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Essays on Audit Fees and the Joint Provision of Audit and Non-Audit Services

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Abstract

This thesis examines the factors affecting audit and non-audit fees and the effects of the joint provision of audit and non-audit services on auditing.

The first essay focuses on environmental factors. Using data for Swedish listed companies over a six year span, including pre-crisis, crisis and post-crisis periods, the essay investigates whether changing economic conditions affect the level of fees paid for audit and non-audit services. The finding suggests that auditors increase their risk premium for auditing during a financial crisis and tend to charge higher audit fees as a response to lower risk levels in the post-crisis period. On the other hand, a significant reduction in non-audit fees suggests that companies are less willing to invest in consulting services during the crisis and post-crisis periods.

The second essay also studies the effects of environmental factors on audit pricing. Using data for financial institutions in 24 European countries, the study examines whether the level of effort spent on the evaluation of fair values is higher for more uncertain fair values. The result suggests that an increasing level of complexity and risk requires greater audit effort. Furthermore, the results show that the strength of a country's institutional setting is positively associated with the effort spent on the evaluation of high uncertainty fair value estimates. The finding implies that auditors spend more effort in stronger regulated countries, possibly due to higher potential litigation costs.

The third essay focuses on the factors related to an individual audit partner. Based on the data of publicly listed Swedish companies, it investigates whether partner special competencies are reflected in the prices charged for auditing. The findings show that partner industry expertise and client-specific expertise are associated with higher audit fees. A further finding is that female partners are considerably under-represented among specialists. However, the under-representation of females among higher qualified partners does not seem to negatively affect their possibilities to earn higher fees.

The fourth essay investigates how the joint provision of audit and non-audit services affects perceived knowledge spillover and audit efficiency. The essay makes use of survey data from a large sample of Swedish auditors and finds that the levels of communication and trust are positively associated with knowledge spillover. The result further suggests that the information gained from the provision of non-audit services can reduce auditors' effort (time) spent on different audit procedures, thereby increasing audit efficiency.

Keywords

audit fees, non-audit fees, crisis, fair value measurement, banking industry, engagement partner, industry expertise, public company expertise, tenure, gender, non-audit services, knowledge spillover, audit efficiency

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