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Impact of IFRS transition on audit and non-audit fees: evidence from small and medium-sized listed companies in Finland

The financial reporting standards in use throughout the world have changed rapidly. Starting in 2005 the EU required the use of IFRS for listed companies. This study focuses on fees paid to auditors during a major accounting change associated with extra audit risk and work. Specifically, we analyse how a major accounting change from local GAAP to IFRS (International Financial Reporting Standards) affects scope of an audit and demand for consultancy. We approximate scope of an audit with

the audit fees paid to auditors and demand for consultancy with non-audit fees paid to auditors, respectively. Prior research had evidenced that several auditee-specific properties are associated with audit fees. However, there is lack of specific knowledge concerning how a major accounting change affects audit and, especially, non-audit fees.

Our sample comprises Finnish listed firms that adopted IFRS for the first-time. In order to gain additional insight regarding audit and non-audit fees, we also performed interviews with professional Authorized Public Accountants (APAs). The Finnish data are employed since prior research findings suggest that there are large differences between Finnish accounting standards (FAS) and IFRS anticipating extra audit risk and work at the accounting move. Therefore, it is highly likely that extensive supply for audit and non-audit services during the transition from FAS to IFRS would occur. When taking into account several control variables, in line with prior research, our analyses based on unique, hand-collected data provide evidence that a company with a high FAS-IFRS disparity is associated with more costly non-audit services during the transition phase than one with low disparity. Furthermore, the results reveal that audit fees, where audit markets are more competitive, are not significantly related to the magnitude of IFRS adjustments. Overall, the research findings inform, among other things, audit firms and their clients about the type and the level of costs incurred during a major accounting change. ■