

## The Relationship between IFRS Adoption and Audit Fees: Evidence from China

**Elsayed Dawoud** (Corresponding Author)

School of Accounting, Dongbei University of Finance and Economics, Dalian, Liaoning, China

Accounting Department, Faculty of Commerce, Mansoura University, Mansoura, Egypt

Email: [elsayeddawoud1991@gmail.com](mailto:elsayeddawoud1991@gmail.com)

**Guangguo Sun**

School of Accounting, Dongbei University of Finance and Economics, Dalian, Liaoning, China

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### Abstract

We investigate the effect of International Financial Reporting Standards (IFRS) mandatory adoption on audit fees, and how auditor type (Big 4 vs. non-Big 4) could moderate this relationship. Standard setters argue that IFRS adoption has a lot of benefits since it would lead to improving the accounting information quality. However, IFRS adoption has incremental costs also. Our findings suggest that auditors charge higher audit fees after IFRS adoption. However, findings reveal that this relationship is more pronounced for non-big 4 audit firms. This study's findings are important to standard setters as they evaluate the benefits and cost of IFRS adoption.

**Keywords:** IFRS adoption; Audit Fees; Audit report lag; audit quality; China.

### 1. Introduction

International Financial Reporting Standards (IFRS) are claimed by legislators and standards bodies to improve the financial reporting comparability and quality. The underlying benefits of IFRS adoption, on the other hand, should be assessed by weighing the costs of transition and any recurrent reporting costs against the continuous advantages of greater comparability and quality (De George *et al.*, 2013). Thus, the effect of IFRS implementation on audit pricing is being explored as one line of research, and academics anticipate audit fees to rise after IFRS adoption. The empirical findings, on the other hand, is still inconclusive and debatable. According to several studies, audit fees increased after the adoption of the International Financial Reporting Standards (De George *et al.*, 2013; Griffin *et al.*, 2009; Kim *et al.*, 2012). Others find a weak or insignificant link between audit fees and the implementation of the International Financial Reporting Standards (Nam, 2018).

The adoption of the International Financial Reporting Standards (IFRS) has two opposing implications on audit fees (Cameran and Perotti, 2014; Kim *et al.*, 2012). One viewpoint is that auditors are expected to put in more work, which will most likely be reflected in higher fees. Firms compiling financial statements in line with IFRS, as well as auditors, face significant costs as a result of IFRS implementation. IFRS differs from local GAAP in that it is based on principles and has a higher number of disclosures. As a result, firms' preparation and certification costs, as well as auditors' uncertainty and audit effort, could increase (De George *et al.*, 2013; Nam, 2018).

The second point of view is that IFRS improves the quality of financial reporting, therefore audit costs may be reduced as a result of lower audit risk (Coffie and Bedi, 2019). Soderstrom and Sun (2007), indicated that the quality of accounting information is generally affected by the quality of the accounting standards used, and if the IASB Council continues to improve the quality of IFRSs, financial reporting is expected to become increasingly reliable and relevant in value. Barth *et al.* (2008), stated that it is possible to acknowledge the high quality of accounting standards when standards developers can increase its rigor and reduce the available flexibility to the extent that it restricts opportunistic management behaviors in developing accounting estimates for profit management. To the extent that IFRS could enhance reporting quality, IFRS adoption is expected to influence auditors' decisions related to audit pricing.

This paper aims to examine the effect of adopting International Financial Reporting Standards (IFRS) on audit pricing in the Chinese setting. The China Accounting Standards Committee and the International Accounting Standard Board signed a joint statement in November 2005 regarding the status of substantial convergence between Chinese accounting standards and IFRS. Convergence with IFRS is one of the primary goals of China's standard-setting program, according to the "Joint Statement of the Secretary-General of the China Accounting Standards Committee and the Chairman of the International Accounting Standard Board". The revised Accounting Standards for Business Enterprises (containing one basic standard and 38 particular standards) were issued by China's Ministry of Finance in February 2006, and they went into effect for the 2007 financial reports of listed businesses in China. Thus, Chinese listed companies are required to report their financial conditions under the Chinese Accounting Standards (CAS) which represent a convergence of IFRS beginning from 2007 fiscal year.

We utilize a sample of listed firms on both Shanghai Stock Exchange and Shenzhen Stock Exchange during period from 2003 to 2019. We used a dummy variable as a proxy for IFRS adoption which take 1 if the annual report prepared under IFRSs, i.e. 2007 fiscal year and afterwards; and take 0 otherwise. Then we regress it besides a number of control variables against the logarithm of audit fees paid by firms to external auditors.

We find a positive relationship between IFRS adoption and the natural logarithm of audit fees. This means that audit fees were higher after preparing financial statements using International Financial Reporting Standards. However, we find no evidence on the moderating effect of auditor type (Big 4) on this nexus. That is, the relationship between IFRS adoption and audit fees does not differ between clients that are audited by the Big 4 audit firm compared with those audited by non-Big 4.

This study has the following contributions and implications. First, it extends the growing literature on IFRS adoption consequences by applying on the largest emerging country: the Chinese setting. Recent research reveals mixed evidence using mostly the data from EU and other developed countries that have adopted IFRS, whereas there is limited empirical research into the Chinese IFRS adoption. Thus, our study can enrich the research on IFRS adoption worldwide. Second, our study provides further evidence on whether the mandatory adoption of IFRS have audit implications specifically on the audit pricing decision. Third, this study also provides important implications to the Chinese authorities for future IFRS-related decisions. Our results could be helpful in evaluating the effectiveness of the IFRS adoption in China.

## 2. Literature Review and Hypothesis Development

IFRS adoption has much attention from researchers and an extended debate during the last two decades. Moreover, the effects of IFRS adoption on accounting information quality take the most proportion of that debate, there are many empirical reviews (e.g., Soderstrom and Sun (2007); Pope and McLeay (2011); Brüggemann *et al.* (2013); Palea (2013); Samaha and Khelif (2016); De George *et al.* (2016); Houqe (2018)) have been conducted to summarize the empirical literature dealing with this stream of research.

For example, using a sample of Italian private (i.e., nonlisted) companies that adopting IFRS, Cameran *et al.* (2014) examined the effect of IFRS adoption on financial reporting quality, and find that adoption did not increase reporting quality among private companies but, conversely, decreased it. Their results reveal a deterioration in the quality of earnings reported by those private firms that switched to IFRS compared to their counterparties that did not switch to IFRS. Ahmed *et al.* (2013), used a sample of firms from 20 countries that mandatorily adopted IFRS in 2005 to examine whether reporting quality developed after adopting IFRS. They compared the reporting quality of firms that adopting IFRS to firms that did not adopt IFRS. Their empirical results show that Mandatory IFRS lead to greater income smoothing, greater earnings aggressiveness, and a more delayed recognition of losses in the IFRS adopters firms.

Zeghal *et al.* (2012), examined whether adopting IFRS in 15 European Union (EU) countries have relationship with less earnings management and higher timeliness, conditional conservatism, and value relevance of accounting numbers. Their results reveal that there has been some improvement in accounting quality between the pre- and post-IFRS adoption periods. In a specific- country study, Lin *et al.* (2012) aimed to asses accounting quality after IFRS adoption in the US context, and they find it deteriorated after the transition. Their results show that IFRS adoption exhibiting more earnings management, less timely loss recognition, and less value relevance.

Due to the widespread adoption of IFRS around the world, various studies have been conducted to examine the impact of IFRS adoption on different aspects. Although the majority of research focuses on determining if IFRS adoption improves accounting quality, auditing as a monitoring mechanism is a key part of adopting IFRS properly. Firms compiling financial statements in line with IFRS, as well as auditors, face significant costs as a result of IFRS implementation. IFRS differs from local GAAP in that it is based on principles and has a higher number of disclosures. As a result, firms' preparation expenditures, as well as auditors' uncertainty and audit effort, have increased (Nam, 2018).

The impact of IFRS adoption on audit pricing has been studied in an increasing body of empirical research. For instance, Griffin *et al.* (2009) reports an increase in audit fees in New Zealand as a result of the adoption of IFRS. This research is based on a scenario in which IFRS adoption is voluntary. Furthermore, they find that the Big 4 auditors have significantly higher fees in the year of IFRS implementation than non-Big 4 auditors in a separate analysis. According to Kim *et al.* (2012), IFRS are thorough, fair, and value-based, necessitating particular expertise from auditors, much more audit time, and significant judgments. They found that audit fee premiums increased significantly after IFRS implementation due to an increase in reporting complexity caused by IFRS adoption, using a large sample consist of 29,206 firm-years observation from 14 EU countries from 2004 to 2008. De George *et al.* (2013), examines whether the extent of net IFRS adjustments to total equity is associated with an increase in audit fees using a sample of 907 Australian publicly traded corporations during the period 2002-2006. They find a positive association between the adoption IFRS's adjustments and audit fees.

Cameran and Perotti (2014), investigated the influence of IFRS adoption on audit pricing in 136 public and private Italian banks from 1999 to 2006. They focused on the impact of the first and second years of IFRS adoption on audit fees. Their findings showed that auditors charged higher audit fees in the first and second years of IFRS adoption in Italy. Consistently, Choi and Yoon (2014) find that audit fees raised significantly in South Korea following the IFRS adoption, and that the pattern was more consistent among enterprises audited by the Big 4 audit firms. When Yaacob and Che-Ahmad (2012) looked at the same association in Malaysia between 2004 and 2008, they found similar results. In Jordan, Abu Risheh and Al-Saeed (2014) investigated the similar problem. They

looked at 91 Jordanian industrial firms that were listed on the Amman stock exchange between 1998 and 2011. According to their findings, audit fees have increased since listed Jordanian companies adopted the IFRS.

On the other hand, [Goncharov et al. \(2014\)](#) provided opposite evidence on the relationship between IFRS adoption and audit fees. Between 2001 and 2008, their sample includes publicly traded real estate enterprises in the European community. They also looked at how the fair value and cost models of documenting investment affected the relationship. According to their first findings, IFRS adoption are not significantly linked to audit fees. When it comes to the impact of the method used to record investment assets on the association, they show that firms who switch from depreciated cost under local standards to reporting depreciated cost under IFRS pay greater audit fees than firms that utilize fair value.

International Accounting Standard Board claims that it is intended more transparency and more reporting quality from implement the new standards, IFRS. Studies of mandatory adopters provide, at best, mixed evidence that adoption improves the quality of accounting reports. So, we can point out the first hypothesis on this form:

**H1:** there is a positive relationship between IFRS adoption and audit fees.

[Ebrahim \(2014\)](#), argue that the independent audit process is an essential monitoring and enforcement mechanism for the enacted financial reporting standards in any jurisdiction. The independent audit process adds reasonable assurance that the financial reporting process is consistent with enacted professional standards and that the financial information provided is free from significant misstatements. The monitoring mechanism exercised through the independent audit process is expected to be more efficient with the increase in the perceived quality of the audit services provided by independent auditors with recognized “brand names” in the audit industry ([DeAngelo, 1981](#)). Recent research that reemphasized the effect of audit quality on financial reporting and enforcement of accounting regulations include [Francis and Yu \(2009\)](#) and [Lennox and Pittman \(2010\)](#).

In a theoretical framework, [Choi et al. \(2004\)](#) show that independent audit quality serves as an enforcement mechanism that assures the accounting information credibility in those countries where the legal environment is seem to be weak. Auditors play a stronger governance role in a weak legal environment by providing higher quality audits to substitute for the lack of governance resulting from weak legal environment ([Ebrahim, 2014](#)). [Choi and Wong \(2007\)](#), found some support for these claims. The empirical results of [Fan and Wong \(2005\)](#) suggest that the independent audit process plays a significant corporate governance role in a concentrated or family ownership environment.

According to prior studies, audit services provided by Big 4 audit firms are of greater quality than audit services provided by non-Big N audit firms. Therefore, clients of Big 4 audit firms could pay higher audit fees relative to the clients of non-big 4 audit firms.

Alternatively, it is claimed that big audit firms lower audit costs since they acquire more experienced personnel and have more resources and higher technological competences. This “scale of economies” could lead big audit firms to offer fee discount, resulting in reduced audit fees [Miah et al. \(2020\)](#). Hence, our second hypothesis tests the role of auditor size on the relationship between IFRS adoption and audit fees as this form:

**H2:** The effect of mandatory IFRS adoption on audit fees is differ for firms audited by Big 4 auditors than those audited by non-Big 4 auditors.

### 3. Method

#### 3.1. Sample

The study sample contains all firms listed on Shanghai Stock Exchange and Shenzhen Stock Exchange that are required to prepare financial statements according to the Chinese Accounting Standards during period from 2003 to 2019. Chinese ministry of Finance released the last version of CAS in 2006 which represent the most convergence set with IFRS, requested listed firms to comply with it from the fiscal year begin in January 2007. So, our study period includes two fiscal years Pre- and Post-Adoption of IFRS.

According to what is going on in most of the prior research, we excluded the financial firms from the final sample of the study, because these companies are subject to laws different from other companies besides the different characteristics of the operating environment surrounding those companies. We also excluded any observation with missed data necessary to operate model (1). Hence, our final sample includes 33,899 firm-year observations for 3,594 listed nonfinancial firms. We get the data used in this research from The China Securities Markets and Accounting Research database (CSMAR).

#### 3.2. Model Specification

We specify an appropriate model to test the hypotheses of the current study based on the literature and according to the data availability in the Chinese environment. It has been running using all available data during the study period fully assembled in one data set (Pooled Regression).

$$\begin{aligned}
 AF_{it} = & \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 CFO_{it} + \beta_4 ROA_{it} + \beta_5 GROWTH_{it} \\
 & + \beta_6 LEVERAGE_{it} + \beta_7 CURRENT_{it} + \beta_8 MAO_{it} + \beta_9 LOSS_{it} \\
 & + \beta_{10} BIG4_{it} + Industry + \varepsilon_{it}
 \end{aligned}
 \tag{1}$$

The variable description and measurement are summarized in [Appendix 1](#).

We test our first hypothesis looking at the sign and the significance of  $\beta_1$  in Model (1). Then, we split our sample into two subsamples based on the type of audit firm. that is, subsample of firms audited by big 4 audit firms

and subsample of firms audited by non-big 4 audit firms. We test our second hypothesis looking at and comparing the sign and the significance of  $\beta_1$  in Model (1) within the two subsamples. Our dependent variable, audit fees, is measured by taking the natural logarithm of total audit fees paid to external auditor. Our independent variable, IFRS adoption, is measured by a dummy variable (*IFRS*) which equal 1 if the firm prepared its financial statements under IFRSs, i.e., for the fiscal years 2007 and years later, and 0 otherwise.

Further, our model included a number of control variables that might has impact on earnings quality. These variables have been included following literature on earnings quality and are likely to determine audit fees (De George *et al.*, 2013; Griffin *et al.*, 2009; Kim *et al.*, 2012).

## 4. Results

### 4.1. Descriptive Statistics

Table (1) presents descriptive statistics of the variables included in the hypotheses testing model. The mean value of the audit fees logarithm (log AFees) is 13.613, which is close to what has been reported in earlier research (e.g. De George *et al.* (2013); Griffin *et al.* (2009); Kim *et al.* (2012)).

Table-1. Descriptive statistics of Variables included in Model (1)

| Variable | N     | Mean   | P1     | Q1     | Median | Q3     | P99    | SD    |
|----------|-------|--------|--------|--------|--------|--------|--------|-------|
| AF       | 33899 | 13.613 | 12.206 | 13.122 | 13.528 | 13.998 | 16.176 | 0.765 |
| IFRS     | 33899 | 0.867  | 0      | 1      | 1      | 1      | 1      | 0.34  |
| SIZE     | 33899 | 21.938 | 19.081 | 21.018 | 21.792 | 22.685 | 25.928 | 1.355 |
| CFO      | 33899 | 0.03   | -0.249 | 0.005  | 0.050  | 0.100  | .355   | 4.399 |
| ROA      | 33899 | 0.029  | -0.328 | 0.011  | 0.033  | 0.062  | .192   | 0.084 |
| GROWTH   | 33899 | 0.21   | -0.631 | -0.022 | 0.115  | 0.286  | 3.03   | 0.628 |
| LEVERAGE | 33899 | 0.535  | 0.056  | 0.293  | 0.457  | 0.617  | 1.2    | 5.039 |
| CURRENT  | 33899 | 2.261  | 0.199  | 1.012  | 1.470  | 2.329  | 14.788 | 3.642 |
| MAO      | 33899 | 0.057  | 0      | 0      | 0      | 0      | 1      | 0.231 |
| LOSS     | 33899 | 0.116  | 0      | 0      | 0      | 0      | 1      | 0.32  |
| BIG4     | 33899 | 0.057  | 0      | 0      | 0      | 0      | 1      | 0.231 |

The previous presentation shows that the characteristics of the dependent variable and the independent variables of interest are closed to those of other relevant studies, and then it can be said that the results that will be reached will be comparable with the results of studies similar to the current study.

Table (2) shows Pearson's correlation matrix among the variables included in the hypothesis test Model (1), which shows the initial correlation between these variables.

Table-2. Pearson's correlation matrix among the variables

| Variables    | (1)   | (2)   | (3)   | (4)   | (5)   | (6)   | (7)   | (8)   | (9)   | (10)  | (11) |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| (1) AF       | 1.00  |       |       |       |       |       |       |       |       |       |      |
| (2) IFRS     | 0.27  | 1.00  |       |       |       |       |       |       |       |       |      |
| (3) SIZE     | 0.75  | 0.20  | 1.00  |       |       |       |       |       |       |       |      |
| (4) CFO      | 0.00  | 0.00  | 0.00  | 1.00  |       |       |       |       |       |       |      |
| (5) ROA      | 0.02  | 0.10  | 0.11  | 0.00  | 1.00  |       |       |       |       |       |      |
| (6) GROWTH   | 0.00  | -0.01 | 0.04  | -0.03 | 0.17  | 1.00  |       |       |       |       |      |
| (7) LEVERAGE | -0.01 | -0.02 | -0.06 | 0.00  | -0.07 | -0.01 | 1.00  |       |       |       |      |
| (8) CURRENT  | -0.13 | 0.08  | -0.17 | 0.00  | 0.12  | -0.03 | -0.03 | 1.00  |       |       |      |
| (9) MAO      | -0.05 | -0.08 | -0.19 | 0.00  | -0.39 | -0.06 | 0.07  | -0.07 | 1.00  |       |      |
| (10) LOSS    | -0.03 | -0.04 | -0.13 | 0.00  | -0.65 | -0.15 | 0.04  | -0.08 | 0.35  | 1.00  |      |
| (11) BIG4    | 0.44  | 0.00  | 0.34  | 0.00  | 0.06  | -0.01 | 0.00  | -0.05 | -0.04 | -0.04 | 1.00 |

Number in bold indicates that the correlation coefficient is significant at lower than 5% or 1% level.

Table (2) shows a significant positive correlation (=0.27) between IFRS and AF, suggesting a preliminary inference on a positive relationship between IFRS adoption and audit fees. From the previous table, it appears that the largest correlation coefficient in the matrix was between the two variables AF and SIZE and its value was 0.75, which means an intermediate correlation strength between them, which means that large-sized companies paid higher audit fees. However, multicollinearity is unlikely to be a problem in our research because the maximum correlation coefficient is still less than 0.8 and the Variance Inflation Factor (VIF) values provided in Table (3) are less than 10.

### 4.2. Hypotheses Test Multivariate Results

Table (3) presents the results of running the hypothesis test Model (1). We run the regression model by estimating robust standard errors clustered by firms instead of estimating the traditional standard errors estimated according to the OLS method.

The coefficient of *IFRS* variable (=0.285) is positive and is statistically significant at the level lower than 1% which indicates a direct positive relationship between it and the dependent variable in the model (audit fees). This result indicate that auditors charge higher audit fees after IFRS adoption. Thus, this result confirms our first hypothesis.

The results of testing Hypothesis 2, running Model (1) on big 4 and non-big 4 two subsamples, are reported in Table (4). The column (1) displays the results of Big 4 subsample, whilst The column (2) displays the results of non-Big 4 subsample. As shown in column (1), The coefficient of *IFRS* variable (= -0.015) is negative yet is not statistically significant, indicating that IFRS do not affect audit fees for clients of big 4 audit firms. Nevertheless, column (2) shows that the coefficient of *IFRS* variable (= 0.302) is positive and is statistically significant at the level lower than 1%, indicating that audit fees paid to non-big 4 auditors increased after IFRS adoption. Jointly, these results demonstrate that the effect of IFRS adoption on audit pricing decision differ between big 4 audit firms and non-big 4 audit firms. That is, big 4 audit firms do not increase the audit fees after IFRS adoption unlike non-big 4 audit firms which charge higher audit fees to compensate for the incremental costs accompanied to auditing financial reports prepared under the new standards. This could be attributed to their “economies of scale” and so they have the capabilities to manage the incremental costs of auditing the financial reporting which prepared under the new standards. Hence, these results confirm our second hypothesis.

In addition to the independent variables of interest, it is clear from the table (3) that all control variables included in the model are significant. The coefficients of client firm size (*SIZE*), cash flow from operations (*CFO*), leverage/debt ratio (*LEVERAGE*), modified audit opinion (*MAO*), client firm loss (*LOSS*), and auditor type (*BIG4*) are positive, indicating that these control variables increase the audit fees. The coefficients of return on assets/profitability (*ROA*), sales growth (*GROWTH*), and current ratio/liquidity (*CURRENT*) are negative, indicating that these control variables lead to lower the audit fees.

**Table-3.** Hypothesis 1 test results the relationship between IFRS adoption and Audit Fees

|                       | (1)                  | (2)        |
|-----------------------|----------------------|------------|
|                       | <b>AF</b>            | <b>VIF</b> |
| <i>IFRS</i>           | 0.285***<br>(22.52)  | 1.07       |
| <i>SIZE</i>           | 0.398***<br>(57.60)  | 1.28       |
| <i>CFO</i>            | 0.001***<br>(6.16)   | 1.00       |
| <i>ROA</i>            | -0.331***<br>(-5.13) | 1.86       |
| <i>GROWTH</i>         | -0.012**<br>(-2.57)  | 1.04       |
| <i>LEVERAGE</i>       | 0.005***<br>(2.65)   | 1.01       |
| <i>CURRENT</i>        | -0.004***<br>(-3.48) | 1.07       |
| <i>MAO</i>            | 0.232***<br>(10.86)  | 1.24       |
| <i>LOSS</i>           | 0.047***<br>(3.70)   | 1.77       |
| <i>BIG4</i>           | 0.716***<br>(18.20)  | 1.14       |
| Constant              | 4.604***<br>(31.63)  |            |
| Industry              | Included             |            |
| <i>N</i>              | 33,899               |            |
| <i>R</i> <sup>2</sup> | 0.66                 |            |
| <i>F-value</i>        | 775.85               |            |
| <i>Prob F</i>         | 0.000                |            |

t statistics are presented in parentheses;

\*, \*\*, \*\*\* denotes statistical significance at the level of 10%, 5%, 1%, respectively;

The t-statistics presented in the regression model are based on the standard errors clustered on the client firm level.



**Table-4.** Hypothesis 2 test results the effect of auditor type on the relationship between IFRS adoption and Audit Fees

|                       | (1)                 | (2)                  |
|-----------------------|---------------------|----------------------|
|                       | <b>Big 4</b>        | <b>Non-Big 4</b>     |
|                       | <b>AF</b>           | <b>AF</b>            |
| IFRS                  | -0.015<br>(-0.20)   | 0.302***<br>(24.61)  |
| SIZE                  | 0.533***<br>(16.83) | 0.383***<br>(55.88)  |
| CFO                   | 0.045<br>(0.71)     | 0.000***<br>(7.05)   |
| ROA                   | -0.994**<br>(-2.20) | -0.306***<br>(-4.84) |
| GROWTH                | -0.037<br>(-1.35)   | -0.012**<br>(-2.55)  |
| LEVERAGE              | 0.035<br>(0.14)     | 0.005***<br>(2.68)   |
| CURRENT               | -0.012<br>(-0.65)   | -0.004***<br>(-3.89) |
| MAO                   | 0.303**<br>(2.40)   | 0.226***<br>(10.79)  |
| LOSS                  | 0.036<br>(0.52)     | 0.045***<br>(3.55)   |
| Constant              | 2.346***<br>(3.40)  | 4.899***<br>(33.83)  |
| Industry              | Included            | Included             |
| <i>N</i>              | 1,921               | 31,974               |
| <i>R</i> <sup>2</sup> | 0.75                | 0.56                 |
| <i>F-value</i>        | 51.67               | 722.06               |
| <i>Prob F</i>         | 0.000               | 0.000                |

t statistics are presented in parentheses;

\*, \*\*, \*\*\* denotes statistical significance at the level of 10%, 5%, 1%, respectively;

The t-statistics presented in the regression model are based on the standard errors clustered on the client firm level.

### 4.3. Additional Analysis

In this section, we test the relationship between IFRS adoption and audit delay (audit report lag), and whether this relationship differ between big 4 and non-big 4 firms. We re-run Model (1) using the audit report lag (AuditDelay) as dependent variable instead of audit fees. Audit delay (report lag) is measured as the natural logarithm of the number of the days between the date of fiscal year end and the date of audit report announcement. To the extent that IFRS adoption is a transitional scenario and IFRSs are a value-based and necessitate auditors to verify more judgements, we predict that IFRS adoption will take more time in audit work, resulting in longer audit report lag.

Table (5) displays the results of hypotheses tests according to this additional test. As shown in column (1) IFRS adoption is significantly and positively associated with longer audit delay as predicted. Column (3) show that this association is more pronounced for non-big 4 firms. Together, our findings related to audit delay are similar to our main findings related to audit fees.

**Table-5.** Additional analysis the relationship between IFRS adoption and Audit Delay (Report Lag)

|                       | (1)                  | (2)                  | (3)                  |
|-----------------------|----------------------|----------------------|----------------------|
|                       | Full Sample          | Big 4                | Non-Big 4            |
|                       | AuditDelay           | AuditDelay           | AuditDelay           |
| IFRS                  | 0.099***<br>(13.25)  | 0.027<br>(1.12)      | 0.103***<br>(13.29)  |
| SIZE                  | 0.031***<br>(14.35)  | 0.014*<br>(1.89)     | 0.034***<br>(14.92)  |
| CFO                   | -0.000<br>(-1.53)    | 0.005<br>(0.18)      | -0.000<br>(-1.51)    |
| ROA                   | -0.310***<br>(-9.51) | -0.518***<br>(-3.15) | -0.317***<br>(-9.56) |
| GROWTH                | -0.024***<br>(-7.28) | 0.013<br>(1.54)      | -0.026***<br>(-7.46) |
| LEVERAGE              | 0.000***<br>(3.21)   | -0.089<br>(-1.33)    | 0.000***<br>(3.20)   |
| CURRENT               | 0.002***<br>(3.17)   | 0.004<br>(0.87)      | 0.002***<br>(3.15)   |
| MAO                   | 0.109***<br>(11.95)  | 0.188***<br>(5.91)   | 0.109***<br>(11.64)  |
| LOSS                  | 0.056***<br>(8.72)   | 0.055**<br>(2.28)    | 0.056***<br>(8.39)   |
| BIG4                  | -0.049***<br>(-4.84) |                      |                      |
| Constant              | 3.744***<br>(81.50)  | 4.192***<br>(26.27)  | 3.675***<br>(75.73)  |
| Industry              | Included             | Included             | Included             |
| <i>N</i>              | 35261                | 1963                 | 33294                |
| <i>R</i> <sup>2</sup> | 0.08                 | 0.16                 | 0.08                 |
| <i>F-value</i>        | 124.30               | 8.63                 | 137.09               |
| <i>Prob F</i>         | 0.000                | 0.000                | 0.000                |

t statistics are presented in parentheses;

\*, \*\*, \*\*\* denotes statistical significance at the level of 10%, 5%, 1%, respectively;

The t-statistics presented in the regression model are based on the standard errors clustered on the client firm level.

## 5. Discussion

From theoretical viewpoint, IFRS adoption could either increase audit fees due to the accompanied more complexity and more verification, or could lead to decline in audit fees paid to auditors since it is claimed to enhance the reporting quality and transparency. However, the majority of previous studies have documented a positive relationship between IFRS adoption and audit fees. Our empirical results reveal that auditors charge higher audit fees after IFRS adoption. Thus, our results are in line with the main findings previous studies (e.g. Griffin *et al.* (2009); Kim *et al.* (2012); Yaacob and Che-Ahmad (2012); De George *et al.* (2013); Abu Rishah and Al-Saeed (2014); Cameran and Perotti (2014)).

In the second objective of our study, we find no (positive) association between IFRS adoption and audit fees in the (non-big 4) big 4 audit firms' subsample. Thus, these findings demonstrate that the effect of IFRS adoption on audit pricing decision differ between big 4 audit firms and non-big 4 audit firms. That is, big 4 audit firms do not increase the audit fees after IFRS adoption unlike non-big 4 audit firms which charge higher audit fees to compensate for the incremental costs accompanied to auditing financial reports prepared under the new standards. This result is inconsistent with of the findings of both Miah *et al.* (2020) and Choi and Yoon (2014) related the moderating effect of auditor characteristics on the relationship between IFRS adoption and audit fees. Miah *et al.* (2020), findings reveal that industry specialist auditors charge higher audit fees after IFRS adoption in comparison with non- industry specialist auditors. As well, Choi and Yoon (2014) findings indicated that the positive relationship between IFRS adoption and audit fees is more pronounced for the clients of Big 4 auditors. Their findings demonstrate that the more experienced and the larger auditors charge higher audit fees after IFRS implementation as a premium for higher audit quality. Unlikely, our findings reveal that big 4 audit firms do not increase the audit fees after IFRS adoption unlike non-big 4 audit firms which charge higher audit fees to compensate for the incremental costs accompanied to auditing financial reports prepared under the new standards. This could be attributed to their "economies of scale" which translated into lower audit fees. That is, they have the capabilities to manage the incremental costs of auditing the financial reporting which prepared under the new standards.

In further analysis, we find a positive relationship between IFRS adoption and audit report lag, and find this relationship is more pronounced also for non-big 4 audit firms. These results provide a corroborate evidence in line with th previous studies findings (e.g. Habib (2015)).

## 6. Conclusions

Accounting standards are the organizer of the financial reporting process and the first guide for accountants in handling financial transactions. The primary goal of developing accounting standards is to ensure that accounting information is presented to its users with high quality to achieve the public benefit from it. Generally Accepted Accounting Principles provide alternative methods and different policies to solve problems that corporate departments may face when processing accounting data, but the flexibility that these standards have given to management to choose between as well as the flexibility available to them in setting some provisions and estimates has become a haven for opportunistic behavior by management to manipulate profits in order to achieve personal benefits.

This study aims to examine the impact of IFRS adoption on audit pricing in the Chinese context. Using a sample of 33,899 firm-year observations for 3,594 nonfinancial firms listed on both the Shanghai Stock Exchange and Shenzhen Stock Exchange spanning the period 2003-2019, we run regression analyses to compare those firms' audit fees between the pre- and post-IFRS periods.

We find a positive association between IFRS adoption and audit fees. This means that firms paid higher audit fees to external auditors after preparing financial statements under IFRSs. This result suggests that auditors charge higher audit fees to compensate for the costs accompanied with the adoption of the new standards. Further, we compared this nexus between big 4 audit firms and non-big 4 audit firms. We find no (positive) relationship between IFRS adoption and audit fees in the (non-big 4) big 4 audit firms' subsample. Thus, these findings demonstrate that the effect of IFRS adoption on audit pricing decision differ between big 4 audit firms and non-big 4 audit firms. That is, big 4 audit firms do not increase the audit fees after IFRS adoption unlike non-big 4 audit firms which charge higher audit fees to compensate for the incremental costs accompanied to auditing financial reports prepared under the new standards. This could be attributed to their "economies of scale" and so they have the capabilities to manage the incremental costs of auditing the financial reporting which prepared under the new standards. Moreover, in additional analysis, we find a positive relationship between IFRS adoption and Audit report lag, and find this relationship is more pronounced also for non-big 4 audit firms.

This study enrich literature with evidence on whether the mandatory adoption of IFRS influence audit outcomes (audit fees and audit delay) in the Chinese setting. Our findings might provide implications to accounting information users and the standard setters. It is still unclear whether the IFRS adoption has improved reporting quality, and on the other hand have costs alongside with benefits. Our findings may also help the standard setters in evaluating adopting IFRS by Chinese listed firms. Therefore, our findings could serve as a piece of timely evidence for evaluating the benefits and costs of IFRS adoption in Chinese setting.

The results of this study are subject to a couple of limitations. First, despite we have controlled for several audit fees determinants, it is admitted that there may be other determinants that have not been controlled for. Second, we only consider one observable audit outcome: audit fees. Further research could benefit from examining the relationship between IFRS adoption and other audit outcomes such as audit opinion and auditor dismissal or change. In addition, further research effort is warranted to distinguish between high and low transparency adopters of IFRS. Moreover, future research may examine other institutional factors rather than auditor type on the relationship between IFRS adoption and audit outcomes.

Appendix-1. Variables Definitions

| Variable   | Definition   |
|------------|--|
| AF         | Natural logarithm of total audit fees  |
| AuditDelay | The natural logarithm of the number of the days between the date of fiscal year end and the date of audit report announcement.               |
| BIG4       | Dummy variable equal 1 if client uses a Big 4 auditor; = 0 otherwise.  |
| CFO        | = Cash Flow from operations scaled by lagged total assets.   |
| CURRENT    | = Total current assets/total current liabilities.  |
| GROWTH     | company's one-year growth in sales from year t-1 to year t   |
| IFRS       | Dummy variable equal 1 if the firm prepared its financial statements under IFRSs, i.e., for the fiscal years 2007 and 2019, and 0 otherwise. |
| LEVERAGE   | a company's total liabilities scaled by total assets in year t   |
| LOSS       | Dummy variable equal 1 if a company's net income is below zero in year t, and 0 otherwise.   |
| MAO        | Dummy variable, equals 1 if the firm received a qualified audit opinion in the current year, and 0 otherwise.                                |
| ROA        | = Net profit/total assets.   |
| SIZE       | Natural logarithm of total assets for year t   |

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