

Occasional Papers on Islands and Small States

FACTORS INFLUENCING EXTERNAL AUDIT FEES IN MALTA

Peter J. Baldacchino, Miriam Attard and Frank Cassar

No: 02/2014

ISSN 1024-6282

This is a discussion paper which the author/s submitted for feedback from interested persons. The author/s are free to submit revised version of this paper for inclusion in other publications. An electronic version of this paper is available at www.um.edu.mt/islands. More information about the series of occasional papers can be obtained from the Islands and Small States Institute, University of Malta. Tel/Fax: 356-21344879, email: islands@um.edu.mt .

FACTORS INFLUENCING EXTERNAL AUDIT FEES IN MALTA^δ

Peter J. Baldacchino^{}, Miriam Attard[#] and Frank Cassar^θ*

Abstract. The main objective of this study is to investigate factors influencing the external audit fees in Malta. This includes assessing whether client size, complexity and risk, also known as the “traditional” determinants, are applicable in the case of Malta, as well as testing the issue of premium pricing amongst the Big 4 audit firms. Of particular interest is the determination of specific factors relevant to such a market. A GLM regression model is used to examine the effect of the independent factors on the amount of audit fees for a sample of audit engagements performed in the Maltese audit market. The model is further complemented by a series of semi-structured interviews with audit partners from various audit firms of different sizes. Results indicate that the amount of external fees is significantly influenced by audit client size, complexity, risk, ownership control and corporate status. Additionally a fee premium has been found to accrue to the Big 4 audit firms.

^δ This paper is an updated version of an earlier paper by the three authors, presented by Peter J. Baldacchino at the 36th Annual Congress of the European Accounting Association held at Dauphine University, Paris, between 6th and 8th May, 2013.

^{*} Peter J Baldacchino is Head of the Department of Accountancy at the University of Malta and a member of the Maltese Accountancy Board.

[#] Miriam Attard is Assistant Manager at KPMG Malta and Visiting Lecturer in Financial Accounting and Reporting, Department of Accountancy at the University of Malta

^θ Frank Cassar is Assurance Manager at EY Malta and a Visiting Lecturer in Financial Accounting and Reporting, Department of Accountancy at the University of Malta.

Introduction

Limited liability companies in Malta are statutorily required to secure the services of an auditor in order to obtain a professional opinion on their financial statements. In line with this, the Companies Act, Cap. 386 of the Laws of Malta, states that the remuneration for such services shall be determined by the company in general meeting.

Taffler and Ramalinggam (1982) argued that the manner in which audit fees are calculated differs from that of other professions where fees are directly or indirectly calculated on the monetary aspects of the business involved. Niemi (2005) confirmed that the basis on which audit fees is calculated is the number of hours to be worked on the engagement multiplied by the rate per hour and not any financial aspect of the subject matter. All of the above delineates the fact that audit fees and their determination might be seen as a black box by the stakeholders involved. ISA 210 affirms that the auditor shall agree the terms of the audit engagement with management and, where appropriate, with those charged with corporate governance. In fact, Low *et al.*, (1990) stated that a common problem faced by auditors and clients alike is the determination of audit fees that are mutually acceptable to both parties. Lurie (1976: 32) advised that “the relationship between auditor and client is such that the client should deal with the subject of the auditor’s fee with full confidence that the amount will be reasonable in relation to the services that must be performed”. In view of this, HO and NG (1996) highlighted a thorough understanding of the fee-setting process as a must, if companies and the auditing profession are to determine an optimal audit fee.

By virtue of its important implications for a wide spectrum of stakeholders, comprising legislators, professional bodies, companies and the public at large (Zhang and Myrteza, 1996) the pricing of audit services has been an appealing topic for researchers. As a matter of fact, numerous studies have been carried out in the USA, UK, Australia, Canada and Continental Europe to investigate factors believed to have an influence on audit fees.

Furthermore, similar studies, albeit to a lesser extent, were carried out in small states such as Singapore, Bahrain, Jordan and Hong Kong. However, conspicuously there is a dearth of research in the determinants of audit pricing in a microstate, accepted by the United Nations as being a sovereign state with a population numbering one million or less.

A microstate, like Malta, differs from a macro state on a number of aspects, such as competition and regulation (Adriamananjara and Schiff, 1998), which may eventually impact the level of audit fees charged. Thus, a study that investigates determinants of audit fees, whilst also having common matters relevant to larger countries, is also expected to shed valuable insight from an environment such as Malta, a microstate within the European Union.

The objective of this study is to develop a model of the determinants of audit fees in Malta and establish whether:

- the so-called “traditional” and other determinants of audit fees prove to be relevant in the case of Malta;
- the size of the audit firm has an influence on the amount of external audit fees and whether the preliminary notion of premium paid by Big 4 clients is applicable in Malta;
- there are any significant factors specific to Malta’s microstate environment.

After briefly introducing the subject, the next section presents an evaluation of the relevant literature. The third section describes the research methodology adopted in this study, ensued by the presentation and discussion of the findings. This will finally be followed by a summary together with the concluding remarks.

Literature Review

Production of Audit Services

Over the past twenty years, an important line of auditing research has sought to understand the market for audit services by studying audit fees. The ball was set rolling by the seminal research carried out by Simunic in the early eighties. The latter argued that in order to test the competitiveness of the audit industry “it is necessary to develop a positive model of the process by which audit fees are determined” (Simunic, 1980: 161).

However, the factors relating to variation in audit fees incorporated in the models previously developed raised an identification issue: were the authors observing the supply curve (the willingness of audit firms to supply individual audit services at different fee levels) or the demand curve (the demand by individual auditees for audit services at different fee levels)? Pong and Whittington (1994: 1073) answered that “it seems plausible to assume that the supply curve is fixed whereas the demand curve shifts between auditees.” This implies that the supply curve is determined by the cost function of audit firms and is a function of the amount of work done, irrespective of the identity of the auditee. Demand, on the other hand, depends primarily upon the size of the auditee.

The same authors contend that this notion applies at best where an audit is a statutory requirement and the minimum standard of the audit is laid down by statutory and professional bodies and “thus demand is inelastic to the fee and mainly dependent upon the amount of work required, as determined by the size of the auditee” (*op cit*: 1074).

Hay *et al.*, (2006: 146) summed it up by looking at the audit process from a production perspective whereby certain drivers are associated with variations in the level of audit fees as these drivers cause an auditor to perform more or less work during the course of the audit.

Core Audit Fee Determinants

Simunic (1980: 161) opined that “an audit fee is the product of unit price and the quantity of audit services demanded by the management of the audited company.”

Chaney *et al.*, (2000) categorised the factors that explain audit pricing into demand-side and supply-side factors. Observable client characteristics that have the potential to affect the relative importance of the demand-side factors include client size and client complexity; with Cobbin (2002) describing both variables as the most dominant across the literature. Observable factors falling under the supply-side parasol include audit risk and audit firm size.

A number of variables have been used in the literature to explain variations in audit fees.

Auditee Size. Al-Harshani (2008: 687) hypothesised that “the external audit firm is expected to perform more audit work as the client size increases to ensure the performance of an adequate amount of compliance and substantive testing. This increase in audit effort is naturally expected to be associated with the increase in the amount of audit fees”. However, Gerrard *et al.*,(1994) outlined the fact that the relationship between audit fees and client size is unlikely to be linear. In fact, the audit fee literature is replete with evidence suggesting that external audit fees are likely to be a decreasing function of size (Simunic, 1984; Francis and Stokes, 1986; Palmrose, 1986; Simon and Francis, 1988; Maher *et al.*,1992). The main reasons cited are three-fold:

- the likelihood of economies of scale in the auditor’s costs of doing work (HO and NG, 1996);
- the existence of more sophisticated internal control procedures in larger companies which help to reduce audit work (Ahmed and Goyal, 2005);
- the use of audit sampling, as the sample size needed to achieve a required level of control and precision increases at a decreasing rate (Low *et al.*, 1990).

Firth (1985) explained that various proxy measures of size have been taken, as the number of hours worked, which is likely to be a function of the size of the company, and the billing rate per hour are unobservable. A number of studies used total assets as a proxy for auditee size: Brinn *et al.*, 1992; Joshi and Al-Bastaki, 2000; Gist, 1992; Taylor *et al.*, 1999; Simon, 2005; Simon and Taylor, 2002; Carson *et al.*, 2004. The main argument put forth by Chan *et al.*, (1993) is that if audit firms adopt an approach which is essentially balance sheet based, then total assets is the most suitable measure. On the other hand Zhang and Myrteza (1996) Basioudis and Fifi (2004) and Ji-Hong (2007) considered turnover as a better explanatory variable as long as auditors employ a transaction-based audit approach to verify turnover and profits directly.

Al-Harshani (2008: 687) hypothesised that “the external audit firm is expected to perform more audit work as the client size increases to ensure the performance of an adequate amount of compliance and substantive

Auditee Complexity. Al-Harshani (2008) found that audit fees are significantly influenced by the level of audit client complexity. In fact, he penned that a “more complex audit means a more diverse organisational structure and harder to review transactions”. This increased audit effort is expected to lead to an increase in the level of audit fees.

Chan *et al.*, (1993) divided audit complexity into two, namely scope of operations and balance sheet composition. Earlier on, Simunic (1980) had pre-defined the scope of operations as being made up of two main components: decentralisation, measured by the number of consolidated subsidiaries, and diversification, measured by the number of industries in which the auditee operates. Chan *et al.*, (1993) maintained that costs associated with the audit of separate financial statements, each of which has to comply with a variety of statutory and professional requirements for disclosure, will eventually be passed on to the client. In fact HO and NG (1996) reported that the most popular surrogate used to measure the scope of operations is the number of principal subsidiaries of the auditee. In contrast, Simon and Taylor (1997) focused more on the balance sheet composition as a determinant of complexity. They opined that auditors have long recognised that the valuation assertion of inventories and receivables is in its nature very subjective and judgemental.

As can be noted, the evidence in the literature is inconclusive as to whether it is complexity in terms of scope of operations or balance sheet composition which has the most significant impact on the level of audit fees. Whilst most studies, including Waresul and Moizer (1996), Anderson and Zeghal (1994) and Ji-Hong (2007), concluded that both elements are significant, Firth (1985) found the scope of operations to be insignificant whilst Chan *et al.*, (1993) concluded that the balance sheet composition ratios are insignificant.

Auditee and Auditor's Risk

Simunic and Stein (1996) in putting forth their opinion state that, since auditing is a business where the auditor must assume the risk of an uncertain rate of return, audit fees should reflect that risk. Bell *et al.*, (2001) concluded that in a competitive equilibrium, audit fees should reflect the expected costs of auditor business risk. The main proxies used in previous studies to determine whether risk is significant when pricing an audit were as follows:

Audit Qualification: Dopuch *et al.*, (1987) stated that a qualification increases auditor business risk as it may indicate the existence of financial or other uncertainty surrounding the auditee. Moreover Palmrose (1986) concluded that qualified opinions require the accumulation of a greater amount of evidence than would otherwise be the case to achieve the auditor's desired level of assurance. On the other hand, Jubb *et al.*, (1996) reflected that a qualification may help to protect the auditor from a charge of negligence and so reduces the auditor's business risk.

Inventories and Receivables to Total Assets: Although this variable has received overlapping use in the literature as a complexity factor, Jubb *et al.*, (1996) and Gonthier-Besacier and Schatt (2007) argued that this factor may be taken as a surrogate for audit risk since the risk that inventories and receivables are materially misstated is higher than for other accounts.

Gearing, Liquidity, Loss History and Profitability Ratio: It is argued that these alternative measures are generally associated with the potential for, or actual level of, auditee financial distress. Such distressed situations lead to more financial statement errors and window dressing in annual financial reports. This will in turn lead to a greater likelihood of audit failure and hence involvement in audit-related litigation (Kreutzfeldt and Wallace, 1986).

Audit Firm Size

One of the most important research questions typically examined was whether audit fees are affected by audit firm size. Mixed results were obtained, with some studies (Craswell *et al.*, 1995; Gul, 1999; DeFond *et al.*, 2000; Cameran, 2005; Chuntao, 2005; Lee, 1996; Naser and Nuseibah, 2007; Van Caneghem, 2010) reporting evidence of a fee premium paid to the “Big 4”, and other studies (Chung and Lindsay, 1988; Simon, 1995; Langendijk, 1997) failing to find evidence of such fee premium. Simunic (1980) opined that such fee premium can accrue in both non-competitive and competitive markets. In a non-competitive market a dominant subset of auditors (Big 4 firms), through collusion, may agree to limit price competition and hence introduce an element of monopoly profit into audit prices.

Francis (1984) hypothesised that if competition prevails, one of the following three scenarios would hold:

Scenario 1: No price differences between Big and non-Big 4 would indicate no price differentiation or scale economies.

Scenario 2: Lower Big 4 prices would indicate economies of scale to Big 4 auditors.

Scenario 3: Higher Big 4 prices would indicate product differentiation to Big 4 auditors.

Che Ahmad and Houghton (1996) summarised the alternative theories that have been proposed to explain the existence of product differentiation that leads to a Big 4 premium:

Economic rent theory: DeAngelo (1981) suggested that auditor size alone can explain the supply of a higher level of audit quality (defined as the joint probability of detecting and reporting material financial errors). Her main theory hinged on the fact that large audit firms stand to lose more quasi-economic rents simply because they have more clients. Thus to avoid this loss in reputation, large firms have a greater incentive to supply higher quality audits.

Brand name development theory: Whereas the previous model viewed audit quality as a passive by-product, Francis and Wilson (1988) embraced a more active theory that audit

firms are explicitly motivated to develop and maintain brand name reputation for quality in order to secure and protect the quasi-rents.

Demand-based model: This theory implies that an audit service possesses three characteristics valued by companies' top management, namely agency, information and insurance demand. Differences in client circumstances lead to a demand for quality-differentiated audits (Beattie and Fearnley, 1995).

Industry specialisation. Further to the premiums earned from brand names, Rahmat and Iskandar (2004) identified that the premium derived might not be related exclusively to brand but also to industry specialisation on the part of the auditor. McMeeking et al., (2006) alluded that "audit firms will invest resources in the creation of an industry specialist reputation if there are sufficient clients willing to pay higher fees that will cover this additional investment."

Other Contributing Determinants

Over the past 30 years, several authors sporadically used variables other than the above-mentioned ones:

Ownership control. Jensen (1986) concluded that a manager that has a large share of his wealth in the company is likely to be more risk-averse in making investment decisions than a manager who has a more diversified portfolio. Furthermore, Abdel-Khalik (1993) argued that the higher the managerial ownership the lower the demand for assurance because owners are more actively engaged in day-to-day operations. In line with these arguments, Chow (1982) and Niemi (2005) found that audit fees are lower for companies which are owner-managed.

Lennox (2005) further split agency costs into two. There is a divergence-of-interests effect such that managers with small shareholding have weaker incentives to act in the interests of outside shareholders. There also exists an entrenchment effect such that managers have more scope for behaving opportunistically when they have greater control.

Corporate status. Langendijk (1997) established that a company which has a public listing may entail a greater risk for the audit firm. Likewise, Gwilliam (1991) maintained that audit risk considerations have less importance in the auditing pricing decisions of the auditors as an audit failure of a small non-listed company is less likely to lead to negligence claims from shareholders.

Auditee profitability. A low return on shareholders' equity indicates that the auditee might be facing financial pressure and thus is likely to seek to control overhead costs, possibly resulting in lower fees (Chan et al., 1993). However this might be counter-argued by the need to extend the scope of the audit work to focus more on the client's status as a going concern.

Busy season. The ‘busy season’ variable was found to be significant by Francis and Stokes (1986), Craswell et al., (1995), Ezzamel et al., (1996) and Che Ahmad and Houghton (1996). This refers to the months after the end of the financial year of most of the companies, when the workload of audit firms is at its peak.

Audit report lag. Another variable used to assess variations in audit fees was the lag between the end of the accounting year and the audit report date (Ezzamel et al., 1996). A short time lag could be associated with either expensive audit fees or with efficient corporate accounting practices and internal control systems that could result in less audit work and hence lower fees.

Methodology

Research Design

Drawing from the extensive literature and the preliminary interviews carried out with audit partners, the following model was posited:

$$AF = \beta_0 + \beta_1 \text{Auditee Size} + \beta_2 \text{Auditee Complexity} + \beta_3 \text{Risk} + \beta_4 \text{Auditor Size} + \beta_5 \text{Other Factors} + \alpha$$

Where:

AF	=	Audit Fee
β_0	=	Intercept value (constant term)
$\beta_1, \beta_2 \dots \beta_n$	=	GLM regression coefficients of explanatory variables
α	=	Residual error

In view of the fact that the number of hours and the charge-out rate were considered to be non-observable due to the sensitivity of such information, surrogates for the independent factors were taken. A number of variables were considered for each and every factor so as to minimize the possibility of omitting potentially significant explanatory determinants.

A number of alternative models, using various combinations of explanatory variables, were estimated by running a General Linear Model (“GLM”) regression analysis on such factors. Nevertheless, some of the independent variables did not yield statistically significant regression coefficients and as expected there was a high degree of correlation within each vector of variables. In view of this, the variables with the least consistent explanatory power within each vector of variables were omitted.

Owing to the nature of this study’s objectives, a mixed approach, namely triangulation, was adopted whereby quantitative (regression model) and qualitative (semi-structured interviews) research are combined into a single study. In this way the statistical model, was complemented by semi-structured interviews, with particular emphasis devoted to unique characteristics that are specific to this microstate.

Data Collection

Official lists for the companies subdivided by corporate status as at 31 December 2008 were obtained. The categorised population of public limited companies is shown in Table 1.

Table 1
Population of Public Limited Companies

	Population	Financial Services	No Accounts Filed	Sampling Frame
Public Listed Equity	25	6	0	19
Public Listed Debt	17	0	0	17
Public Non-Listed	63	6	30	27

The entire population was incorporated in this research, with the exception of six public listed equity companies and six public non-listed equity companies operating in the financial services sector, due to the industry's unique nature and structure. The other 30 public non-listed companies not factored in this study had not yet filed their financial statements up to the point in time when data was collected, mostly because they had been incorporated during 2008.

Data relating to the private companies (Table 2) was subdivided as per EU definition (European Commission, 2005) to ensure that any sample chosen is not biased towards a particular category. All the large companies were factored in the study, while a random sample of the medium stratum was chosen. Small and micro firms were eliminated from the sample, as they are entitled to file abridged accounts as per the Maltese Companies Act. Likewise, some of the companies within the medium stratum also satisfied the "small companies" definition of the Companies Act.

Table 2
Population of Private Companies

	Large	Medium	Small	Micro
Private	41	238	1,159	28,285

For each company chosen, financial information was obtained from the annual report submitted for each of the three years between 2006 and 2008. When the model was run with the financial year as one of the independent factors, view of this, a pooled cross-sectional sample was taken, with each year it was concluded that it was not significant at the 95% confidence level. In as a separate reading for the purpose of the model. Hence, the total sample taken for the study over the three years, where applicable, was 372 units, as depicted in Table 3.

Table 3
Sample Selected

	<i>Public Equity Listed</i>	<i>Public Debt Listing</i>	<i>Public Non-Listed</i>	<i>Private</i>
<i>Total Sample</i>	34	45	60	233

Furthermore, semi-structured interviews were carried with ten audit partners, namely a partner from each of the Big 4 firms, and three each from the medium and small audit firms. The relative size of the audit firms was based on the number of audit partners.

Univariate GLM Assumptions

A number of conventional tests were carried out to examine the extent to which the assumptions underlying GLM regression analysis were violated, as reported in Baldacchino *et al.*, (2013), including tests relating to multicollinearity, whereby the explanatory variables were not found to be multicollinear. Baldacchino *et al.*, also conducted tests for heteroscedasticity and found that the assumptions of homoscedasticity could not be rejected.

Findings and Analysis

The following list shows the meaning of the variables used in the model proposed in Baldacchino *et al.*, (2014) with Audit Fee (LNAUDITFEE) as the dependent variable and the other variables as explanatory variables.

- LNAUDITFEE: The natural logarithm of the amount disclosed in the notes to the accounts relating to auditor’s remuneration.
- LNTA: Natural logarithm of Total Assets as shown on the face of the Balance Sheet.
- SQRTSUBS: Square root of the number of subsidiaries as described in the note ‘Investment in Subsidiaries’. Any subsidiaries not consolidated are not taken into consideration.
- SQRTFRGNSUBS: Square root of the percentage of foreign to total subsidiaries. Foreign subsidiaries were determined according to the registered address of each subsidiary.
- (INVREC)/TA: Ratio of Inventory (gross of impairment) and Total Receivables (gross of impairment) to Total Assets.
- QUICK: Ratio of Current Assets less Inventory to Current Liabilities.
- FCF: Cash Flows from Operations less acquisitions of Non-Current Tangible Assets less acquisitions of Non-Current Intangible Assets plus Proceeds from Disposal of Non-Current Tangible Assets and Non-Current Intangible Assets.
- ROCE: Ratio of Profit after Tax to Total Equity.

- REPORTLAG: Number of days between financial year-end and audit report date.
- OWNCONT: Ultimate % shareholding by the directors as per MFSA searches.
- GOVTOWNED: '1' if Government Owned (50% + 1 or more) and '0' if not Government Owned.
- MTLFGNOWNED: '1' if beneficial shareholders are Maltese and '0' if companies are foreign-owned.
- COMPSTAT: Public Listed (Debt or Equity), Public Not Listed or Private Company.
- AUDSTAT: Big 4, Mid Tier and Small. The latter two are classified according to the number of partners in the audit firm.

The results of the model are summarised in Table 4.

Table 4
Regression of Audit Fees on Explanatory Variables

Explanatory Terms	Coefficient	Std. Error	t Stat.
Intercept	3.766	0.364	10.357
LNTA	0.254	0.019	13.216
SQRTSUBS	0.38	0.032	11.91
SQRTFRGNSUBS	0.085	0.019	4.567
INVREC/TA	0.006	0.001	4.239
QUICK	-0.01	0.001	-6.521
FCF	7.92	3.23	2.451
ROCE	2.78	1.21	2.31
REPORTLAG	-0.001	0.000	-3.159
OWNCONT	-0.003	0.001	-3.752
GOVTOWNED	-0.304	0.114	-2.663
MTLFGNOWNED	-0.292	0.07	-4.161
COMPSTATPRIVATE	0.654	0.103	6.325
COMPSTATPUBLICNOTLISTED	0.683	0.123	5.541
COMPSTATPUBLICLISTEDEQUITY	0.986	0.133	7.386
AUDSTATBIG 4	0.726	0.13	5.599
AUDSTATMID TIER	0.487	0.151	3.225

$R^2 = 0.82$; Adj. $R^2 = 0.81$

It can be seen from Table 4 that the explanatory variables of audit fees were found to be statistically significant at the 95% confidence level, and possess the right sign.

In line with the various cross-sectional studies, the so-called 'traditional' determinants, namely size, complexity and risk, were confirmed to be significant within the Maltese scenario.

The results also highlight the existence of a Big 4 premium in the Maltese audit services market. Moreover two factors specific to this microstate were identified with foreign companies tending to pay higher fees whilst the opposite may be said for entities where government is the major shareholder.

Auditee size. The relationship between audit fees and auditee size was best explained when natural logarithm transformations were applied. The level of total assets, used as a proxy measure for the size of the auditee, was found to be strongly and positively

correlated with the auditor's remuneration. As the size of the business increases, there is an upward shift in the audit fee charged owing to the additional effort expended during the audit fieldwork. Interviewees held that a client's asset base is a better measure of size when compared to the revenue earned, as most income statement items are audited as part of the cycle used to audit balance sheet items.

Auditee complexity. The model affirms that complexity, in terms of the scope of operations has an effect on the audit fee, especially when the company's activities widen, particularly if they span across international borders. In view of the non-linear relationship, square root transformation was applied. From the interviews conducted, it has been corroborated that as active subsidiaries increase, consolidated financial statements require additional effort to audit as subsidiaries become more complex to audit. Furthermore, related party transactions might be assessed as a significant risk especially where there is doubt as to whether such transactions were carried out at arm's length.

Audit fees escalate further when the majority of subsidiaries are incorporated in foreign countries, as audit partners held that this requires additional correspondence with the foreign subsidiary's auditors, since "group auditors are responsible for the opinion issued for the international group as a whole". This may be attributable to the following factors:

- the foreign subsidiary being registered as an offshore company in a tax haven jurisdiction, which automatically increases the complexity and the risk involved;
- the primary team having to review the audit file of the foreign subsidiaries which are audited by non-member network firms;
- the effort in preparing the Group Audit Instructions and the increased correspondence with the secondary auditors;
- each jurisdiction having its own tax regime, thereby increasing the complexity in understanding tax-related matters.

The balance sheet composition also plays a role in the determination of audit fees. Inventories and Trade Receivables, which are two of the major components of the balance sheet, were found to be statistically and positively significant in relation to the amount of audit fees paid. Their significance may be explained by the fact that both have an element of uncertainty and judgement attached to them, especially when testing such account balances for impairment.

Revaluation and impairment of assets and derivative financial instruments are complex areas to audit due to the subjectivity and judgement in relation to the valuation assertion. Yet, none of the variables was found to significantly influence the audit fee charged.

Business and audit risk. The client's quick ratio, taken as a measure of business risk, registered an inverse relationship with audit fees. This implies that external auditors tend to raise the bar when liquidity problems such as overtrading, start to hit home as they view such client as being riskier.

The model recorded a positive coefficient for free cash flows ("FCF") indicating that if a firm has large cash reserves, managers have more choice and opportunity to

misappropriate cash, thereby implying higher inherent risk. Such relationship mirror-images the discussion put forth by Gul and Tsui (2001) who argued that managers of firms with high FCF are more likely to act opportunistically and be involved in “value-destroying activities”.

The gearing ratio, which demonstrates the degree to which a firm’s activities are funded by equity versus borrowed funds, a history of losses incurred by the auditee, and lagged and current audit qualifications were found not to be significantly correlated to the audit fee. One plausible explanation may be that audit firms view business as well as audit risk, emanating from the auditee market, as very low. This is reflected in the practically non-existent litigation cases in Malta against auditors, in contrast to the huge settlement fees forked out in other countries.

Auditee profitability. A client earning a higher return on capital is likely to be charged a higher audit fee. Some audit partners felt that if the client is enduring difficult financial times, they would be more ‘sympathetic’ when negotiating the fee, provided their recovery rate is reasonable. However, other partners disagreed with this notion, with one stating that “auditing is a business, and one cannot go about pitying one’s clients”.

Such findings indicate that lack of profitability is not viewed by the auditor as implicating higher risk arising from fraudulent financial reporting. On the other hand, the positive relationship between ROCE and audit fees suggests that better-off clients might be viewed to have “deeper pockets” and so are charged higher audit fees.

Audit report lag. Short time frames between the financial year-end and the audit report date might be indicative of tight reporting deadlines whereas longer time lags are reflective of audit problems. Whilst in the former scenario, it is expected that the auditee has to foot the bill, a number of partners stated that they find it very difficult to bill for the extra time and effort expended due to client’s inefficiencies and issues.

Ownership control. Owner-managed companies tend to view audits simply as an unnecessary cost and hence try to shift the price downwards. Interviewees uphold such belief, adding that the audit is viewed by such companies simply as a statutory requirement with “no added value”. This confirms the conclusion of Tabone and Baldacchino (2003) that Maltese owner-managed companies view the statutory audit as too historic, adding nothing new to what they already know. Linked with this factor, two determinants, exclusive to this micro-environment, were identified.

One possible reason for such an outcome is that foreign-owned companies tend to regard the auditing service more highly than their Maltese equivalents who view an audit as something compulsory. On the other hand, the higher rates could be due to the deemed “deeper pockets” of foreigners, tying up with the explanations emanating from the results on auditee profitability. The latter argument may hold stronger water in view of the fact that such clients, more often than not, are better organised, thereby contributing to a higher recovery rate.

Company status. The model revealed that the company’s status has a significant impact on the level of audit fees charged. As can be concluded from Table 5, there are significant differences in the estimated marginal means between the different levels of company status, except for the pricing levels between private and public non-listed firms.

It is evident that public listed equity companies command the highest fees in Malta. This is comparable to the findings of Clatworthy and Peel (2007) who found that UK public limited companies were charged significantly higher audit fees than private equivalents.

Table 5
Pairwise Comparisons – Company Status

(I) COMPSTAT	(J) COMPSTAT	Mean Difference (I-J)	Std. Error	Sig.
	Public Not Listed	-0.030	0.088	0.735
Private	Public Listed (Equity)	-0.332*	0.11	0.003
	Public Listed (Debt)	0.654*	0.103	0.000
Public Not Listed	Private	0.030	0.088	0.735
	Public Listed (Equity)	-0.302*	0.123	0.014
	Public Listed (Debt)	0.683*	0.123	0.000
Public Listed (Equity)	Private	0.332*	0.110	0.003
	Public Not Listed	0.302*	0.123	0.014
	Public Listed (Debt)	0.986*	0.133	0.000
Public Listed (Debt)	Private	-0.654*	0.103	0.000
	Public Not Listed	-0.683*	0.123	0.000
	Public Listed (Equity)	-0.986*	0.133	0.000

* The mean difference is significant at the .05 level.

All audit partners admitted that issuing a wrong opinion for a public listed equity company would probably be suicidal for the audit firm, especially in a microstate environment. As stated by an audit partner “it is a different matter altogether issuing a wrong opinion for ABC plc as opposed to issuing the same for ABC Limited”. Yet, another reason why listed equity firms command higher prices is due to the extra work and effort involved in issuing an independent auditor’s report on the Statement of Compliance with the Code of Principles of Good Corporate Governance in line with the Malta Listing Rules, in carrying a thorough review of a customarily voluminous annual report, and in having to attend audit committee meetings held during the year.

On the other hand, it is notable that companies with debt securities listed on the Malta Stock Exchange ranked lowest. In this respect, Nikkinen and Sahlström (2004) opined that debt can have a negative impact on audit fees since the burden of having to make regular debt payments serves as a tool to discipline managers, which in turn tightens their hands in the negotiation of audit fees.

Auditors Premium in the Maltese Audit Market. An analysis of the audit market shows that the Big 4 firms have the largest market share, indicating a supplier concentration by the Big 4 in the Maltese market. Big 4 firms command the highest fees, followed by the

mid-tier and small audit firms respectively. Furthermore, a significant difference of the estimated marginal means on audit fees has been noted across all levels of audit firm size as shown in Table 6, which affirms that the pricing of the Big 4 includes a premium over and above that charged by the other firms.

Since audit firms attempt to differentiate themselves, it may be that, quite apart from product differences, auditors differ in their pricing strategies. Thus, in order to test whether the premium earned is attributable to any individual firm, the GLM regression model was re-run with each of the Big 4 firms being treated as a separate contender. Results strongly support the notion that audit fee premium prevails across the Big 4 firms. However, the audit fee charged by one of the Big 4 is not significantly different from that charged by the non-Big 4 firms.

Table 6
Pairwise Comparisons – Audit Firm Size

(I) BIG4_ MIDTIER_ SMALL	(J) BIG4_ MIDTIER_ SMALL	Mean Difference (I-J)	Std. Error	Sig.
Big 4	Mid Tier	0.240*	0.091	0.008
	Small	0.726*	0.130	0.000
Mid Tier	Big 4	-0.240*	0.091	0.008
	Small	0.487*	0.151	0.001
Small	Big 4	-0.726*	0.130	0.000
	Mid Tier	-0.487*	0.151	0.001

In order to test whether price competition prevails throughout the audit services market, the original GLM regression model was re-run for the large and small auditee sub-samples as determined by the median total assets. The statistically significant coefficients implied that the Maltese audit market is a competitive market and price competition along with product differentiation to the Big 4 prevails across the whole spectrum.

In an attempt to separate the Big 4 premium into general brand-name reputation and industry specialisations, the model was estimated for the sub-sample of 101 auditees representing the two major industries in Malta, namely manufacturing and hospitality. One additional factor was used, with a value of one if the auditor is a Big 4 industry specialist and zero otherwise. The classification was based on the data collected for such sample, involving the total audit fees earned by each and every audit firm subdivided by industry, the total assets audited by each firm in the industry, and the number of clients audited by every firm in that industry. However, this variable was not found to be statistically significant.

The Big 4 premium may be attributable to the higher cost structure, since such audit firms employ full-time partners and managers within the system who are responsible for technical matters and risk management, thereby incurring higher staff and operational costs. Moreover, ongoing training has to be constantly given to staff so that they keep

abreast of changes in the accountancy and auditing profession and to ensure high calibration in line with the network's methodology, which albeit based on International Standards on Auditing, is more rigorous.

All this ties in with the fact that all equity listed firms, except one, are audited by the Big 4. Therefore listed firms probably view the Big 4 as higher quality auditors with more expertise than the non-Big 4 firms and their appointment is likely to be an implied signal of the good corporate governance by management with respect to shareholders and other stakeholders.

Other Possible Determinants

Other “invisible determinants which theoretically have an impact on audit fees” (Low *et al.*, 1990:293) include the following.

Internal audits and the effectiveness of internal controls. Internal audits are said to strengthen internal controls and accountability within organisations. The strength and extent of internal audit could be said to be directly correlated with the substantiveness of the external audit function. For instance, work carried out by the internal audit department may be used as evidence by the external auditors, thereby reducing the duplication and the extent of audit work. Although it is possible to determine which companies have such function, it is very difficult to determine its effectiveness, which is crucial if the aforementioned theory is to apply. Linked to internal audits is the notion of internal controls, which are also expected to affect audit fees because the audit process should be sensitive to differences in the control environment of an organisation. Audit partners highlighted that an audit engagement, *ceteris paribus*, based on compliance testing is cheaper than if a fully substantive approach is adopted. Owing to the sensitivity of the type of strategy executed by audit firms, such information was unavailable.

Planning and setting the audit strategy. An auditor carrying out an audit in accordance with International Standards on Auditing is required to allocate sufficient time for the planning and strategy of the audit. Both stages set the tone for the audit fieldwork and are essential in identifying risk areas. Time spent on these two stages is impossible to quantify or proxy for, thereby rendering them unobservable. Notwithstanding, audit firms still take such time into consideration when setting the audit fee.

Non-audit services. Whilst Abdel-Khalik (1990:318) opined that “it is difficult to think of economic incentives that could exist *a priori* for clients to pay more for the joint acquisition of two products than for the sum of acquiring them separately”, Simunic (1984), Palmrose (1986) and Firth (1997) found a positive association between non-audit fees and audit fees owing to a ‘knowledge spillover’ leading to economic rents.

The provision of non-audit services may also play a part in determining audit fees. However, given that information on non-audit fees was not publicly available, the quantifiable effect could not be determined.

Conclusion

Summary of Findings

This study highlighted the determinants of audit fees in Malta. It also investigated whether the fee mechanisms in a microstate conform to other audit fee models as identified in larger jurisdictions, the applicability of the premium charged by the Big 4 and whether any factors specific to the microstate market are prevalent.

Most of the determinants such as size, complexity, risk, ownership control, corporate status and delay, were found to be significant in line with prior research. This implies that a similar platform on which to calculate fees relates to Malta as in other countries. Probably this was to be expected, especially when one considers that the Big 4 firms command a large share of the Maltese audit market.

Notwithstanding this, the Maltese audit market has specific factors brought to light by this study. Certain risk factors found to be significant in similar studies were not viewed as a necessary ingredient in Malta. Furthermore, two specific and differentiating factors need to be studied further across other microstates, namely whether a company is foreign or Maltese owned and whether it is government-owned or otherwise.

Recommendations

Inclusion of risk factors when determining the fee: It is evident that certain risk factors such as 'history of losses', 'gearing' and 'current and lagged audit qualification' are not set high on the agenda when negotiating the audit fee. This is becoming more important with the number of international foreign firms finding base in Malta on the increase, litigation against the auditor may gather pace, thereby resulting in severe losses for audit firms.

Educating the client: As discussed above, fees charged by Maltese audit firms were found to be lower than those charged in similar circumstances in other countries. Hence it may prove useful if auditors embark on an exercise to educate the auditees about the nature of an audit whilst trying to shift the audit to a more value-adding and enriching experience vis-à-vis the auditee.

Concluding remarks

Considering today's dynamic environment and the global financial crisis, more challenges are in store for both the auditor and the auditee, especially in the fee-setting process. The auditee is likely to face more significant risks in the aftermath of the credit crisis. Whilst this is likely to involve additional effort on the part of the auditor, the auditee will try to keep the audit price at a minimum. However, when both parties understand the factors behind the audit fee charged things are bound to become clearer.

References

- ABDEL-KHALIK, A.R. (1993) "Why Do Private Companies Demand Auditing? A Case for Organisational Loss of Control," *Journal of Accounting, Auditing and Finance*, Vol. 8 (1): 31-52.
- ABDEL-KHALIK, A.R. (1990) "The Jointness of Audit Fees and Demand for MAS: A Self-Selection Analysis," *Contemporary Accounting Research*, Vol. 6 (2) : 295-322.
- ANDRIAMANANJARA, S. and SCHIFF, M. (1998) *Regional Groupings amongst Microstates*, World Bank Policy Research Working Paper No. 1922
- AHMED, K. and GOYAL, M.K. (2005) "A Comparative Study of Pricing of Audit Services in Emerging Economies," *International Journal of Auditing*, Vol. 9: 103-116.
- AL-HARSHANI, M. (2008) "The Pricing of Audit Services: Evidence from Kuwait," *Managerial Auditing Journal*, Vol. 23 (7): 685-696.
- ANDERSON, T. and ZEGHAL, D. (1994) "The Pricing of Audit Services: Further Evidence from the Canadian Market," *Accounting and Business Research*, Vol. 24 (95): 195-207.
- BALDACCHINO, P.J., CASSAR ATTARD, M. AND ATTARD, F. (2013) "The Influencing Factors of External Audit Fees in Malta." Paper presented by at the 36th Annual Congress of the European Accounting Association held at Dauphine University, Paris, 6- 8th May, 2013.
- BASIOUDIS, I.G. and FIFI, F. (2004) 'The Market for Professional Services in Indonesia', *International Journal of Auditing*, Vol. 8, No. 2, July, pp. 153–165.
- BEATTIE, V. and FEARNLEY, S. (1995) "The Importance of Audit Firm Characteristics and the Drivers of Auditor Change in the UK Listed Company Market," *Accounting and Business Research*, Vol. 25 (100) Autumn: 227-239.
- BELL, T.B., LANDSMAN, W.R. and SHACKELFORD, D.A. (2001) "Auditors' Perceived Business Risk and Audit Fees: Analysis and Evidence," *Journal of Accounting Research*, Vol. 39 (1) June: 35-43.
- BRINN, T., PEEL, M.J. and ROBERTS, R. (1992) "Determinants of the External Audit Fee of UK Unquoted Companies—Some New Evidence, *Management Research News*, Vol. 15(8): 14-17.
- CAMERAN, M. (2005) "Audit Fees and the Large Auditor Premium in the Italian Market," *International Journal of Auditing*, Vol. 9(2): 129-146.
- CARSON, E., FARGHER, N., SIMON, D.T. and TAYLOR, M.H. (2004) "Audit Fees and Market Segmentation—Further Evidence on How Client Size Matters within the Context of Audit Fee Models," *International Journal of Auditing*, Vol. 8: 79–91.
- CHAN, P., EZZAMEL, M. and GWILLIAM, D. (1993) "Determinants of Audit Fees for Quoted UK Companies, *Journal of Business Finance and Accounting*, Vol. 20(6): 765-786.
- CHANEY, P., JETER, D. and SHIVAKUMAR, L. (2000) "Audit Pricing in Private and Public Firms," *Working Paper No. 11*, Business School Accounting, London.
- CHE AHMAD, A. and HOUGHTON, K.A. (1996) "Audit Fee Premium of Big Eight Firms: Evidence from the Market for Medium-Size UK Auditees," *Journal of International Accounting, Auditing, and Taxation*, Vol. 5(1): 53-72.
- CHOW, C. (1982) "The Demand for External Auditing: Size, Debt and Ownership Influences" *The Accounting Review*, Vol. 57(2): 272-291.

- CHUNG, D.Y. and LINDSAY, W.D. (1988) "The Pricing of Audit Services: The Canadian Perspective," *Contemporary Accounting Research*, Vol. 5(1): 19-46.
- CHUNTAO, L., SONG, F.M. and WONG, S.M.L. (2005) "Audit Firm Size Effects in China's Emerging Audit Market," *Paper No. 1114*, Institute of Economics and Business Strategy: Hong Kong.
- CLATHWORTHY, M.A. and PEEL, M.J. (2007) "The Effect of Corporate Status on External Audit Fees: Evidence from the UK," *Journal of Business Finance and Accounting*, Vol. 34: 169-201.
- COBBIN, P. (2002) "International Dimensions of the Audit Fee Determinants Literature," *International Journal of Auditing*, Vol. 6(1): 53-77.
- COMPANIES ACT 1995 (Malta) ss: 155-156, 185, 211.
- CRASWELL, A., FRANCIS, J. and TAYLOR, S. (1995) "Auditor Brand Name Reputations and Industry Specializations," *Journal of Accounting and Economics*, Vol. 20(3) December: 297-322.
- DEANGELO, L. (1981) "Auditor Size and Audit Quality," *Journal of Accounting and Economics*, Vol. 3(3): 183-199.
- DEFOND, M., FRANCIS, J.R. and WONG, T.J. (2000) "Audit Industry Specialization and Market Segmentation by Big 6 and Non-Big 6 Accounting Firms," *Auditing, A Journal of Practice and Theory*, Vol. 19(1) : 49-66.
- DOPUCH, N., HOLTHAUSEN, R.W. and LEFTWICH, R.W. (1987) "Predicting Audit Qualifications with Financial and Market Variables," *The Accounting Review*, July: 431-454.
- EZZAMEL, M., GWILLIAM, D.R. and HOLLAND, K.M. (1996) "Some Empirical Evidence from Publicly Quoted UK Companies on the Relationship Between the Pricing of Audit and Non-audit Services," *Accounting and Business Research*, Vol. 27(1): 3-16.
- EUROPEAN COMMISSION (2005) *The New SME Definition: User Guide and Model Declaration* [Online], Available: http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf [2009, Nov. 20]
- FIRTH, M. (1985) "An Analysis of Audit Fees and their Determinants in New Zealand," *Auditing: A Journal of Practice and Theory*, Vol. 4(2) Spring: 23-37.
- FIRTH, M. (1997) "The Provision of Non-audit Services and the Pricing of Audit Fees," *Journal of Business Finance and Accounting*, Vol. 24: 511-525.
- FRANCIS, J.R. (1984), "The Effect of Audit Firm Size on Audit Prices: A Study of the Australian Market," *Journal of Accounting and Economics*, Vol. 6(2): 133-151.
- FRANCIS, J.R. and STOKES, D.T. (1986) "Audit Prices, Product Differentiation and Scale Economies: Further Evidence from the Australian Market," *Journal of Accounting Research*, Vol. 24(2) Autumn: 383-393.
- FRANCIS, J.R. and WILSON, E.R. (1988) "Auditor Changes: A Joint Test of Theories Relating to Agency Costs and Auditor Differentiation," *The Accounting Review*, Vol. 63(4) October: 663-682.
- GERRARD, I., HOUGHTON, K.A. and WOODCLIFF, D. (1994) "Audit Fees: The Effects of Auditee, Auditor and Industry Differences," *Managerial Auditing Journal*, Vol. 9(7): 3-11.

- GIST, W.E. (1992) "Explaining Variability in External Audit Fees," *Accounting and Business Research*, Vol. 23(89): 79-84.
- GONTHIER-BESACIER, N. and SCHATT, A. (2007) "Determinants of Audit Fees for French Quoted Firms," *Managerial Auditing Journal*, Vol. 22(2): 139-160.
- GUL, F.A. (1999) "Audit Prices, Product Differentiation and Economic Equilibrium," *Auditing: A Journal of Practice and Theory*, Vol. 18: 90-100.
- GUL, F.A. and TSUI, J.S.L. (2001) "Free Cash Flow, Debt Monitoring, and Audit Pricing: Further Evidence on the Role of Director Equity Ownership," *Auditing: A Journal of Practice and Theory*, Vol. 20(2) September: 71-84.
- GWILLIAM, D. (1991) "The Auditor's Liability to Third Parties." In Sherer, M. and Turley, S. (eds.), *Current Issues in Auditing*, London: Paul Chapman Publishing.
- HAY, D.C., KNECHEL, W.R. and WONG, N. (2006) "Audit Fees: A Meta-Analysis of the Effect of Supply and Demand Attributes," *Contemporary Accounting Research*, Vol. 23(1) Spring: 141-191.
- HO, S.W.M. and NG, P.P.H. (1996) "The Determinants of Audit Fees in Hong Kong: An Empirical Study," *Asian Review of Accounting*, Vol. 4(2): 32-50.
- IFAC (2009) *ISA 210 Agreeing the Terms of Audit Engagements*. New York.
- JENSEN, M.C. (1986) "Agency Costs of Free Cash Flow," *Corporate Finance, and Takeovers*, *The American Economic Review*, Vol. 76(2) May: 323-329.
- JI-HONG, L. (2007) "On Determinants of Audit Fee: New Evidence from China," *Journal of Modern Accounting and Auditing*, Vol. 3(4) April: 60-64.
- JOSHI, P.L. and AL-BASTAKI, H.A. (2000) "Determinants of Audit Fees: Evidence from the Companies Listed in Bahrain," *International Journal of Auditing*, Vol. 4(2): 129-38.
- JUBB, C.A., HOUGHTON, K.A. and BUTTERWORTH, S. (1996) "Audit Fee Determinants: The Plural Nature of Risk," *Managerial Auditing Journal*, Vol. 11(3): 25-40.
- JUDGE, G. (1988) *Introduction to the Theory and Practice of Econometrics*. (2nd ed.,) New York, Chichester: Wiley.
- KREUTZFELDT, R. and WALLACE, W. (1986) "Error Characteristics in Audit Populations: Their Profile and Relationships to Environmental Factors," *Auditing: A Journal of Practice and Theory*, Autumn: 20-43.
- LANGENDIJK, H. (1997) "The Market for Audit Services in the Netherlands," *The European Accounting Review*, Vol. 6(2): 253-264.
- LEE, D.S.Y. (1996) "Auditor Market Share, Product Differentiation and Audit Fees," *Accounting and Business Research*, Vol. 26(4): 315-324.
- LENNOX, C.L. (2005) "Management Ownership and Audit Firm Size," *Contemporary Accounting Research*, Vol. 22: 205-227.
- LOW, L.C., TAN, P.H.N. and KOH, H.C. (1990) "The Determination of Audit Fees: An Analysis of the Singapore Context," *Journal of Business Finance and Accounting*, Vol. 17(2) Spring: 285-95.
- LURIE, A.G. (1976) "Minimizing Audit Costs," *CPA Journal*, (December): 31-34.
- MAHER, M., TIESSEN, P., COLSON, R. and BROMAN, A. (1992) "Competition and Audit Fees," *The Accounting Review*, Vol. 67(1) January: 199-211.
- MCMECKING, K.P., PEASNELL, K.V. and POPE, P.F. (2006) "The Determinants of the UK Big Firm Premium," *Accounting and Business Research*, Vol. 36(3): 207-231.

- NASER, K. and NUSEIBEH, R. (2007) "Determinants of Audit Fees: Empirical Evidence from an Emerging Economy," *International Journal of Commerce and Management*, Vol. 17(3): 239-254.
- NETER, J.W., WASSERMAN and KUTNER, M. (1983) *Applied Linear Regression Models*. Homewood, Illinois: Irwin.
- NIEMI, L. (2005) "Audit Effort and Fees under Concentrated Client Ownership: Evidence from Four International Audit Firms," *The International Journal of Accounting*, Vol. 40(4): 303-323.
- NIKKINEN, J. and SAHLSTRÖM, P. (2004) "Does Agency Theory Provide a General Framework for Audit Pricing?," *International Journal of Auditing*, Vol. 8(3) November: 253-262.
- PALMROSE, Z. (1986) "Audit Fees and Auditor Size: Further Evidence," *Journal of Accounting Research*, Vol. 24(1) Spring: 97-110.
- PONG, C.M. and WHITTINGTON, G. (1994) "The Determinants of Audit Fees: Some Empirical Models," *Journal of Business Finance and Accounting*, Vol. 21(8): 1071-1095.
- RAHMAT, M.M. and ISKANDAR, T.M (2004) "Audit Fee Premiums from Brand Name, Industry Specialization and Industry Leadership: A Study of the Post Big 6 Merger in Malaysia," *Asian Review of Accounting*, Vol. 12(2): 1-24.
- SIMON, D.T. (2005) "The Market for Audit Services in Germany," *The Journal of Applied Business Research*, Vol. 21(3) Summer: 9-14.
- SIMON, D.T. (1995) "The Market for Audit Services in South Africa," *International Journal of Accounting*, Vol. 30: 356-65.
- SIMON, D.T and FRANCIS, J. (1988) "The Effects of Auditor Change on Audit Fees: Tests of Price Cutting and Price Recovery," *The Accounting Review*, Vol. 63(2): 255-69.
- SIMON D. T. and TAYLOR, M.H. (2002) "A survey of Audit Pricing in Ireland", *International Journal of Auditing*, Vol. 6(1): 3-12.
- SIMON, D.T. and TAYLOR, M.H. (1997) "The Market for Audit Services in Pakistan," *Advances in International Accounting*, Vol. 10: 87-101.
- SIMUNIC, D.A. (1980), The Pricing of Audit Services: Theory and Evidence, *Journal of Accounting Research*, Vol. 18, No. 1 Spring, pp. 161-190.
- SIMUNIC, D.A. (1984), Auditing, Consulting, and Auditor Independence, *Journal of Accounting Research*, Vol. 22(2) Autumn: 679-702.
- SIMUNIC, D.A. and Stein, M. (1996) "The Impact of Litigation Risk on Audit Pricing: A Review of the Economics and the Evidence" *Auditing: A Journal of Practice and Theory*, Vol. 15: 119-34.
- TABONE, N. and BALDACCHINO, P.J. (2003) "The Statutory Audit of Owner-Managed Companies in Malta," *Managerial Auditing Journal*, Vol. 18(5): 387-398.
- TAFFLER, R.J. and RAMALINGGAM, K.S. (1982) "The Determinants of Audit Fees in the UK: An Exploratory Study," *Working Paper (37)*, City University Business School: London.
- TAYLOR, M.H., SIMON, D.T. and BURTON, F.G. (1999) "A Survey of Audit Pricing in South Korea," *Research in Accounting Regulation*, Vol. 13: 201-207.
- VAN CANEGHEM (2010) "Audit Pricing and the Big4 Fee Premium: Evidence from Belgium," *Managerial Auditing Journal*, Vol. 25(2): 122-139.

WARESUL K.A. and MOIZER, P. (1996) "Determinants of Audit Fees in Bangladesh," *International Journal of Accounting*, Vol. 31(4): 497-509.

ZHANG, M.W. and MYRTEZA, S. (1996) "The Determinants of Audit Fees: Australian Perspective," *Asian Review of Accounting*, Vol. 4(1): 81-96.