Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol 3, No 10, 2012

Do the Prhibition of Non-Audit Services Affects the Audit Quality and Fees? Evedince from Saudi Arabia

Ibrahim Allehaidan
Accounting Department, Qassim University, PO box 6633, Buraydah 51452, Saudi Arabia
*Email: allehaidan@hotmail.com

Abstract

The purpose of this paper is to find an answer to the question: does the prohibition of non-audit services affect the audit quality and audit fees in Saudi Arabia. A questionnaire survey was used to pick-up opinions from a sample of auditors who are working at Big-4 and non Big-4 audit firms. The results suggest that preventing joint NAS and audit services will lead to the decrease in the number of auditors who provide audit services and hence audit fees would increase. Furthermore, auditors select NAS on the account of audit services due to the less effort required and the higher income gained. It is expected that audit services will be carried out by small audit firms of less experienced and unqualified staff. Demographics as auditors' academic degree and experience have influenced the respondent auditors' perceptions on some of the questions. It was found that type of audit firm has no impact on auditors' perceptions, where all auditors expressed the same views on the impact of the NAS on the audit fees and the audit quality. It is hope that the findings of this study would pave the way for policy setters to find out the mechanisms that would help in controlling audit fees and ensure a high level of audit quality in the audit market of Saudi Arabia.

Keywords: Auditing, non-audit services, audit quality, audit fees, Saudi Arabia

1. Introduction

In the light of the major corporate scandals at the beginning of this century, the issues of auditor fees and quality and the provision of non-audit services have attracted considerable attention and become the focus of much debate. Several countries moved swiftly to pass legislation to curtail or eliminate many auditors provided non-audit services and imposed compulsory auditor rotation. Such legislation has, in effect, reduced the auditor-client relationship, although it may potentially raise the cost to an auditor of expressing an independent opinion. As a result, questions have been raised about whether the regulators' actions were justified, and whether a company should be forced to replace the auditor on a regular basis, or whether the auditor should be allowed to build a long-term relationship with the client.

Before the recent prohibition of certain types of non-audit services, auditors could perform different types of non-audit services for their public company clients in the U.S. It had been argued that the fees for non-audit services had grown substantially and were more lucrative than the fees from audit services, thus strengthening the economic bond and substantially increasing the threat of impaired auditor independence. A number of regulatory bodies in the U.S. like the Securities and Exchange Commission (SEC), the Public Oversight Board (POB) and the AICPA recently asserted that significant high non-audit fees can adversely affect auditor independence and impair auditor decision-making, especially when those decisions involve a substantial amount of professional judgment. Concerns over auditor independence and the magnitude of non-audit services have led to the reporting of these fees for public companies in the U.S., beginning in 2001, although they had already been reported for many years in countries such as the U.K. and Australia. Given the interests and the importance of non-audit fees in terms of auditor independence, it is not surprising that several prior papers have examined this issue.

According to Self-Determination Theory (SDT), rewards can be used to control the behavior of individuals as long as the individual expects to be rewarded and the rewards are administered in a high-pressure environment. We use this finding of STD to argue that when auditors are promised rewards in the form of future NAS fees, they are more likely to agree with the client and allow earnings management. We expect this relationship to be more salient in a high-pressured environment such as the period before SOX because according to anecdotal reports during this time many audit partners were effectively pressured by their firm's upper management to grow the NAS business.

In furtherance of the requirements of Section 201 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted final rules prohibiting, during audit professional engagement period, both U.D. and non-U.S. accounting firms from providing to their audit clients that are SEC reporting companies ten specific types of non-audit services or any non-audit services that impairs an accountant's independence from its audit clients. The prohibition of specified non-audit services is categorised into three basic principles:

- An auditor cannot function in the role of management;
- An auditor cannot audit its own work; and
- An auditor cannot serve in an advocacy role for its client.

It can be noted that an accountant's independence would be impaired by engaging in the following prohibited non-audit services on behalf of an audit client:

- Bookkeeping or other services related to the audit client's accounting records or financial statements.
- Financial information systems design and implementation.
- Actuarial services.
- Internal audit outsourcing.
- Management functions.
- Human resources.
- Broker-dealer, investment adviser or investment banking services.
- Legal services.
- Expert services
- Tax services

In Saudi Arabia, providing NAS is completely prohibited, where auditors are not allowed to provide NAS to their client who is engaged in an audit process as declared by the Saudi Organization of Certified Public Accountants (SOCPA) in Article No. 5. However, while the issue of non-audit services and its impact on audit profession has been examined in previous western studies, they concluded with inconsistent results. However, to the best of the author awareness, very few studies examine the impact of the prohibition of the NAS on audit quality and audit fees in Saudi Arabia. It is believed that this study would supplement the academia and literature by providing answers to the following research questions:

RQ1: To what extent the audit quality is affected if the auditor prohibited from renders non-audit services?

RQ2: Do preventing joint NAS and audit services would affect audit fees?

The remainder of the paper is organized as follows. Section two discusses the background of the study and develops the hypotheses. The data analysis and discussion of findings are outlined section three. Conclusions and some future avenues for future research are presented in section four.

2. Literature Review and Hypotheses Development

Recent studies on whether the provision of non-audit services impairs audit quality document mixed results, depending on the proxy for auditing quality used. In general, prior research suggests two opposing views with respect to the effect of auditor-provided NAS on audit quality. One view is that the provision of NAS could provide benefits for audit quality in the form of knowledge spillovers (Simunic 1984; Beck et al. 1988; Antle and Demski 1991). Specifically, NAS constitutes an important source of information that enriches auditor's knowledge about the client's operations beyond the knowledge gained simply through the audit process (Beck and Wu 2006). The incremental knowledge gained from NAS enables the auditor to perform the audit more efficiently and effectively. This view suggests that NAS enhances audit quality.

However, increased efficiencies due to NAS provision could be detrimental to audit quality if the auditor appropriates cost savings from knowledge spillovers. This occurs because the appropriation of cost savings amounts to higher rents associated with NAS, hence bonding the auditor economically to the client (Beck et al. 1988; Levitt 2000). The economic bond enhances the risk that the auditor will favor a client's financial reporting choices regardless of their merit in fear of losing the rents. Hence, NAS could impair an auditor's independence, which in turn could negatively affect audit quality. It is primarily this perspective coupled with some anecdotal evidence that is used as a basis for a regulatory ban on auditor-provided NAS. For example, regulators point to the existence of high NAS fees paid to the auditor of Enron as the major instigator to blame for the audit failure. This casual observation is the premise for the banning of NAS contained within the Sarbanes Oxley of 2002.

Extant research has consistently failed to find any compelling evidence that establishes a direct link between auditor-provided NAS and poor audit quality. A handful of papers show some indirect evidence that the auditor-provided NAS is associated with poor financial reporting quality. For example, Frankel et al. (2002) shows that firms that purchase a high NAS from their auditor exhibit low quality financial reporting as measured by accruals and the propensity to meet or beat earnings. Similarly, Hoitash et al. (2005), Francis and Ke (2006), and Srinidhi and Gul (2007) find evidence of a negative association between NAS and financial reporting quality or perceptions of it. However, the findings of Frankel et al. (2002) are disputed in a follow-up paper by Ashbaugh et al. (2003) who find that the results are sample specific and do not hold under various sensitivity tests. Subsequent research continued to document a "no-effect" result and for the most part concludes that there is no evidence that NAS impairs audit quality (Barkess and Simentt 1994; DeFond et al. 2002; Chaney and Philipich 2002; Raghunandan et al. 2003; Ruddock et al. 2006; Habib 2009).

Eilifsen and Knivsflå (2008) examine investors' perceptions about audit quality in the post-Enron years 2003-2006 in Norway. The results suggest that annual stock market returns are less responsive to reported earnings when auditors' provision of non-audit services (NAS) to the reporting firms is relatively high. The negative effect on the earnings response coefficients is moderated if the audit is by a Big 4 firm. The adverse investor perceptions are driven by observations early in the period, especially 2003, a year with escalating scandals and severe criticism of the audit profession. The findings are consistent with the interpretation that regulatory initiatives and perhaps a refocus in the audit firms in the wake of the Enron scandal were instrumental in easing investors' concerns of provision of the NAS to audit clients.

Causholli et al. (2010) examine whether the prospect of future lucrative NAS contracts affects auditor judgment and leads to lower audit quality. They test the association between audit quality and future NAS fees for auditors that were under significant pressure to obtain NAS fees. The results reveal that future realized NAS fees are negatively related to both measures of audit quality; i.e., (1) the absolute value of performance-adjusted discretionary accruals and (2) earnings response on unexpected quarterly earnings.

Research that is more recent has sought to gain a deeper understanding of the role of NAS in reporting quality by examining different types of NAS separately. Prior research suggests that because knowledge spillovers and economic bonding could co-exist, it might be difficult to disentangle each effect separately suggesting that it is important to identify conditions under which knowledge spillovers dominates economic bonding. For example, Beck et al. (1988) show that the effect of knowledge spillovers is greater if the auditor provides recurring NAS, because knowledge resulting from recurring NAS decrease start-up costs associated with an audit, hence reducing the value of the incumbency to the auditor (or increasing auditor independence). Despite the theoretical result, empirical results continue to be inconsistent. For example, while Kinney et al. (2004) and Gleason and Mills (2007) find evidence in support of tax services improving audit quality, Elder et al. (2008) and Paterson and Valencia (2011) find that provision of tax services is associated with lower audit quality.

Son (2005) differentiates "actual" audit quality from "appearance" audit quality by testing possibility that investors' perception of audit quality may differ from actual audit quality. Furthermore, he tests impacts of the NAS on audit quality by comparing audit quality before and after Sarbanes-Oxley Act (SOX), which prohibits auditors from providing most NAS to their audit clients. If passage of SOX does indeed improve audit quality, the most noteworthy effect should be present for those firms who previously purchased large amounts of NAS. The empirical results of the study fail to find positive effects of NAS, through knowledge spillover, on audit quality, but find the negative effects of NAS as measured by both actual and appearance proxies of audit quality. With regard to tests for the effectiveness of prohibiting NAS, this study finds a moderate result that changes in financial reporting quality, after implementing SOX, vary depending on NAS purchases prior to the Act. However, there seems to be no difference in changes of perceived audit quality between firms with large NAS purchases and firms with small NAS purchases.

On the other hand, the impact of the NAS on audit fees was subject to empirical research. For example Krishnan et al. (2005), Hope and Langli (2008), Lim and Tan (2008) and Gul et al. (2010). Krishnan et al. (2005) investigate the association between fee-based measures of NAS (non-audit fee ratio, the level of non-audit fees and unexpected non-audit fees) and earnings response coefficients. Their results indicate negative investor perceptions of NAS, consistent with investors perceiving large purchases of NAS as impairing auditor independence. Such negative perceptions do not, however, extend to the total fees.

Hope and Langli (2008) investigate the association between auditor fees, including NAS fees, and the auditors' propensity to issue a modified going concern report using a large sample of private Norwegian firms for the period

1997-2002. They find no evidence that auditors compromise their objectivity through fee dependence. In a supplementary analysis, they also report that their result sustains using a sample of public companies listed on the Oslo Stock Exchange (OSE) for the period 1997-2005.

Lim and Tan (2008) posit that the effect of non-audit fees on audit quality is conditional on auditor industry specialization in that audit quality is less likely to be impaired in the case of industry specialist auditors providing non-audit services. Their premise is that industry specialist auditors are more likely to be concerned about reputation losses and litigation exposure, and to benefit from knowledge spillovers from the provision of non-audit services. They find some evidence that audit quality (as measured by increased propensity to issue going-concern opinion, increased propensity to miss analysts' forecasts, as well as higher earnings-response coefficients) is less likely to be reduced for firms that acquire non-audit services from industry specialist auditors compared to non-specialist auditors. Implications are discussed.

Gul et al. (2010) test whether high non-audit fees affect auditor independence, proxied by auditors' propensity to issue a going concern modified audit opinions. Using U.S. data from 2000 to 2007, they find a non-linear negative relationship between non-audit fees and auditors' propensity to issue going concern audit opinions but this relationship only holds when audit tenure is long. Further analysis shows that the link between non-audit fees, long tenure and the going concern audit opinion is, however, stronger for low quality auditors (proxied by non-Big 4 and industry non-specialist auditors). The findings are robust when controlling for unexpected fees and endogeneity among variables. They conclude that high non-audit fees are likely to affect auditor independence only when the auditor has a long tenure with the same client or when auditor quality is poor.

In the light of the above discussion, it can be concluded that most prior research were carried out in developed countries. Hence, there is a need to examine the impact of the NAS on audit quality and audit fees in one of the emerging economies; Saudi Arabia, therefore, the following hypotheses are formulated:

H1: Preventing joint NAS and audit services would reduce the audit quality.

H2: Preventing joint NAS and audit engagement would lead to an increase of audit fees.

3. Data Analysis and discussion of Findings

3.1. Sample of the study

The data used in this study are obtained from a sample of auditors who are practicing in audit firms in Saudi Arabia. A total of 220 questionnaires was distributed with a response rate of 27.2%, where 60 questionnaires that are valid for the analysis were returned. The questionnaire comprises three sections. Section one contains some demographic information; section two includes questions on the impact of the NAS on audit fees, and section three composes questions on the impact of the NAS on audit quality. The questionnaire was revised in the light of a feedback from professionals who are working at universities and audit firms. Respondents were asked to express their opinions on the effects of the NAS on audit fees and quality using a Liker Scale of five points ranging from 1 "strongly disagree" to five "strongly agree". A test of reliability of measurement using the Cronbach Alpha was carried out to test the internal consistency of questions on the second and the third sections of the questionnaire. The result of the tests of consistency is 0.731, which is greater than 0.7 indicating acceptable internal consistency of measure of scale reliability used in this study (Sekaran, 2000).

3.2. Demographics

Analyzing the first section of the questionnaire reveals the demographic background of the respondents, which are examined by looking at the following: (1) job title; (2) academic degree; (3) experience; (4) professional qualifications; and (5) type of audit firm.

Figure 1 summarizes the job title of the respondents' auditors. Of the 60 auditors analyzed, eight auditors (13%) are partners; six auditors (10%) are managers; with the remaining forty-six auditors (67%) who is working as seniors in audit firms.

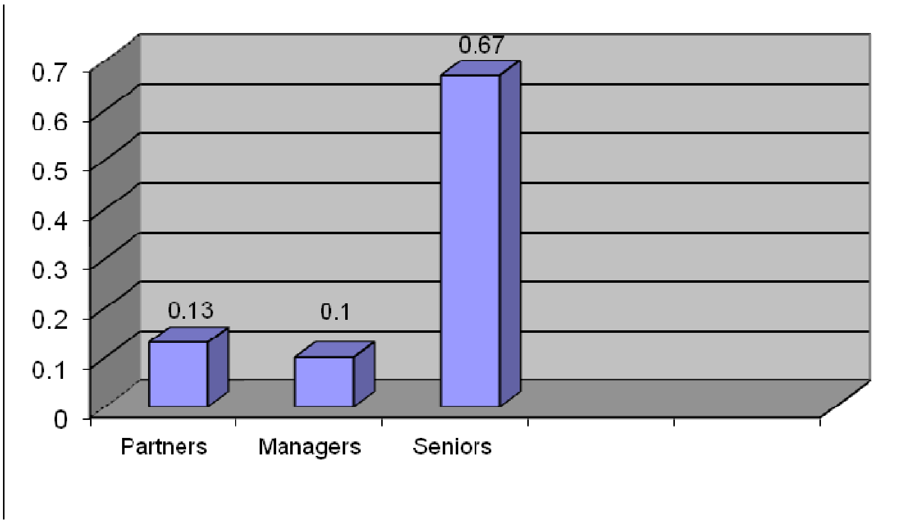

Figure 1. The job title of the respondents' auditors

Respondents were requested to report their academic degree. The results reveal that all the auditors are holding at least a bachelor's degree, where a total of 41 auditors (68.3 percent) have a bachelor's degree, 13 auditors (21.6 percent) with a master's degree while 6 auditors (10 percent) holding a Doctorate degree. Auditors are varied in years of experience which are classified into three categories for the purpose of this research; less than five years, between 5 to 15 years, and above 15 years of work experience. The results suggest that a total of 29 auditors (48.3 percent) have less than five years audit work experience, 17 auditors (28.3 percent) with experience between 5 to 15 years while 14 auditors (23.4 percent) have above 15 years of work experience.

Figure 2 shows professional qualifications; where the sample auditors were asked to identify any professional certificates they earned as Saudi Arabia Certified Public Accountant (SOCPA), Certified Public Accountant (CPA), Certified Internal Auditor (CIA), or other. As shown in Figure 2, a total of 19.3 per cent of auditors have SOCPA, 12.9 percent earned CPA, 8 percent holding CIA, and the rest 59.8 per cent have other professional certificates.

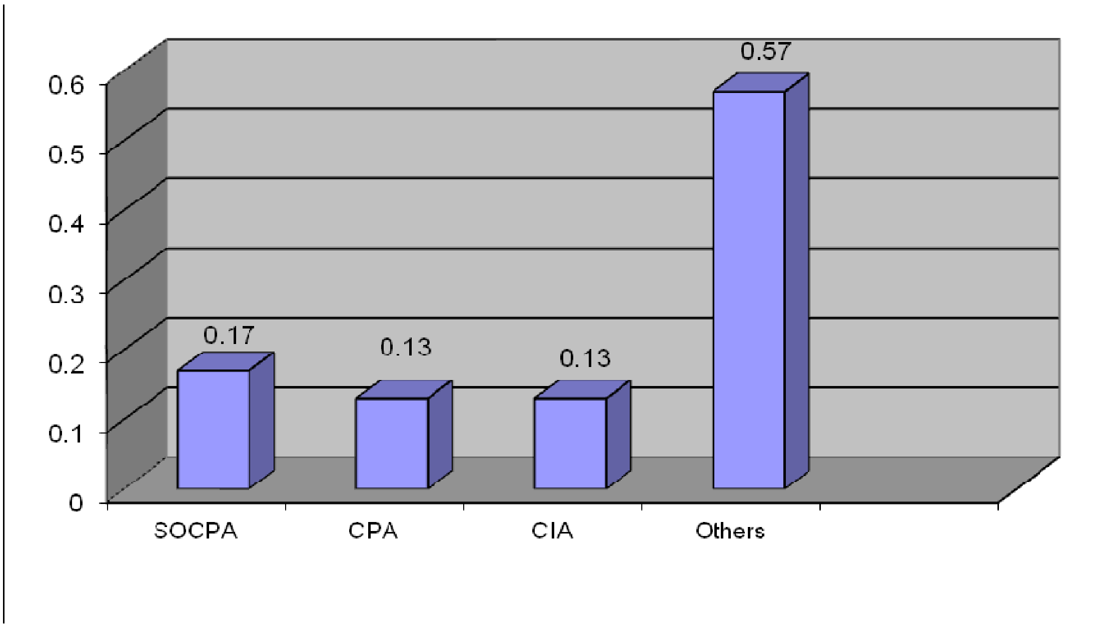

Figure 2. Professional qualifications of the respondents' auditors

Respondents auditors are affiliated with several audit firms. The results reveal that , 42 percent of the respondents are working with local audit firms and the remainder (58 percent) are associated with one of the Big-4 international affiliated firms.

3.3. Auditors' perceptions on impact of the prohibition of NAS on the audit quality

The questionnaire was designed to test auditors' perceptions on the impact of NAS on the audit quality, where preventing auditors to provide NAS jointly with audit engagement would let auditors to select NAS as it requires less time and efforts and at the same time yields a higher income in comparisons with audit engagement. In such cases, qualified auditors would dismiss the audit market and the majority of audit would be carried out by small audit firms will less experience and less qualified and certified auditors, which in turn would affect the audit market and audit quality negatively.

Respondents are requested to express their opinions on seven statements using a Likert-scale of 5 points ranged from 1 "strongly disagree" to 5 "strongly agree". This study defines any factors with the mean values up to 2.0, at least "disagree" or "strongly disagree" upon; in the range of 2.1 to 3.0, are "uncertain" and 3.1 or above indicating that the respondents either "agree" or "strongly agree" that NAS would impact the audit quality. The results in table 1 show that the average mean ranged from 2.85 to 3.37. The respondents express that preventing the external auditor from providing NAS will lead to the failure to be fully acquainted with the audit client's activity and consequently less able to specialize in the client's activity (statement 4, with a mean=2. 85). Respondents express that prohibiting of the external auditor to provide NAS will make it difficult to judge the client's internal control system and this may affect the auditor's opinion (statement 5, with a mean=2. 94). These results suggest that respondents' auditors are in an early stage to express their opinions towards the impact of preventing NAS on the audit procedures, where they are uncertain of the likely impact on the outcome of the audit engagement.

Table 1. Impact of NAS on the audit quality

Statements	*Descriptive Statistics*		*ANOVA Test*		
			Significant Level		
	Mean	***STD***	***Academic Degree***	***Experience***	***Type of Audit Firm***
1. Preventing the external auditors from providing NAS requires the auditor to expand the audit scope and exert more effort in it.	3.19	1.099	.207	.870	.919
2. Providing NAS by the external auditor will motivate him to assign a team with high qualifications to perform the audit tasks to this client.	3.37	1.075	.281	.753	.568
3. Preventing the external auditor from providing NAS will lead to the increase in the number of work hours and the effort necessary for performing the audit.	3.10	1.044	.298	.112	.667
4. Preventing the external auditor from providing NAS will lead to the failure to be fully acquainted with the audit client's activity and consequently less able to specialize in the client's activity.	2.85	.989	.486	.853	.065
5. Prohibiting the external auditor of providing NAS will make it difficult to judge the client's internal control system and this may affect the auditor's opinion.	2.94	1.143	.141	.172	.269
6. Preventing the external auditor from providing NAS will lead big audit firms to dismiss the audit market; hence small audit firms would engage in the audit market and affect the audit quality negatively.	3.30	1.086	.721	.486	.078
7. Providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report.	3.48	1.170	.431	.723	.457

** Significant at the 0.05 level*

Furthermore, the results in table 1 suggest that respondents editors have expressed their opinions on the impact of prohibition on the joint provision of the NAS and audit services on audit quality, where the mean value of the rest of the statements is exceeding 3.1. The respondents are agreed that preventing the external auditor from providing NAS will lead big audit firms to dismiss the audit market, hence small audit firms would engage in the audit market and impact the audit quality negatively (mean=3. 3), and providing NAS by the external auditor will reduce the likelihood of issuing a qualified audit report (mean=3. 48). The results suggest that a prohibition on the joint provision of NAS and audit services would impact the audit quality, where auditors will have relations with the client that add much pressure on his opinion, hence this might prevent him from issuing a qualified report on the believe that this might lead to losing his client. Accordingly, the first hypotheses is accepted where providing a joint NAS and audit services would reduce the audit quality.

Analysis of variance (ANOVA) was conducted to determine whether auditors' perceptions on the impact of NAS on the audit quality were influenced by demographic characteristics. As shown in table 1, it was found that academic degree, experience and type of audit firm have no impact on auditors' perceptions, where all auditors expressed the same views on the impact of the NAS on the audit quality (all statements have $p > .05$).

3.4. Auditors' perceptions on impact of NAS on audit fees

The questionnaire was designed to test auditors' perceptions on the impact of the NAS on audit fees. Respondents are requested to express their opinions on four statements using a Likert-scale of 5 points ranged from 1 "strongly disagree" to 5 "strongly agree". This study defines any factors with the mean values up to 2.0, at least "disagree" or "strongly disagree" upon; in the range of 2.1 to 3.0, are "uncertain" and 3.1 or above indicating that the respondents either "agree" or "strongly agree" that NAS would impact audit fees. The results in table 2 show that the average mean ranged from 2.74 to 3.93. The respondents express that providing NAS by the external auditor will lead to a reduction in udit fees (mean=2. 74), which indicate that they are uncertain that the NAS would likely would reduce the audit fees on the believe that the auditor is familiar with client activities and have access to internal information that will reduce the efforts required to conduct the audit process on a timely basis.

Auditors express that the prohibiting of providing NAS by the external auditor will lead to the absence of any allowed discount for providing more than one service at the time (mean=3.24). Furthermore, preventing the external auditor from NAS will lead to the decrease in the number of auditors who provide audit services and hence will lead to higher audit fees (mean=3.40), where auditors in the market should make the choice between providing audit services or NAS, consequently, the audit fees are most likely to be increased in the audit market. Respondents express their opinions and agree that NAS yields greater income in comparison with audit services (mean=3.92), this might be justified on the ground that NAS requires less time and efforts as auditors may carry out several services within a certain period of time that is required to carry out an audit engagement. The results of table 3 suggest that the second hypothesis to be accepted, where preventing joint NAS and audit engagement would lead to an increase of audit fees.

Analysis of variance (ANOVA) was conducted to determine whether auditors' perceptions of the impact of NAS on the audit fees was influenced by demographic characteristics. As shown in table 2, academic degree has an impact on auditors' perceptions, where, Bachelors, Masters, and Doctorate holders have significantly different views on only one statement (statement 4 with $p < .05$). It was found also that experience has a significant impact on auditors' perceptions on some statement related to the impact of the NAS on the audit fees at $p < .05$ (statements 1 and 2). Furthermore, It was found that type of audit firm has no impact on auditors' perceptions, where all auditors expressed the same views on the impact of the NAS on the audit fees

Table 2. Impact of NAS on the audit fees

Statements	*Descriptive Statistics*		*ANOVA Test*		
			Significant Level		
	Mean	***STD***	***Academic Degree***	***Experience***	***Type of Audit Firm***
Providing NAS by the external auditor will lead to a reduction in audit fees.	2.74	1.159	.805	.049*	.564
Preventing the external auditor from NAS will lead to the decrease in the number of auditors who provide audit services and hence will lead to higher audit fees.	3.40	0.896	.367	.027*	.263
NAS yields greater income in comparison with audit services.	3.92	1.038	.293	.981	.481
Prohibiting providing NAS by the external auditor will lead to the absence of any allowed discount for providing more than one service at the time.	3.24	1.051	.022*	.947	.926

** Significant at the 0.05 level*

4. Conclusion and Directions for Further Research

This study investigates whether the prohibition of NAS in Saudi Arabia would affect the Audit quality and audit fees. The small number of prior studies carried out in emerging markets especially the Saudi Arabia motivates this study. Based on a survey questionnaire for a sample of auditors who are working at Big-4 and Non-Big4 audit firms, the results suggest that auditors are able to define the impact of the prohibition of the NAS on audit quality and audit fees. Article No. 5 of the SOCPA has affected the profession significantly. It is expected that active audit firms in Saudi Arabia are trying to find a way to violate such prohibition, for example, audit firms might switch clients among them. Alternatively, the audit firm will choose to provide NAS and dismiss the audit engagements, where NAS requires shorter times and less effort, at the same time, they gained more income. If this choice widespread among audit firms, the audit processes would be carried out by smaller firms with limited audit quality. Otherwise, big audit firms, who prefer to be specialized in the audit process with high quality, would ask for high fees. However, the empirical results suggest that preventing joint NAS and audit services will lead to the decrease in the number of auditors who provide audit services and hence audit fees would increase. Furthermore, the NAS would affect the audit quality. Demographics of respondents' auditors as auditors' academic degree and experience have influenced the auditors' perceptions but the type of audit firm has no impact on auditors' perceptions, where all auditors expressed the same views on the impact of the NAS on the audit fees and the audit quality. The main lessons driven from this study is that the SOCPA should give attention to Article NO.5, where such prohibition of NAS in Saudi Arabia does not exist across many countries as the US, the UK, Canada, Australia, or other GCC as Kuwait, United Arab Emirates and Qatar, which have a similar economies, political and cultural environment.

However, the findings of this study contribute to the literature of the impact of NAS in emerging economies, where it covers a new ground and provide some thought that might act as a vehicle to develop Article No. 5 of SOCPA and help policy setters to maintain good rules that guarantee better quality of audit services and non-audit services at a fair fee and maintain audit independence.

Further research is required to examine the impact of Article No. 5 on the audit profession with emphasis on client firms, to see the consequences of this prohibition on: (i) the audit fees, (ii) the audit quality, (iii) and the auditor independence. Consideration of industry type and audit specialization would enrich the outcomes of this line of research and pave the way for the development of the audit profession in Saudi Arabia.

References

Antle. R., & Demski, J. S. (1991) "Contracting frictions, regulation, and the structure of CPA firms", *Journal of Accounting Research* 29, Supplement, 1-24.

Ashbaugh, H., LaFond, R. & Mayhew, B. W. (2003) "Do nonaudit services compromise auditor independence? Further evidence", *The Accounting Review* 78 (3): 611-639.

Barkess, L., & Simnett, R. (1994) "The provision of other services by auditors: Independence and pricing issues", *Accounting and Business Research* 24 (94): 99-108.

Beck, P. J., & Wu, M. (2006) "Learning by doing and audit quality", *Contemporary Accounting Research* 23 Spring, 1-30.

Beck, P., Frecka, T. J. & Solomon, I. (1998) "A Model of the market for MAS and audit services: Knowledge spillovers and auditor-auditee bonding", *Journal of Accounting Literature*: 50-64.

Causholli, M., Chambers, D. & Payne, J. (2010) "Do audit quality influenced by prospective non-audit service fees? ", working paper, University of Kentucky.

Chaney, P. K., & Philipich, K. L. (2002) "Shredded reputation: The cost of audit failure", *Journal of Accounting Research, 40*(4), 1221-1245.

DeFond, M., Raghunandan, K., & Subramanyam, K. (2002) "Do non-audit service fees impair auditor independence? Evidence from going concern audit opinions", *Journal of Accounting Research*, 40 (4), 1247-1274.

Eilifsen, A. & Knivsflå, K. (2008) "Non-audit services and audit quality: Investors' concerns post-Enron", paper presented at the 2nd EIASM Workshop on Audit Quality at Bocconi, Milan, Italy, December.

Elder, R., Harris, D. & Zhou, J. (2008) "Knowledge spillovers from auditor tax consulting and reported weaknesses in internal control", working paper, Syracuse University.

Francis, J., & Ke, B. (2006) "Disclosure of fees paid to auditors and market valuation of earnings surprises", *Review of Accounting Studies*, 11 (4), 495-523.

Frankel, R., Johnson, M. & Nelson, K. (2002) 'The relation between auditors' fees for non-audit services and earnings management', MIT Sloan Working Paper No. 4330-02. Available at SSRN: http://ssrn.com/abstract=296557

Gleason, C. & Mills, L. (2007) "Do auditor-provided tax services improve the estimate of tax expense?", McCombs Research Paper Series No. ACC-01-07. Available at SSRN: http://ssrn.com/abstract=977973

Gul, F., Basioudis, I. & Ng., A. (2010) "Non-audit fees, auditor tenure, and auditor independence', working paper, School of Business, Monash University, Sunway, Malaysia.

Habib, A. (2009) "Non-audit service fees and financial reporting quality: A meta-analysis", working paper. Available at SSRN: http://ssrn.com/abstract=1434354

Hoitash, R., Markelevich A. & Barragato, C. A. (2005) "Auditor fees, abnormal fees and audit quality before and after the Sarbanes-Oxley Act', working Paper, Suffolk University.

Hope, O. K., & Langli, J. C. (2008) "Auditor independence in private firm setting", working paper. Rotman School of Management, University of Toronto and Norwegian School of Management.

Kinney, W.R. Jr., Palmrose, Z-V., & Scholz, S. (2004) "Auditor independence, non-audit services, and restatements: was the U.S. Government right? ", *Journal of Accounting Research* 42 (3): 561-588.

Krishnan, J., Sami, H. & Zhang, Y. (2005) "Does the povision of nonaudit services affect investor perceptions of auditor independence? ", *Auditing: A Journal of Practice and Theory* 26 (2): 111-135.

Levitt, A. (2000) "Renewing the covenant with investors", Remarks delivered at NYU Center for Law and Business, New York University, NY, May 10.

Lim, C. & Tan, H. (2008) "Non-audit service fees and audit quality: The impact of auditor specialization", *Journal of Accounting Research* 46 (1): 199-246.

Paterson, J. S., & Valencia, A. (2011) "The effects of recurring and non-recurring tax, audit-related, and other nonaudit services on auditor independence", *Contemporary Accounting Research* Forthcoming.

Raghunandan, K., William, J. R. & Whisenant, J. S. (2003) "Initial evidence on the association between nonaudit fees and restated financial statements", *Accounting Horizons* (17): 223- 234.

Ruddock, C., Taylor, S., & Taylor, S. (2006) "Non-audit services and earnings conservatism: Is auditor independence impaired? ", *Contemporary Accounting Research*, 23 (3), 701-746.

Sekaran, U. (2000) Research Methods for Business: A Skill- Building Approach, John Wiley and Sons, N.Y.

Simunic, D. A. (1984) "Auditing, consulting, and auditor independence", *Journal of Accounting Research*, *22(2)*, 679-702.

Son, M. (2005) Do non-audit services influence audit quality?, PhD dissertation No. AAI3186882., *University of Nebraska – Lincoln, Jan. available at:* http://digitalcommons.unl.edu/dissertations/

Srinidhi, B. and Gul, F. (2007) "The differential effects of auditors' nonaudit and audit fees on accrual quality", *Contemporary Accounting Research*, 24 (2): 595 – 629.