financial industry. There are particular reasons to preclude those types of companies. Firstly, the companies in MAI industry are classified as medium size enterprises which do not fully comply with corporate governance guidelines. Secondly, the companies under rehabilitation (REHABCO) generally provide incomplete data in their annual reports. Thirdly, transactions of the companies in property fund sector are quite unique comparing with other businesses. Lastly, the companies in financial sectors have different characteristics, such as high leverage, which cause significant differences in financial data comparing with other industries. Then after excluding these types of companies, this study selects the final samples from companies which completely provide their information to the SET without missing any significant information.

Table 1 presents the number of sample companies in this study based on the sampling procedure. For the year 2001 to 2015, there were 5,984 firm-year companies which traded their stocks on the Stock Exchange of Thailand (SET). After excluding companies in MAI, REHABCO, property fund, and financial firms, and companies with significant missing data, there are 5,110 final samples in this study.

Table 1. Final samples of the study

Details	Number of observations
Population	5,984
Excluding irrelevant sectors/industries	(312)
Initial samples	5,672
Excluding;	
Missing of corporate governance data	(301)
Missing of control variable data	(261)
Final samples (firm years)	5,110
Final samples (firms)	442

Empirical models

This study attempts to verify the effect of the board of directors and audit committee's characteristics on use of auditors from big audit firms as monitoring tool, so the following empirical models are constructed.

$$BigF_{it} = \beta_i + \beta_1 BI_{it} + \beta_2 DRL_{it} + \beta_3 ROA_{it} + \beta_4 FO_{it} + \beta_5 FS_{it} + \beta_6 GO_{it} + \beta_7 IND_i + \beta_8 YEAR_t + \varepsilon_{it} \quad (1)$$

$$BigF_{it} = \beta_i + \beta_1 ACI_{it} + \beta_2 ACMF_{it} + \beta_3 ROA_{it} + \beta_4 FO_{it} + \beta_5 FS_{it} + \beta_6 GO_{it} + \beta_7 IND_i + \beta_8 YEAR_t + \varepsilon_{it} \quad (2)$$

$$BigF_{it} = \beta_i + \beta_1 BI_{it} + \beta_2 DRL_{it} + \beta_3 ACI_{it} + \beta_4 ACMF_{it} + \beta_5 ROA_{it} + \beta_6 FO_{it} + \beta_7 FS_{it} + \beta_8 GO_{it} + \beta_9 IND_i + \beta_{10} YEAR_t + \varepsilon_{it} \quad (3)$$

Where:

BigF = use of big audit firms, i.e. EY, KPMG, PwC, and Deloitte Touche Tomatsu

BI = board independence

DRL = dual role of leadership on the board of directors

ACI = audit committee independence

ACMF = audit committee meeting frequency

ROA = return on assets

FO = Family ownership

FS = firm size

GO = Growth opportunity

IND = industry

YEAR = time period

Apart from dependent and independent variables, number of control variables are also introduced to include in the empirical model, because this study believes that not only board and audit committee characteristics are factors in hiring auditor from big audit firm, but also some other factors. The firm with good performance and with good growth rate usually wants to retain or increase its performance, so using quality auditor from big audit firm may help the firm to review performance better. This also leads the firm to derive appropriate suggestions from the auditor in improving firm performance. The firm with family members as majority shareholders may not prefer to share firm's wealth to other stakeholders.

To avoid overseeing from other stakeholders, the family owned firm may ignore hiring auditor with high level of independence from big audit firm to review business transactions. While firm with bigger size may have greater resources or budgets to hire auditor from big audit firm to review business activities, the firm in some industries may involve complex activities, and needs expertise from big audit firm to review the business activities. Moreover, different time period may result in change in business environment, leading the firm to deal with different circumstance.

Thus, for some periods, the firm may prefer auditor with high experience from big audit firm to help in dealing with the unfamiliar events. Therefore, the variables involved in the empirical models composed of dependent, explanatory and control variables. Measurements of the variables are presented in Table 2.

Table 2. Measurements of variables

Label	Explanatory variables	Measurement
Dependent variable:		
BigF	Use of big audit firms	Value 1 when the firm audited by an auditor from one of big four audit firms, i.e. EY, KPMG, PWC, and Deloitte Touche Tomatsu
Explanatory variables:		
BI	Board independence	Proportion of independent or outside members on board of directors
DRL	Dual role of leadership	Value 1 when an executive is also a chairman of board of directors
ACI	Audit committee independence	Proportion of independent directors on the audit committee
ACMF	Audit committee meeting frequency	Number of audit committee meetings in a fiscal year
Control variables:		
ROA	Return on assets	Operating profit divided by total assets
FO	Family ownership	Value 1 when there is a family ownership as the five largest shareholders
FS	Firm size	The natural logarithm of book value of assets
GO	Growth opportunity	Market price per share divided by book value per share
IND	Industry	Dummy value for 7 industries, i.e. food and agro, consumer product, construction, resources, services, and technology
YEAR	Time period	Dummy value for 15 time periods, i.e. 2001-2015

Empirical analysis

Descriptive statistics

Table 3 illustrates descriptive statistics of the variables of this study, while Table 4 shows the correlation among independent variables of the study.

Table 3. Summary statistics for variables characteristics

Variables	Mean	Median	S.D.	Min	Max
Board independence (BI)	0.345	0.333	0.144	0.000	1.000
Audit committee independence (ACI)	0.822	1.000	0.284	0.000	1.000
Audit committee meeting frequency (ACMF)	4.321	4.000	3.215	1.000	29.000
Return on assets (ROA)	0.064	0.060	0.138	-0.725	0.816
Firm size (FS)*	9.204	9.300	0.643	6.042	12.194
Growth opportunity (GO)	6.648	4.960	9.035	0.198	10.250
Dummy variables:					
Big audit firm (BigF)	Big firms			48.02%	
	Other firms			51.98%	
Dual role of leadership (DRL)	Dual role			23.61%	
	Separated duty			76.39%	
Family ownership (FO)	Family members as large shareholders			42.28%	
	No family members as large shareholders			57.72%	
Industry (IND)	Food and agro			12.24%	
	Consumer			10.75%	
	Industrial			20.81%	
	Construction			17.88%	
	Resources			5.66%	
	Service			21.55%	
	Technology			10.11%	
Number of samples				5,110	

Note: unit of variables with * is natural logarithm

Obviously, auditors who can audit financial statements of Thai listed companies must be certified or approved by the SEC. The approved auditors in the Thai capital market can carry out their duty for a term of only five years from the date that they are certified by the SEC. Then they have to apply for a new approval after the end of each term (The Securities and Exchange Commission Thailand, 2010). In line with the statistical figure, it shows that Thai listed firms appoint approved auditors from the big four audit firms, which represents high quality of audit function, by 48.02%. The mean (median) figure for board independence is 0.345 (0.333), indicating that one-third of directors of boards on most Thai listed firms are independent, which is consistent with the criteria set by the SET for good corporate governance practices (The Stock Exchange of Thailand, 2006). When considering dual role of leadership on the board, it constitutes 23.61% of the sample firms. The low proportion of dual role of leadership documents that the majority of Thai firms follow the recommendation of the SET to separate the duty of CEO and chairman of the firm (The Stock Exchange of Thailand, 2006).

The mean (median) of audit committee independence is 0.822 (1.000), implying high independence of audit committees in Thai firms in performing their duties. For audit committee meeting, its mean (median) is 4.321 (4.000), indicating that, on average, the audit committees of Thai listed companies hold meetings every quarter. Regarding control variables, the mean (median) figures of ROA is 0.064 (0.060). This indicates moderate accounting-based performance for listed firms in Thailand during the observed period. Firm size is presented as a natural logarithm figure; its mean (median) value is 9.204 (9.300). The mean figure of growth opportunity signals that average growth of Thai listed firms is close to 7. For categories of ownership concentration, there are family members as large shareholders at 42.28%. This reflects high proportion of family firms in the Thai stock market. In addition, the three largest industry sectors are the service sector (21.55%), the industrial sector (20.81%) and the construction sector (17.88%). The correlation matrixes among independent variables in Table 4 show that there is no multicollinearity in the empirical models because the correlation figures are lower than 0.80, as suggested by Gujarati (1995). Moreover, the result of Variance Inflating Factor (VIF) indicates VIF figures of all predictors lower than five, which is the accepted level for the absence of multicollinearity (Christensen, Kent, & Stewart, 2010; Meeamol, Rodpetch, Rueangsuwan, & Lin, 2011).

Table 4. Pearson correlation and VIF of explanatory variables

Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Board independence (BI)	1.000							
(2) Dual role of leadership (DRL)	-.071**	1.000						
(3) Audit committee independence (ACI)	.521**	-.043*	1.000					
(4) Audit committee meeting frequency (ACMF)	.139**	-.024	.168**	1.000				
(5) Return on assets (ROA)	.064**	-.042**	.091**	.073**	1.000			
(6) Family ownership (FO)	-.128	.008**	-.011	-.009	.076**	1.000		
(7) Firm size (FS)	.082**	-.071**	.044**	.257**	.149**	.123	1.000	
(8) Growth opportunity (GO)	.086**	-.059**	.052**	.148**	.213**	-.041*	.347**	1.000
VIF	1.48	1.25	1.51	1.28	1.21	1.09	1.32	1.24

Note: ** is a significant level at <0.01, and * is a significant level at <0.05

Empirical results

Table 5 shows the results from the logistic estimator for relationship between corporate governance, including board independence, dual role of leadership on the board, audit

committee independence, and audit committee meeting frequency, on use of auditors from big audit firms. This table also reports Pseudo R-squared results, ranked from 13.95% -18.49%; and as well, reports results of the Wald test, which its significant figures confirm no joint relationship among predictors.

Table 5 Effects of board and audit committee structures on use of big audit firms

Independent variables	Model		
	(1)	(2)	(3)
BI	0.068** (2.190)		0.001*** (3.640)
DRL	-0.000*** (-5.280)		-0.000*** (-4.321)
ACI		0.058* (1.720)	0.075* (1.750)
ACMF		0.000*** (8.150)	0.000*** (6.720)
ROA	0.164 (1.240)	0.932 (0.085)	0.359 (0.261)
FO	-0.003*** (-2.735)	-0.004*** (-3.170)	-0.004*** (-3.248)
FS	0.000*** (8.850)	0.000*** (9.275)	0.000*** (9.184)
GO	0.561 (0.480)	0.940 (0.035)	0.722 (0.270)
IND	Included	Included	Included
YEAR	Included	Included	Included
Intercept	0.000*** (8.240)	-0.000*** (-9.259)	-0.000*** (-7.795)
Wald test	129.244***	124.375***	120.219***
Pseudo R²	14.63%	13.95%	18.45%
Number of samples	5,110	5,110	5,110
Number of groups	442	442	442

Note: 1) See explanation and measurement for variables in Table 2

2) The t-statistic is reported in parentheses.

3) ***, **, and * denote significant level at <0.01, <0.05, and <0.10, respectively.

4) The Wald test represents that independent variables are jointly insignificant.

The first model details effect of board characteristics on use auditors from big audit firms. It shows that board independence has significant positive relationship to use of big audit firms at $p < 0.05$, while dual role of leadership has significant negative effect, at $p < 0.01$, on use of big audit firms. This implies that board independence is the important mechanism in considering to appoint the auditor with better quality as monitoring tool to oversee decision-making and activities of executives for the best interest of shareholders. On the other hand, when an executive also serves as chairman of the board, the board may be influenced by executives, so the board tends to switch to smaller audit firms, reflecting lower audit quality for monitoring function. This supports that when the board works independently without controlling of any person, such as CEO, the board tends to appoint auditors with high quality from big audit firms to play the monitoring role to support the function of the board.

In terms of control variables, family ownership as large shareholders has significant negative association with use of big audit firms at $p < 0.01$, while firm size has significant positive effect, at $p < 0.01$, on use of big audit firms. For return on assets and growth opportunity are reported as having no significant influence on use of big audit firms.

As model 2 determines effect of audit committee's characteristics on use of auditors from big audit firms, the results show that only audit committee meeting frequency has strongly positive influence on use of big audit firms at $p < 0.01$, but audit independence has weak positive effect at $p < 0.10$. From the results it can be implied that meeting of audit committee may include an agenda in selecting auditors with high quality from big firms as a monitoring tool to detect improper behaviour of executives, and to protect the best benefit of shareholders. For control variables, they have identical effects on use of auditors from big audit firms as found in the first model.

In model 3, all characteristics of board and audit committee are examined for their effects on use of big audit firms. The logistic results confirm the outcomes from model 1 and model 2 that board independence and audit committee meeting frequency have significant positive effect on use of auditors from big audit firms, and dual role of leadership on the board has significant negative influence. Moreover, this model reports that audit committee independence has only weak effect at $p < 0.10$. All control variables have similar effects on use of big audit firms as reported in previous models.

Discussion of empirical findings of effects of board and audit committee structures on use of big audit firms

Table 6 concludes regarding related hypotheses and empirical results. It shows that hypothesis H1a which predicts that board independence is positively related to use of big audit firms; hypothesis H1b which predicts that dual role of leadership on the board is negative related to use of auditors from big audit firms; and hypothesis H2b which predicts that audit committee meeting frequency is positively related to use of big audit firms, are accepted.

Table 6. Empirical findings on effects of board and audit committee structures on use of big audit firms

Hypotheses	Prediction	Corporate Governance	Expected sign	Finding Use of big audit firms	Status
H1a	Board independence is positively related to use of big audit firms	BI	+	+	Accepted
H1b	Dual role of leadership on board is negatively related to use of big audit firms	DRL	-	-	Accepted
H2a	Audit committee independence is positively related to use of big audit firms	ACI	+		Not supported
H2b	Audit committee meeting frequency is positively related to use of big audit firms	ACMF	+	+	Accepted

The results support that good board structures, with higher board independence, and without influence of executives on board, lead the board tends to appoint auditors with high quality from big audit firms and encourages them in overseeing executives' decision-making and activities, which may result in better protection of shareholders' wealth. These results are

consistent with the ideas of previous studies such as O'Connell and Cramer (2010), Rouf (2011), Lei and Song (2012), Lennox and Pittman (2010), and Lin and Liu (2009).

As audit committee plays important roles in supporting monitoring function of the board, the results of positive relationship between audit committee meeting frequency and use of auditors from big audit firms should reflect that the committee uses the meeting in considering to select auditors with high quality from big audit firms to serve the firm as monitoring function.

Moreover, when auditors from big audit firms holds more meetings with the committee, the audit committee may convince them to effectively perform to prevent executives eliminating the benefits of the shareholders. This result is consistent with the perspective of some prior studies such as Azam et al. (2010), Abbott et al. (2000), and Beasley et al. (2000). All in all, the results indicate that good board structures and good audit committee structures, lead the firms in the Thai stock market to use auditors with higher quality from big audit firms as monitoring tool. This signals better monitoring function in overseeing executives' decision-making and activities, and this should lead to best protection of owners' interests.

Conclusion

The main objective of this study is to investigate whether board structures and audit committee's characteristics, has association with use of auditors from big audit firms as monitoring tool of the companies in the Thai stock market. Using the logistic estimator for data of 5,110 firm-years during 2001 to 2015, the results are revealed that board independence, and audit committee meeting frequency have significant positive impact on use of big audit firms, while dual role of leadership on the board is found as having significant negative effect on use of auditors from big audit firms as monitoring instrument of Thai firms.

There are at least two contributions which can be drawn from this study.

First, it extends literature in the area of corporate governance in Thailand, specifically, the association between corporate governance and selecting auditors as monitoring tool.

Second, this evidence should signal the participants in the stock market to realise that when firms have good board and audit committee structures, they usually appoint auditors with higher quality to perform duty in monitoring behavior of executives; so with good governance mechanisms, the benefits of owners and related parties should be protected appropriately.

Therefore, when the investors in the Thai stock market consider to invest in listed firms, using big audit firm of the companies should be taken in to an account as one particular investment factor. However, there are some limitations of this study; for example, it introduces only big audit firm as a proxy of effective monitoring tool, but it can be defined in several ways such as existence of internal auditors and other specialists, so future research should include other variables to represent effective monitoring tool.

References

Abbott, L. J., Park, Y., & Parker, S. (2000). The effects of audit committee activity and independence on corporate fraud. *Managerial Finance*, 26(11), 55-67.

- Adams, R., Hermalin, B. E., & Weisbach, M. S. (2008). The role of boards of directors in corporate governance: A conceptual framework and survey: National Bureau of Economic Research.
- Anderson, D. W., Melanson, S. J., & Maly, J. (2007). The Evolution of Corporate Governance: power redistribution brings boards to life. *Corporate Governance: An International Review*, 15(5), 780-797. doi: 10.1111/j.1467-8683.2007.00608.x
- Azam, M. N., Hoque, M. Z., & Yeasmin, M. (2010). Audit committee and equity return: The case of Australian firms. *International Review of Business Research Papers*, 6(4), 202-208.
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of directors composition and financial statement fraud. *Accounting Review*, 443-465.
- Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Lapides, P. D. (2000). Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizons*, 14(4), 441-454.
- Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 14(3), 257-273. doi: 10.1016/j.jcorpfin.2008.03.006
- Black, B. S. (2001). The core fiduciary duties of outside directors. *Asia Business Law Review*, 3-16.
- Cadbury Committee (1992). Report of the committee on the financial aspects of corporate governance: the code of best practice. London: Gee Professional Publishing.
- Chhaochharia, V., & Grinstein, Y. (2007). The Changing Structure of US Corporate Boards: 1997–2003. *Corporate Governance: An International Review*, 15(6), 1215-1223. doi: 10.1111/j.1467-8683.2007.00642.x
- Christensen, J., Kent, P., & Stewart, J. (2010). Corporate governance and company performance in Australia. *Australian Accounting Review*, 20(4), 372-386.
- Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. E. (1999). Number of Directors and Financial Performance: A Meta-Analysis. *The Academy of Management Journal*, 42(6), 674-686.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22(1), 20-47.
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183-199.
- Erah, D. O., Samuel, E., & Izedonmi, F. (2012). Chief Executive Officer Duality And Financial Performance of Firms In Nigeria. *International Journal of Business and Social Research*, 2(6), 125-134.
- Fama, E. F., & Jensen, M. C. (1983a). Agency Problems and Residual Claims. *Journal of Law and Economics*, 26(2), 327-349.
- Fama, E. F., & Jensen, M. C. (1983b). Separation of Ownership and Control. *Journal of Law and Economics*, 26(2), 301-325.
- Francis, J. R., & Yu, M. D. (2009). Big 4 office size and audit quality. *The Accounting Review*, 84(5), 1521-1552.
- Gendron, Y., & Bédard, J. (2006). On the constitution of audit committee effectiveness. *Accounting, Organizations and Society*, 31(3), 211-239.
- Gujarati, D. N. (1995). *Basic Econometrics*. New York: McGraw-Hill Companies.
- Hermalin, B. E., & Weisbach, M. S. (1991). The Effects of Board Composition and Direct Incentives on Firm Performance. *Financial Management*, 20(4), 101-112.
- Holm, C., & Laursen, P. B. (2007). Risk and Control Developments in Corporate Governance: changing the role of the external auditor? *Corporate Governance: An International Review*, 15(2), 322-333.

- Klein, A. (1998). Firm Performance and Board Committee Structure. *Journal of Law and Economics*, 41(1), 275-304.
- Klein, A. (2002a). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, 33(3), 375-400. doi: 10.1016/s0165-4101(02)00059-9
- Klein, A. (2002b). Economic Determinants of Audit Committee Independence. *The Accounting Review*, 77(2), 435-452.
- Lei, A. C., & Song, F. M. (2012). Board structure, corporate governance and firm value: evidence from Hong Kong. *Applied Financial Economics*, 22(15), 1289-1303.
- Lennox, C., & Pittman, J. A. (2010). Big Five Audits and Accounting Fraud*. *Contemporary Accounting Research*, 27(1), 209-247.
- Lin, Z. J., & Liu, M. (2009). The determinants of auditor switching from the perspective of corporate governance in China. *Corporate Governance: An International Review*, 17(4), 476-491.
- Meeamol, S., Rodpetch, V., Rueangsuwan, S., & Lin, B. (2011). Measuring the Firm's Financial Value: Interrelationship with the Board Structure. *International Journal of Performance Measurement*, 1(1), 59-78.
- Michaely, R., & Shaw, W. H. (1995). Does the choice of auditor convey quality in an initial public offering? *Financial Management*, 15-30.
- Nam, S. W., & Nam, I. C. (2004). Corporate governance in Asia: recent evidence from Indonesia, Republic of Korea, Malaysia, and Thailand: Asian Development Bank Institute.
- O'Connell, V., & Cramer, N. (2010). The relationship between firm performance and board characteristics in Ireland. *European Management Journal*, 28(5), 387-399. doi: 10.1016/j.emj.2009.11.002
- Pathan, S., Skully, M., & Wickramanayake, J. (2007). Board size, independence and performance: An analysis of Thai banks. *Asia-Pacific Financial Markets*, 14(3), 211-227. doi: 10.1007/s10690-007-9060-y
- Puffer, S. M., & Weintrop, J. B. (1991). Corporate Performance and CEO Turnover: The Role of Performance Expectations. *Administrative Science Quarterly*, 36(1), 1-19.
- Rouf, M. A. (2011). The relationship between corporate governance and value of the firm in developing countries: Evidence from Bangladesh. *The International Journal of Applied Economics and Finance*, 5(3), 237-244.
- Sami, H., Wang, J., & Zhou, H. (2011). Corporate governance and operating performance of Chinese listed firms. *Journal of International Accounting, Auditing and Taxation*, 20(2), 106-114. doi: 10.1016/j.intaccudtax.2011.06.005
- Shan, Y. G. (2014). The impact of internal governance mechanisms on audit quality: a study of large listed companies in China. *International Journal of Accounting, Auditing and Performance Evaluation*, 10(1), 68-90.
- Stiles, P., & Taylor, B. (2001). *Boards at Work: How Directors View Their Roles and Responsibilities*: Oxford University Press, USA.
- The National Corporate Governance Committee. (2012). Measures taken to reinforce practice of CG Principles Retrieved from www.cgthailand.org.
- The Securities and Exchange Commission Thailand. (2010). Notification of the Office of the Securities and Exchange Commission No. SorShor. 39/2553: Approval of Auditors in the Capital Market.
- The Stock Exchange of Thailand. (2006). *The Principles of Good Corporate Governance for Listed Companies* Thailand: Retrieved from <http://capital.sec.or.th/webapp>.

- Tornyeva, K., & Wereko, T. (2012). Corporate Governance and Firm Performance: Evidence from the Insurance Sector of Ghana. *European Journal of Business and Management*, 4(13), 95-112.
- Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of Financial Economics*, 53(1), 113-142. doi: 10.1016/s0304-405x(99)00018-5
- Weisbach, M. S. (1988). Outside directors and CEO turnover. *Journal of Financial Economics*, 20(0), 431-460. doi: 10.1016/0304-405x(88)90053-0