



# The Impact of Audit Quality Reviews on Audit Fees of New Zealand Listed Companies

Dr Liz Rainsbury, Unitec Institute of Technology  
David Hay and Debbie Van Dyk, University of  
Auckland



# Objective and Contribution

- This study examines the impact of audit quality reviews by the Financial Markets Authority (FMA) on the audit fees charged by auditors of New Zealand listed companies
- The various impacts of audit regulation have been researched extensively in the United States but are under-researched in other jurisdictions
- New Zealand's inspection scheme differs from other countries e.g., size and public disclosures. It is therefore important to consider the effects of public oversight. In this way the study contributes to the international literature on the impacts of audit regulation



# Literature Review – Themes

## **Audit Deficiencies**

- Declined significantly after subsequent inspections for all audit firms
- Higher number of deficiencies for smaller audit firms
- Negative consequences for audit firms with deficiencies –dismissal, resignation from audit, or deregistration

## **Quality Indicators of Inspected Audit Firms Compared with Other Audit Firms**

- Greater number of going concern opinions and material weaknesses
- Quality of earnings of firms audited by inspected audit firms are higher
- Quality of earnings of firms of inspected audit firms with deficiencies are lower

## **Inspection Regimes**

- Financial reporting quality of companies is higher in countries that have independent inspections compared with companies in countries with no inspections.

## **Audit Fees**

- Higher for audit firm inspected annually,
- Audit firms with deficiencies – some conflicting evidence



# Hypotheses

**H1: The introduction of FMA audit quality reviews did not increase the audit fees of New Zealand listed companies.**

**H2 The introduction of FMA audit quality reviews increased the audit fees of smaller New Zealand listed companies relative to larger companies.**



# Data and Model

- Audit fee data hand collected from 2009 to 2016 for 103 NZ listed companies
- Data split into pre-inspections (2009 to 2011) and post-inspections (2013 to 2016)
- Panel data fixed effects regression audit fee model

$$LAF = a_0 + a_1 POST + a_2 LogAssets + a_3 LogSeg + a_4 Foreign + a_5 InvRec + a_6 ROA + a_7 Loss + a_8 Lev + a_9 Current + a_{10} Opinion + a_{11} Busy + a_{12} LogNasf + a_{13} Big4 + Fixed Effects + e$$



# Sample

	n (%)	PWC	KPMG	Deloitte	Ernst & Young	Other
Consumer discretionary	15 (14)	8	4	1	1	1
Consumer staples	19 (18)	7	4	3	3	2
Energy	3 (3)	1	2	0	0	0
Financials	2 (2)	1	0	0	0	1
Health care	12 (12)	7	0	3	2	0
Industrial	18 (17)	7	1	5	4	1
Information technology	11 (11)	4	3	1	2	1
Materials	4 (4)	1	0	1	1	1
Real estate	8 (8)	4	1	1	2	0
Telecommunications	3 (3)	0	3	0	0	0
Utilities	8 (8)	1	3	3	1	0
<b>Total</b>	<b>103 (100%)</b>	<b>41 (40%)</b>	<b>21 (20%)</b>	<b>18 (17%)</b>	<b>16 (16%)</b>	<b>7 (7%)</b>



# Audit Fees Descriptive

Overall Mean	<b>\$306,402</b>	
Overall Median	<b>\$154,000</b>	
Compound Annual Growth Rate	<b>Mean 2009-2016</b>	<b>Median 2009-2016</b>
Overall	-1.6%	2.8%
Large audit clients	-2.7%	-1.2%
Small audit clients	2.7%	10.5%



# Results and Conclusion

## Based on Regression Results

Audit fees increased by an estimated 9.5% overall for listed companies.

H1 the null hypothesis is rejected

Audit fees of small listed companies increased by an estimated 14.9%

For large companies the coefficient POST was positive but not statistically significant

H2 is supported

The introduction of mandatory audit quality reviews has had greater economic consequences for smaller listed companies which have had a significant increase in audit

fees.





# Limitations & Future Research

## **Limitations**

No information on audit deficiencies by audit firm

No knowledge on when an audit firm is inspected

## **Future Work**

Control sample of companies not subject to inspection regime

Consider impact of GFC and other events