

The Provision of Nonaudit Services by Accounting Firms to their Audit Clients*

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Abstract. There has been a strong growth in accounting firms' provisions of nonaudit services to their audit clients. To date, however, there have been few studies into the determinants of this joint provision of audit and nonaudit services. One reason for the paucity of research is the lack of publicly available data with which to empirically examine relationships and test theories. However, recent legislation in the United Kingdom requires publication of nonaudit fees paid to a company's auditor, and this disclosure provides the data with which to investigate the joint provision of consultancy and audit services. A model is developed that seeks to explain a company's decision to hire nonaudit services from the auditor. The model argues that companies that face potentially high agency costs purchase relatively smaller amounts of nonaudit services from their auditor. High agency-cost companies require independent audits in order to reassure investors and creditors; the provision of joint services, which increases the economic bonding of the auditor to the client, may jeopardize independence or the appearance of independence. The model is tested using data observations from 500 companies, and the results indicate that companies that have higher agency-cost proxies are associated with smaller purchases of nonaudit services from their auditors.

Condensé

Une proportion croissante des revenus des cabinets d'experts-comptables provient de services autres que la vérification comme les conseils fiscaux, la conception et l'installation de systèmes informatiques et de systèmes intégrés de gestion, la gestion des ressources humaines, le recrutement de cadres, la gestion de la production et de l'exploitation et les services généraux de conseil gestion. Cette évolution reflète une forte croissance, en termes absolus, des services de consultation autres que ceux de la vérification et une stagnation des revenus provenant des honoraires de vérification. Ce sont les clients des services de vérification des cabinets d'experts-comptables qui consomment une grande part de ces services de consultation. La prestation combinée de services de vérification et d'autres services aux sociétés clientes soulève des inquiétudes en ce qui a trait à l'indépendance du vérificateur. Cette inquiétude tient notamment au fait que l'objectivité du vérificateur qui procède à la vérification d'activités à l'égard desquelles son cabinet a par ailleurs conseillé la société peut être menacée. Certains services de consultation exigent que le cabinet comptable plaide en faveur du client, de sorte qu'il devient ardu pour le vérificateur de préserver son indépendance s'il est appelé à vérifier les activités visées ou influencées par ces services de plaidoirie. De plus, la prestation combinée de services de vérification et de services de consultation

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intensifie le lien économique entre vérificateur et société cliente, si bien que le premier peut se trouver redevable à la direction de la seconde. Dans certains pays, ces inquiétudes ont abouti à l'interdiction des services combinés. Dans d'autres pays, où cette interdiction n'a pas été prononcée, l'on recommande néanmoins aux vérificateurs de veiller avec la plus grande prudence à préserver leur indépendance lorsqu'ils offrent à leurs clients des services de consultation.

Un attribut indispensable de la vérification légale est l'indépendance du vérificateur dans son jugement sur la fidélité des états financiers dressés par la direction. Cette indépendance exige que le vérificateur soit totalement impartial, qu'il ne soit aucunement influencé par ses intérêts personnels ou qu'il ne soit soumis à aucune influence ou pression induue. Le vérificateur doit être indépendant aussi bien de l'organisation faisant l'objet de la vérification que des gestionnaires qui la dirigent. En Grande-Bretagne, la sélection initiale d'un vérificateur relève de la direction de la société cliente — c'est-à-dire de ceux-là mêmes qui sont responsables des comptes devant être soumis à la vérification. Les gestionnaires sont également responsables de la négociation des honoraires du vérificateur. Bien que les actionnaires s'expriment par vote sur le choix du vérificateur et sur ses honoraires, ils acquiescent invariablement aux recommandations des gestionnaires. Étant donnée l'influence exercée par la direction sur le choix initial du vérificateur et la reconduction annuelle de son engagement par la suite, les actionnaires sont préoccupés par l'indépendance et l'objectivité du vérificateur.

Il se peut que la direction tente d'influencer les vérificateurs ou d'exercer des pressions sur eux en particulier lorsque les coûts d'encadrement sont élevés. Par exemple, les sociétés ayant de lourds emprunts peuvent chercher à utiliser des méthodes comptables qui présentent leur capacité d'emprunt et leur ratio de couverture des intérêts sous un jour plus favorable. Autre exemple : les gestionnaires dont la participation dans l'entreprise est faible peuvent être tentés d'accroître leurs avantages indirects au détriment des actionnaires et de dissimuler d'éventuels abus de confiance ou de possibles ruptures de contrat en s'abstenant de fournir de l'information ou en « manipulant » les données comptables. Ces pratiques de gestion nécessitent la ratification des vérificateurs, ce qui peut amener les cadres supérieurs de l'entreprise à tenter d'influer sur le processus de vérification et le rapport du vérificateur ou d'exercer des pressions dans ce sens. Selon notre hypothèse, lorsque les coûts d'encadrement sont élevés, l'indépendance du vérificateur, ou son indépendance apparente, est menacée. Afin d'aider à dissiper ces doutes relatifs à l'indépendance, l'entreprise réduit les services de consultation qu'elle se procure auprès du vérificateur. La véritable indépendance étant difficile à observer, le marché financier et le marché du crédit se font une opinion de l'indépendance du vérificateur, opinion qui repose souvent sur le lien économique et sur les relations qui n'ont pas trait à la vérification entre le vérificateur et la société cliente. En restreignant le volume de services autres que ceux de la vérification qu'ils achètent auprès du vérificateur, les sociétés et les vérificateurs envoient un message : l'indépendance du vérificateur risque moins d'être compromise.

La présente étude a pour but de tester l'hypothèse selon laquelle la prestation combinée de services de vérification et de services autres est chose plus rare lorsque les coûts d'encadrement de la société cliente sont élevés. Pour tester cette hypothèse, il faut élaborer un modèle de la demande de services de consultation et incorporer dans ce modèle des approximations empiriques des coûts d'encadrement à titre de variables indépendantes. Les données utilisées proviennent des 500 sociétés les plus importantes de Grande-Bretagne, où la loi exige depuis peu que les sociétés divulguent les honoraires non liés à la vérification qu'elles versent à leurs vérificateurs.

Les règlements de 1991 de la loi de 1989 sur les sociétés (*Disclosure of Remuneration for Non-Audit Work*) exigent que les sociétés britanniques révèlent, par voie de notes aux états financiers annuels, les honoraires versés à leurs vérificateurs rel-

ativement aux services autres que ceux de la vérification. Ces règlements s'appliquent aux exercices terminés le 30 septembre 1992 ou après. L'adoption de cette législation s'explique par les inquiétudes croissantes que soulevait le recours de plus en plus fréquent aux services des vérificateurs à titre de conseillers et les conséquences de cet état de fait sur l'indépendance des vérificateurs. Elle est également considérée comme un moyen de désamorcer les campagnes visant l'interdiction complète de la prestation combinée de services de vérification et de services autres, comme c'est le cas dans certains pays d'Europe. Les autorités gouvernementales estiment en effet que la divulgation de l'achat de services de consultation auprès des vérificateurs, et de l'importance de ces services, permet aux actionnaires, aux investisseurs, aux créanciers et à tous les intéressés de juger eux-mêmes de la mesure dans laquelle cette situation peut compromettre l'indépendance du vérificateur. S'ils croient que l'indépendance du vérificateur est compromise, les actionnaires et les créanciers peuvent agir le coût du financement en devenant plus exigeants, retirer leur financement à l'entreprise, voter l'interdiction du recours au vérificateur pour des services de consultation ou prendre d'autres mesures pouvant être préjudiciables à la société et à ses dirigeants. Les autorités britanniques croient que la transparence dans la relation économique entre vérificateur et client contribuera à dissiper les craintes que l'indépendance du vérificateur soit mise en péril par la fourniture de services de consultation aux clients de vérification.

Pour vérifier l'hypothèse d'une relation négative entre les coûts d'encadrement et l'achat de services autres que les services de vérification, l'on utilise trois variables substitués aux coûts d'encadrement. La participation, en pourcentage, des administrateurs (*DIRSH*) et celle, en pourcentage également, de l'investisseur le plus important (*OWN*) sont en relation négative avec les coûts d'encadrement, de sorte que les variables *DIRSH* et *OWN*, conformément à notre hypothèse, sont en relation positive avec les honoraires de consultation. À l'opposé, le ratio de la dette par rapport à l'actif total (*DTA*) est en relation positive avec les coûts d'encadrement, de sorte que la variable *DTA*, conformément à notre hypothèse, est en relation négative avec les honoraires de consultation.

Les honoraires non liés à la vérification sont divisés par les honoraires de vérification, ce qui permet d'obtenir une mesure des honoraires de consultation relatifs (*CFAF*). Cet ajustement et l'inclusion de l'actif total comme variable indépendante sont des facteurs de contrôle de la taille. Selon le modèle proposé, la variable *CFAF* est fonction des variables *DIRSH*, *OWN* et *DTA*, du rendement des capitaux propres en dollars (*ROCE*), d'une variable muette marquant si le bénéfice net est positif ou négatif (*LOSS*), des taux de rendement des capitaux propres au cours de l'exercice précédent (*SR*), de la transformation logarithmique de l'actif total (*LTA*), de la situation des Six Grands (*B6*), de variables muettes marquant si l'entreprise a procédé à une acquisition (*ACQ*), à une nouvelle émission d'actions (*NEWI*), à la conception et à l'installation de nouveaux systèmes d'information (*IS*), au recrutement d'un nouveau chef de la direction (*CEO*) ou à une restructuration (*RESTR*), et de la croissance de l'actif total au cours des trois exercices précédents (*GROWTH*). Les variables *DIRSH*, *OWN* et *DTA* sont les facteurs de coûts d'encadrement principalement visés par l'étude. Les variables *ROCE* et *LOSS* sont des facteurs de rentabilité et, dans la mesure où ils sont un substitut des coûts d'encadrement, l'on peut s'attendre à ce que leurs coefficients soient assortis d'un signe positif. La variable *LTA* sert au contrôle de la taille et la variable *B6* sert à celui de la position du vérificateur parmi les Six Grands. Les variables qui restent représentent les facteurs qui influent sur l'achat de services de consultation externes. Ces services peuvent être achetés auprès du vérificateur ; mais cette décision dépend de l'importance des coûts d'encadrement ainsi que de la compétence des consultants, du coût des services, de la situation géographique et d'autres facteurs. Il est probable que les sociétés dont la performance est faible sur le marché boursier fassent appel à des consultants ; le signe de la variable *SR* sera donc vraisemblablement négatif. Les variables *ACQ*, *NEWI*, *IS*,

CEO et *RESTR* représentent des activités auxquelles les sociétés se livrent moins fréquemment et pour lesquelles elles sont susceptibles de recourir à la consultation externe. Les sociétés dont le taux de croissance est élevé devraient normalement recourir davantage aux services de consultation, de sorte que le signe de la variable *GROWTH* devrait être positif.

Les honoraires de consultation versés par les 500 plus grandes entreprises industrielles britanniques cotées sont observés. Les données proviennent de *DATASTREAM*, d'*EXTEL*, des rapports annuels des sociétés et du *Financial Times*. Bien que ces données soient colligées pour les exercices terminés entre le 30 septembre 1992 et le 30 septembre 1994, les résultats de la régression sont basés sur les données de 1993. On constate, pendant la période écoulée entre 1992 et 1994, un faible déclin dans les honoraires de vérification, tandis que les services autres que la vérification affichent une augmentation appréciable.

Les résultats de la régression révèlent que les coefficients des variables *DIRSH* et *OWN* sont positifs et statistiquement significatifs, et que le coefficient de la variable *DTA* est négatif et statistiquement significatif. Ces résultats viennent étayer l'hypothèse principale de l'étude, à savoir que les sociétés dont les coûts d'encadrement sont élevés font moins appel à leur vérificateur pour obtenir des services autres que la vérification. Les variables *ROCE* et *LOSS* ont également des coefficients positifs, mais qui ne sont pas statistiquement significatifs aux seuils habituels. Les grandes sociétés achètent davantage de services de consultation (par rapport aux honoraires de vérification) auprès de leurs vérificateurs, c'est-à-dire que la variable *CFAF* est plus élevée pour les grandes sociétés. La variable *B6* est positive et significative, ce qui indique que le recours à un cabinet d'experts-comptables figurant parmi les Six Grands pour obtenir des services de vérification est associé à l'achat plus fréquent de services de consultation auprès du vérificateur. Ce résultat peut être attribuable au fait que les Six Grands possèdent des divisions de consultation complètes offrant toute la panoplie des services ; à l'opposé, les cabinets qui ne figurent pas parmi les Six Grands offrent un éventail limité de services de consultation, si bien que la variable *CFAF* est relativement faible. D'autres variables explicatives sont affectées des signes prévus et sont statistiquement significatives (à l'exception de la variable *GROWTH*). Dans le prolongement de l'analyse des honoraires de vérification, l'échantillon est subdivisé en deux sous-groupes de 250 entreprises, l'un formé par les entreprises dont l'actif total est supérieur à la médiane, et l'autre par les entreprises dont l'actif total est inférieur à la médiane. Les signes des variables et leur degré de signification statistique demeurent cependant les mêmes que ceux de l'échantillon global des 500 entreprises.

L'indépendance des cabinets d'experts-comptables qui assument la responsabilité de missions de vérification est l'une des pierres angulaires de ces missions. La prestation de services autres que ceux de la vérification à des clients de vérification intensifie l'engagement du cabinet comptable à l'égard du client. La prestation combinée de services de vérification et de consultation peut amener le vérificateur à donner son aval à des déclarations de la direction et à des méthodes comptables douteuses, sachant que, s'il les contestait, il risquerait de perdre non seulement des honoraires de vérification, mais aussi des honoraires de consultation. Dans certains pays, l'indépendance du vérificateur revêt une importance telle que les instances de réglementation interdisent la prestation combinée de services de vérification et d'autres services. Certains autres pays, comme les États-Unis, le Royaume-Uni et plusieurs pays du Commonwealth britannique, permettent aux vérificateurs d'offrir à leurs clients d'autres services.

En vue d'accroître la transparence de la relation vérificateur-client, les autorités britanniques ont récemment légiféré en ce qui a trait à la publication d'information sur les services autres que la vérification que fournit un vérificateur à une entreprise cliente ; cette obligation s'ajoute à celle de la divulgation des honoraires de vérification,

qui est une exigence de longue date au Royaume-Uni et dans de nombreux pays du Commonwealth. La divulgation de ces renseignements aide les commettants (les actionnaires) à contrôler les agissements et les rétributions de leurs mandataires (les vérificateurs). Elle fournit également les données requises pour élaborer et tester un modèle d'honoraires de consultation.

Les entreprises dont les coûts d'encadrement sont élevés devaient, selon notre hypothèse, réduire leurs achats de services de consultation auprès de leur vérificateur. Les analyses empiriques confirment cette hypothèse. L'argumentation veut que les coûts d'encadrement élevés exercent davantage de pression sur l'indépendance du vérificateur. Afin d'atténuer le risque perçu de préjudice à l'indépendance, les entreprises clientes des vérificateurs restreignent l'achat de services de consultation auprès de leur vérificateur et, par conséquent, réduisent le lien économique entre vérificateur et client.

A growing percentage of public accounting firms' total revenues are coming from nonaudit services such as taxation advice, information systems design and installation, human resource management, and general management consultancy. This trend has been witnessed from at least the 1980s and continues to the present (Palmrose 1986; Abdel-khalik 1990; Barkess and Simnett 1994; and various editions of *The Accountant* and *Accountancy*¹). This increase reflects an absolute growth in nonaudit activities and a stagnation in the audit services market.² Time-series evidence from Australia indicates that much of the growth is due to nonaudit services being provided to the accounting firms' audit clients (Wines 1994). The relationship of consultancy services being provided to audit clients raises a number of issues that are of concern to investors, regulators, companies, and the accounting profession. The purpose of this paper is to provide some empirical evidence on the provision of nonaudit services to audit clients in the United Kingdom. I hypothesize that companies with high agency costs purchase smaller levels of consultancy services from their auditor. This hypothesis is predicated on the belief that auditor independence, or the appearance of independence, may be at risk if the client faces high agency costs and if the auditor has strong economic bonds to the client. After a brief review of audit requirements in the United Kingdom, the paper proceeds by summarizing arguments relating to the provision of nonaudit services and their perceived impact on auditor independence. A model of the decision to purchase nonaudit services, based in part on agency costs, is then developed. The model is tested using data from 500 companies. Finally, a summary and conclusions are presented.

The joint provision of audit and nonaudit (consultancy) services

Disclosure and legal requirements in the United Kingdom

The disclosure of the audit fee in the annual report has long been a Companies Act requirement in many British Commonwealth countries. Payments for other nonaudit services by accounting firms are not included in the audit fee and historically have not required disclosure in corporate financial statements. Recently, however, separate disclosure of nonaudit services fees paid to the company's auditor has been required in Australia, Norway, and the United

Kingdom. The Companies Act 1989 (Disclosure of Remuneration for Non-Audit Work), Regulations 1991, requires U.K. companies to disclose, by way of a note to their annual accounts, the fees paid to the auditor for nonaudit work. The regulations apply to years ending on or after 30 September 1992. The European Communities' Eighth Directive (Article 24) requires auditors to be independent, and in many European countries, accounting firms have historically been explicitly banned from providing nonaudit services to their audit clients.³ This prohibition stems from the belief that the provision of nonaudit services to audit clients will impair auditors' independence or their appearance of independence. As an example of regulators' concerns about the joint provision of services, KPMG Peat Marwick recently lost the audit of Fokus Bank in Norway, because the banking regulator, who forced the change, said KPMG Peat Marwick had given too much advisory service to Fokus, and the auditor's independence, or perceived independence, had been impaired (Ruud 1992). Although concern about the provision of consulting services to audit clients impairing auditor independence has also been raised in the United States, few legal or regulatory restrictions have been imposed. Although public accounting bodies in Britain support the practice of providing nonaudit services to audit clients, the Chartered Institute of Management Accountants believes such practices compromise audit independence. Survey evidence from the United Kingdom (Firth 1980) and commentary from some politicians and academics suggest that the provision of nonaudit services to audit clients may impair auditors' independence or their appearance of independence (Mitchell, Puxty, Sikka, and Willmott 1991). For example, *Accountancy* (1991) cites, "Audit firms receiving huge consultancy fees cannot be truly independent" says venture capitalist Hugh Smith."

The British Government did not want to ban the well-established practice of auditors providing nonaudit services to their audit clients, but, partly as a response to the Eighth Directive, it legislated the publication of nonaudit services fees paid by audit clients to their auditors. The Department of Trade and Industry stated that the new regulations would buttress the independence of auditors. The government believes that the publication of the existence of, and extent of, nonaudit consultancy services provided to audit clients will enable shareholders, investors, and other parties to judge for themselves whether auditor independence is likely to be jeopardized. Shareholders could, for example, vote to prevent the joint provision of audit and nonaudit services by the same accounting firm. Investors, creditors, and others can also impose costs on a company whose auditor's independence is deemed impaired; such costs include a reduced stock price, higher cost of capital, downgrading of corporate debt, and more stringent credit terms.

Auditor independence

Agency theory suggests that external audits are required to express an independent opinion on the financial statements of companies and to monitor and

verify the actions of management. It is in management's interest to have an external audit in order to reduce agency costs; the lack of a credible independent audit will likely increase the cost of capital, restrict access to capital, and impose severe restrictions on management's actions. The requirement of auditor independence is critical and any impairment, or perceived impairment, of independence will increase agency costs.

A vital attribute of a statutory audit is the independence of the auditor. This requirement means, among other things, that the auditor maintains independence from the client management. Independence is important, because company management is instrumental in the hiring of auditors and in negotiating their fees. The selection of an auditor in the United Kingdom involves the company's directors and senior management recommending the appointment of a specific accounting firm and the shareholders voting upon that recommendation. Although shareholders ultimately appoint the auditor, management usually has considerable influence in the selection. Because of management's influence in the decision process regarding the initial appointment of, and subsequent reappointments of, the auditor, shareholders have to be concerned about the independence of the auditor in "safeguarding" investors' interests. As actual independence is very difficult, if not impossible, to observe, shareholders have to rely on the auditor's reputation, professional body and regulatory agency oversight, and various 'signals' of independence. One such signal may be the perceived economic bonding of the auditor and client management. If the audit firm is dependent upon the client and client management for a substantial amount of its income, the audit firm may be more willing to agree with management's representations and interpretations of accounting matters.

The provision of nonaudit services to audit clients will increase the economic bond between the auditor and client. This bond could lead to the perception of impaired auditor independence (Beck, Frecka, and Solomon 1988b; DeBerg, Kaplan, and Pany 1991; Pany and Reckers 1983, 1984) because (1) the audit firm is unwilling to 'criticize' the work done by its consultancy division, and (2) the audit firm does not want to lose lucrative consultancy services provided to the audit client and is, therefore, more reluctant to disagree with management's interpretations of accounting matters. Disagreements with management can lead to a change in auditor, a move which implies not only a loss of audit fees but, in all probability, a loss of consultancy fees as well.

In most countries, there is no public disclosure of whether the audit firm provides nonaudit services to its audit client, nor is there disclosure of the money amounts involved. There is also no evidence of such information being required in debt contracts. This lack of information makes it difficult for investors to use the provision of other nonaudit services as a signal of a lack of independence, although the arguments of Parkash and Venable (1993) imply the information may get into the public domain, and hence, induce concerns about auditor independence. Various surveys in the United States and British Commonwealth countries indicate a widespread use of auditors to supply

nonaudit services and so investors may be assuming, as a norm, that audit and nonaudit services, are being jointly provided. The publication of nonaudit fees in Britain allows investors to measure the joint provision of services, rather than use subjective estimates based on general perceptions.

Audit quality has been defined as the probability of detecting errors and the probability of reporting the errors (DeAngelo 1981). The reporting of errors requires auditor independence. Managers of companies with high agency costs may be thought more likely to deliberately falsify their accounting records and to take actions against the interests of stockholders and bondholders. In order to help alleviate the concerns of investors, the company has an incentive to hire a high quality auditor (Simunic and Stein 1987). High quality audits imply the auditor has the necessary skills and technologies to detect fraud and errors and, further, that they have the character to maintain an independent stance when faced with pressure from the client. Empirical support for the high-agency-cost, high-quality-auditor relationship is, however, fairly weak (see, for example, Feltham, Hughes, and Simunic 1991). Empirical research has usually used the size of the auditor or the Big Six (Eight) auditor status as measures of audit quality (hence, the quality of an audit is dependent on the name of the auditor, and the quality of the statutory audit is assumed constant across all clients of a specific audit firm). In the United Kingdom, a majority of listed companies use the services of a Big Six auditor (and thus a "high" quality auditor).

It is argued here that investors and creditors may look beyond the mere name of the auditor when evaluating the quality of an audit of a company with perceived high agency costs. In addition to the quality ranking (e.g. Big Six status), investors may be concerned with the economic bonding between client company and auditor. As mentioned previously, most listed companies in the United Kingdom use Big Six firms, and so 'high quality' auditors are the norm both for companies with relatively high agency costs and for companies with relatively low agency costs. Although the large accounting practices can be expected to have the skills and technologies to identify fraud and error, the reporting of those errors may be perceived as a function of the degree of independence displayed by the auditor. It is hypothesized that the client and the auditor will want to enhance the appearance of independence when agency costs are high. To help accomplish this objective, the level of nonaudit services provided by the audit firm to its client will be reduced (Beck, Frecka, and Solomon 1988a).

I hypothesize that companies that face potentially high agency costs will demand high quality audits and restrict the purchase of other services from their auditor. Agency costs are likely to be lower for companies that have high levels of director and senior executive shareholdings, very large stock ownership by a single investor, low debt-equity ratios, and high profitability. Auditor independence may be of a lesser concern for a company that has relatively high directors' stockholdings, because these executives have other inside sources of information on the financial position of the enterprise and the actions of senior

management. In a similar fashion, the largest stockholders are likely to have other ways of monitoring management's actions (e.g., seats on the board of directors), and hence do not have to rely so heavily on the auditor. In contrast, low levels of director shareholdings and a relatively low shareholding by the largest single owner imply a widely dispersed ownership, and these shareholders rely heavily on the auditor to monitor the actions of management and report on the veracity of the financial statements. High debt ratios and low profitability may indicate nearness to debt covenants in loan agreements and nearness to financial distress. Investors, creditors, and other parties are especially concerned about auditor independence for companies with high debt and low profitability, because it is these companies that have incentives to distort accounting information and that may be more prone to commit commercial fraud.

Using data from 860 observations in the United States during the period 1978 to 1980, Parkash and Venable (1993) examined the relationship between nonaudit services provided by auditors to their clients and various measures or predictors of agency cost. The data came from *Accounting Series Release* (ASR) No. 250 (Securities Exchange Commission 1978) requirements.⁴ They found that the level of consultancy fees paid to auditors (relative to the audit fee) was a positive function of management shareholdings, a positive function of large investment shareholdings, and a negative function of debt to asset ratios; these associations were all statistically significant. The evidence is consistent with companies believing that perceptions of auditor independence are even more important when agency costs are potentially high and that consulting services provided by the auditor may impair the appearance of independence.

Management consultancy services

Management consultancy services may be viewed as the hiring of an outside firm (or an individual) that makes recommendations to a company's executives and/or is charged with the task of planning and implementing some course of action for corporate management. The emphasis is on hiring an outside firm or individual. One of the difficulties in attempting to model externally provided management consultancy services is that virtually all of the services could be done in-house by hiring the relevant expertise (as full-time employees). This difficulty is one reason why the academic literature on modelling the provision of management consultancy services is sparse.

Hiring external consultants vis-à-vis hiring internal employees, involves a cost-benefit analysis. For some tasks, external consultants may be less costly than internal employees and/or the work produced by the external consultants may be of higher quality or may be more useful. Situations where a company might opt for the use of outside consultants include 'one-off' assignments, urgent problems that have arisen very unexpectedly, requirements for very specialized skills, resolution or arbitration of internal conflicts within the organization, and when a degree of independence is needed. In the first case, the company may be reluctant to hire employees for the "one-off" assignment because

those staff will have to be laid off once the project is completed (and this may involve severance pay, the incurring of other expenses, and possible damage to the company's labour relations and its reputation regarding 'treatment of employees'). When urgent problems arise very suddenly, the company may not have the time to hire and train employees, and so outside consultants are used. In some circumstances, the very specialized, industry-specific skills required for an assignment may only be available from outside consultants because people with those skills prefer to work as consultants rather than as employees (their skills may also depend, in part, on working on varied assignments in many different organizational and industrial settings, and hence, they work as consultants to develop and maintain their expertise). Sometimes business problems arise because of conflicts within the company, and so external consultants are needed to act as facilitators, negotiate between factions, and arbitrate across differing viewpoints. Hiring consultants as employees will likely not resolve internal conflicts because the new hires may be pressured, or may be perceived as pressured, to take a particular position by one or more of the factions. If a company is suffering from poor operating performance, it may prefer the use of outside consultants because of the expertise they have gained within the relevant industry, and because their 'outside' or 'independent' status will make them more objective. In contrast, new full-time employees recruited to help solve the problem at hand may become beholden to, or loyal to, incumbent management and management practices, and hence lose objectivity in identifying problems and recommending remedial actions.

If a company seeks external consultancy services, it may decide to hire more than one firm of consultants. The number of consultancy firms employed and the choice of the firm(s) will depend on the needs of the company, areas of expertise of the consultants (skills, industry specialization, geographical coverage), cost, efficiency, and possible conflicts of interest. Many of the larger accounting practices also provide general and specialized management consultancy services, and the Big Six audit firms are among the biggest of the consultancy firms. In some countries, it is common for a company to hire the auditing firm to provide consultancy services. Hiring the audit firm to give consultancy services has the perceived potential benefit of improving efficiency and reducing total (audit and consultancy fee) costs for a given level of service. The joint provision of audit and nonaudit services has the potential to create synergies where the marginal cost of the joint provision is less than the marginal costs of the separate audit and nonaudit services. This synergy can lead to lower total fees and/or the purchase of (say) more auditing.⁵ Simunic (1984) and Beck et al. (1988a) call these synergies "knowledge spillovers." A downside to an accounting firm supplying consultancy services to an audit client is the possible reduction in the independence and/or perceived independence of the auditor.

The formulation of an empirically testable model of the demand for external management consultancy services is very difficult (Abdel-khalik 1990).

Quite apart from the vexing problem of explaining the choice between external and internal consultants, there is the difficulty of observing factors that might be thought to affect the total (internal and external) provision of consultancy services. Following prior studies (see, for example, Barkess and Simnett 1994), it is hypothesized that the amount of external consultancy services required will be a positive function of the size of the company. Restructuring of the company (balance sheet restructuring, mergers and acquisitions, “down-sizing”, globalization of activities, management team, products, assets, activities) is likely to increase the demand for externally provided consultancy. For example, taking over another company can lead to “one-off” assignments to make accounting and information systems compatible, to integrate management structures, to rationalize operations, to realize the potential benefits of economies of scale and synergies, and to reorganize marketing strategies and brand management. As another example, the recruitment of a new chief executive officer or managing director from outside the company may lead to a review of operations and the implementation of new plans and strategies; consultants may be employed to help advise on these changes. “Down-sizing” and any “out-sourcing” of management activities usually leads to a reduction of company staff, and consultants are often employed to undertake the ‘necessary’ work done by the laid-off employees. Major corporate restructurings have to be disclosed to the Stock Exchange (for listed companies), current shareholders and investors in general, and the financial news media. These disclosures provide data used in this study.

A poorly performing company is expected to demand more external consulting services as it seeks, or is pressured by financial markets, to take remedial actions to improve profitability. Poor performance can be judged by accounting profitability and stock returns. Problems in modelling this relationship include determining at what point consultants are brought in (for example, after one year of poor performance, two years, three years . . .) and the measurement of performance. If the outside consultant is successful at helping improve a company’s performance, he or she may be invited to remain as a consultant and provide on-going services; this will confound the empirical relationship between external consultancy and poor operating performance.

The demand for externally provided management consultancy services is modelled as a function of company size, corporate restructuring, the installation of new computer and information systems, the recruitment of a new chief executive from outside of the company, and the financial performance of the company. Whether the auditor provides any of the external consulting services, and if so, how much, is hypothesized to depend on the likelihood of the auditor’s independence being deemed as impaired by the joint provision of audit and other services.

Research design

Agency costs and consultancy fees

I hypothesize that companies that have potentially high agency costs reduce the relative level of nonaudit services purchased from their auditor (so as to enhance the perception of the auditor being independent). Based on prior research, high agency costs are hypothesised to be negatively associated with the percentage of total shares owned by the directors of the company (*DIRSH*), negatively associated with the percentage share ownership of the largest stockholder (*OWN*), and positively associated with the debt-to-total assets ratio (*DTA*). The variables *DIRSH*, *OWN*, and *DTA*, are proxies for agency costs, and they are hypothesised to affect the demand for using the auditor to provide consultancy services. These arguments lead to the following hypotheses expressed in alternative form:

H1: There is a positive relationship between the relative level of consultancy services provided by the auditor and the percentage share ownership of the company's directors.

H2: There is a positive relationship between the relative level of consultancy services provided by the auditor and the percentage share ownership of the largest stockholder.

H3: There is a negative relationship between the relative level of consultancy fees provided by the auditor and the debt-to-total assets ratio.

In order to test these hypotheses, the following regression equation is constructed:

$$CFAF = \beta_0 + \beta_1 DIRSH + \beta_2 OWN + \beta_3 DTA + \beta_4 ROCE + \beta_5 LOSS + \beta_6 SR + \beta_7 LTA + \beta_8 B6 + \beta_9 ACQ + \beta_{10} NEWI + \beta_{11} IS + \beta_{12} CEO + \beta_{13} RESTR + \beta_{14} GROWTH \quad (1)$$

where:

CFAF = *CONFEE/AFEE*, expressed as a percentage.

AFEE = audit fee of the company in (£000s).

CONFEE = nonaudit fees paid to the auditor of a company in (£000s).

This information has been a required disclosure in company annual reports for fiscal years ending on or after 30 September 1992. Some companies voluntarily disclose information for earlier years (mainly 1991 comparative figures).

DIRSH = percentage of total shares owned by directors of a company at the beginning of the year.

OWN = percentage share ownership of the largest stockholder at the beginning of the year.

DTA = debt divided by total assets at the beginning of the year.

ROCE = profit before extraordinary items and tax divided by shareholders' equity for the year prior to the year to which the consultancy fees relate.

- LOSS* = dummy variable taking the value one (1) if net profit is greater than zero in the year prior to the year to which the consultancy fees relate; otherwise, *LOSS* is set equal to zero (0).
- SR* = percentage stock return in the year prior to the year to which the consultancy fees relate, minus the percentage return on the FTSE share index during the same period.
- TA* = total assets ((millions).
- B6* = dummy variable taking the value one (1) if the auditor is one of the Big Six firms; otherwise, *B6* is set equal to zero (0).
- ACQ* = dummy variable taking the value one (1) if the company made an acquisition (reported in *The Financial Times*) during the year or in the prior two years; otherwise, *ACQ* is set equal to zero (0).
- NEWI* = dummy variable taking the value one (1) if the company issued new shares (for cash consideration) during the year or in the prior two years; otherwise, *NEWI* is set equal to zero (0).
- IS* = dummy variable taking the value one (1) if the company installed a new information or computer system (reported in the annual report or *The Financial Times*) during the year or in the prior year; otherwise, *IS* is set equal to zero (0).
- CEO* = dummy variable set equal to one (1) if a new external chief executive officer or managing director has been appointed during the year or in the previous two years; otherwise, *CEO* is set equal to zero (0). External means the appointee is new to the company (i.e., not an internal promotion).
- RESTR* = dummy variable set equal to one (1) if a company restructuring (but excluding acquisitions and new CEOs) has taken place during the year or in the previous two years; otherwise, *RESTR* is set equal to zero (0). The information on restructurings come from *The Financial Times*.
- GROWTH* = percentage growth in total assets during the previous three years.

The dependent variable, *CFAF*, is the percentage of nonaudit consultancy fees (paid to the auditor) to audit fees, and it represents a measure of the relative use of consultancy services. Scaling the dependent variable by the audit fee (*AFEE*) and incorporating total assets (*LTA*) as an independent variable helps control for size. *DIRSH*, *OWN*, and *DTA* are proxies for agency costs, and they are used to test Hypotheses 1, 2, and 3; positive coefficients are predicted for *DIRSH* and *OWN*, and a negative coefficient for *DTA*. The expected directional signs on the profitability measures, *ROCE* and *LOSS*, are problematic. On the one hand, poor financial performance can be expected to lead to increased consultancy services as management seeks advice to remedy the company's ailing profitability. Poor financial performance, however, increases agency costs as the probability of managers making rash and illegal actions, and using contro-

versial accounting methods, increases. Low profitability may, therefore, induce companies to buy more consultancy services, but to use consultancy firms other than their auditor (so as not to jeopardize auditor independence or appearance of independence). This reasoning suggests a positive relationship between *CFAF* and *ROCE* and a positive relationship between *CFAF* and *LOSS*. The remaining variables represent factors that influence the purchase of external consultancy services and affect the dependent variable, *CFAF*.

Companies that suffer poor stock market returns may turn to external consultants for advice on how to improve performance and overcome operating problems. This decision leads to a negative relationship between *CFAF* and the stock return variable (*SR*). Unlike *ROCE* and *LOSS*, management, even with the collusion or acquiescence of the auditor, have very limited or no ability to 'manipulate' *SR*, and so hiring the auditor as the external consultant (to help improve stock market valuation) is unlikely to impair auditor independence and perceptions of auditor independence. *B6*, the Big Six status of the accounting firm, is included as a control variable. Audit fee research has, in many cases, identified a premium fee for a Big Six accounting firm, and this evidence suggests *B6* may have an impact on *CFAF*, although the directional sign is unclear.

ACQ, *NEWI*, *IS*, *CEO*, and *RESTR* represent activities that a company engages in from time to time, but are not necessarily recurring every year. Corporate acquisitions, raising cash via the stock market, design and installation of new management information systems, hiring of a new Chief Executive Officer, and company restructurings are relatively infrequent and are major events with potentially significant ramifications. Hiring external consultants to give advice on these events may be cost-benefit effective compared to hiring new staff and/or using incumbent full-time employees. Further, using the auditor to provide the external consultancy services may be the most efficient and effective way to proceed. Positive coefficient signs are expected on the *ACQ*, *IS*, *CEO*, and *RESTR* variables. High growth companies (*GROWTH*) are hypothesised to have a positive relationship with *CFAF*. High growth often implies a rapid expansion in activities and a fast changing environment; these factors may stretch senior executives' abilities to manage, and so external consultants are hired.

Data

Sample data come from the 500 largest British industrial, listed companies as ranked in *The Times 1000*. Financial statements for years ending in 1993 provide the data. The data are extracted from *DATASTREAM*, *EXSTAT*, annual reports, and *The Financial Times*. To improve statistical fit, a logarithmic transformation is made to the size variable *TA*; the transformed variable is denoted *LTA*. Extensions to the data set to include a second year of data (from 30 September 1992 to 31 December 1992, and from 1 January 1994 to 30 September 1994) gave similar results to those reported here. Although the requirement to disclose consultancy fees applies to years ending on or after 30

September 1992, many companies, when making their first disclosure, also showed the prior years' fees.

TABLE 1
Summary statistics of data (1993)

Variable	Mean	Median	Standard deviation
Audit fees (£000s) <i>AFEE</i>	420.1	126.6	702.6
Consultancy fees (£000s) <i>CONFEE</i>	326.3	126.3	684.1
Total assets (£millions) <i>TA</i>	528.0	125.7	1479.2
Directors' shareholdings <i>DIRSH</i>	0.07	0.04	0.05
Share ownership by largest owner <i>OWN</i>	0.11	0.06	0.04
Debt/total assets <i>DTA</i>	0.37	0.35	0.17
Profit/shareholders' equity <i>ROCE</i>	0.16	0.14	0.10
Existence of a loss <i>LOSS</i>	.03		
Stock return <i>SR</i>	0.43	0.19	3.74
Big Six firm <i>B6</i>	0.79		
Acquisition <i>ACQ</i>	.13		
New issue <i>NEWI</i>	.11		
Information system <i>IS</i>	.06		
Chief executive officer <i>CEO</i>	.09		
Restructuring <i>RESTR</i>	.05		
Growth in assets <i>GROWTH</i>	24.6	19.8	17.4

Results

Table 1 shows the means, medians, and standard deviations of the variables for year-ends in 1993.⁶ Absolute amounts are in (sterling). Table 2 reports some summary statistics for fee data in 1993 segmented by whether the auditor was a member of the Big Six.

TABLE 2
Summary statistics of fee data (1993) segmented by size of auditor

Variable	Mean	
	Big Six clients	Non-Big Six clients
Audit fees (£000s)	513.0	70.6
Consultancy fees (£000s)	409.3	52.2
Change in audit fees, Year 1 to Year 2 (%)	-1.1	-2.9
Change in consultancy fees, Year 1 to Year 2 (%)	13.6	10.7

Year 1 = year-ends: 30 September 1992 to 29 September 1993

Year 2 = year-ends: 30 September 1993 to 29 September 1994

As with other audit-fee studies, audit fees and company size are positively skewed. The Big Six accounting firms audit 79 percent of the sample compa-

nies. Over the period 1992 to 1994, there is a small decline in absolute audit fees, whereas nonaudit consultancy services showed a substantial growth. Consultancy fees are approximately 78 percent of the audit fee and average about £326,300 per audit client. Nonaudit services provided to audit clients are a major source of income for accounting practices.

The regression results, based on data for 1993, are shown in Table 3. Column 1 shows the results from the full sample; column 2, the large-size clients (those with total assets greater than £125.7 million); and column 3, the small-size clients (those with total assets less than £125.7 million). The models provide moderate fits in explaining the level of the nonaudit services relative to the audit fee. There is a positive coefficient on *LTA* indicating that large-size companies have relatively high consulting services provided by their auditors. The coefficients on *ROCE* and *LOSS* are positive, although not statistically significant. *ROCE* and *LOSS* are expected to have a negative relationship with consultancy fees, but a positive relationship with *CFAF*, which represents relative consultancy fees paid to the auditor. Very poor profitability may lead to increased agency costs, and in these cases, the consultancy services will be provided by firms other than the auditor (so as to avoid compromising auditor independence or appearance of independence). The stock return variable, *SR*, has a weak negative relationship with consultancy services, indicating that poor performance is associated with higher consultancy fees in the next year. *B6* is significant, indicating that employing a Big Six auditor is associated with hiring more consultancy services from the auditor, when holding other things constant. This association may be due to the Big Six accounting firms having comprehensive consulting divisions offering a full range of services; in contrast, some of the non-Big Six firms may have a limited range of consulting services, and so their consulting fees from audit clients may be relatively low. Another reason could be that the Big Six firms are very successful at marketing their consulting services, and hence, the positive association between *CFAF* and *B6*. Because Big Six firms have a large number of clients, they are less bonded to any one client,⁷ and so investors and creditors may believe the provision of consulting services is less likely to impair independence. Acquisitions, share issues, new information systems, changes in top management, and restructuring activities are associated with increased consultancy fees. The coefficients on *ACQ*, *NEWI*, *IS*, *CEO*, and *RESTR* are all positive and statistically significant, as expected. The completion of takeovers, expansion of the company via new issues of shares for cash, installation of new information and computer systems, the recruiting of a new chief executive officer from outside of the company, and corporate restructurings lead to a greater purchase of external consultancy services. The coefficient on *GROWTH* is positive, but nonsignificant; high growth companies are, therefore, not statistically associated with the purchase of consultancy services.

TABLE 3

The relationship between relative consultancy fees (*CFAF*) and agency variables

Variables	Column		
	1 Full sample (n=500)	2 Clients with total assets > £125.7 million (n=250)	3 Clients with total assets < £125.7 million (n=250)
<i>DIRSH</i>	1.13 (1.81)†	0.92 (1.70)†	1.28 (1.83)†
<i>OWN</i>	0.36 (1.86)†	0.65 (1.98)†	0.07 (1.60)‡
<i>DTA</i>	-11.97 (-2.35)*	-12.43 (-2.01)†	-10.87 (-2.10)†
<i>ROCE</i>	2.13 (1.03)	1.85 (0.83)	3.11 (0.93)
<i>LOSS</i>	0.16 (0.63)	0.25 (0.43)	0.31 (0.28)
<i>SR</i>	-0.49 (-1.94)†	-0.03 (-1.61)‡	-0.70 (-1.90)†
<i>LTA</i>	1.72 (1.99)†	0.92 (1.83)†	2.39 (1.89)†
<i>B6</i>	2.52 (2.84)*	3.10 (2.75)*	1.98 (2.89)*
<i>ACQ</i>	3.42 (2.00)†	4.16 (2.23)†	1.92 (1.87)†
<i>NEWI</i>	0.66 (1.93)†	0.49 (1.90)†	0.83 (1.62)‡
<i>IS</i>	1.83 (1.58)‡	1.93 (1.48)‡	1.42 (1.01)
<i>CEO</i>	3.64 (2.26)†	3.42 (1.95)†	3.78 (2.15)†
<i>RESTR</i>	4.30 (2.14)†	1.85 (1.80)†	4.86 (2.00)†
<i>GROWTH</i>	0.03 (1.26)	0.01 (1.18)	0.01 (1.08)
Intercept	21.65 (3.35)*	19.93 (3.00)*	22.77 (2.87)*
R ²	.32	.28	.29
F value	45.37*	31.86*	33.00*

Notes:*t*-values in parentheses. *t*-statistics based on White (1980)

* Significant at the .01 level

† Significant at the .05 level

‡ Significant at the .10 level

CFAF = percentage consultancy fees/audit fees.*DIRSH* = percentage directors' shareholdings.*OWN* = percentage share ownership by largest owner.

<i>DTA</i>	= debt/total assets.
<i>ROCE</i>	= profit/shareholders' equity.
<i>LOSS</i>	= existence of a loss.
<i>SR</i>	= stock return.
<i>LTA</i>	= log total assets.
<i>B6</i>	= Big Six firm.
<i>ACQ</i>	= acquisition.
<i>NEWI</i>	= new issue.
<i>IS</i>	= new computer or information system.
<i>CEO</i>	= new chief executive officer.
<i>GROWTH</i>	= growth in total assets in previous three years.
<i>RESTR</i>	= corporate restructuring.

The main variables of interest are *DIRSH*, *OWN*, and *DTA*, which are used to help proxy agency factors. The three variables are statistically significant and have the expected directional signs; positive associations for *DIRSH* and *OWN*, and a negative relationship for *DTA*. After controlling for other factors, director shareholdings, the shareholdings of the largest owner, and the debt-to-total assets ratio affect the amount of consultancy services bought from the auditor. These results are consistent with the hypothesis that companies with high agency costs attempt to reduce the possible perceived impairment of auditor independence stemming from high levels of nonaudit services procured from the auditor. The results are consistent with those reported by Parkash and Venable (1993) in the United States. The additional agency variables, *ROCE* and *LOSS*, also have their expected positive associations with *CFAF*, although they do not achieve statistical significance at conventional levels.

Following the lead of audit-fee research, the sample is divided into those companies with total assets above the median and those companies with total assets below the median; columns 2 and 3 show the results. The magnitudes, directional signs, and statistical significances of the variables are similar across columns 2 and 3. This consistency of results across the two size categories of companies contrasts with some of the audit-fee research that found regression coefficients varying significantly across small- and large-size client companies.

Parkash and Venable (1993), Beck et al. (1988b), and DeBerg et al. (1991) categorized types of nonaudit services and then sorted these categories into those deemed "recurring" and those deemed "nonrecurring." For example, Parkash and Venable, using information disclosed under *ASR 250* (SEC 1978), partitioned nonaudit fees into (1) tax, (2) pensions and planning, (3) information systems, (4) mergers and acquisitions, and (5) other nonaudit services. The first three categories were viewed as recurring and the remainder as nonrecurring (although using the first four categories as "recurring" produced similar research results. Other variations using various combinations of two of the first three categories also produced similar conclusions). The authors viewed recurring nonaudit services as the most likely to impair auditor independence. The categorization used by Parkash and Venable is not possible in the present study, because there is no requirement in the United Kingdom for nonaudit services

revenues to be segmented into types of consultancy. Even if the information is segmented into types, the grouping of types as “recurring” and “nonrecurring” is subjective,⁸ and *continuing* “nonrecurring” consultancy fees would probably impair independence to the same extent as those classified as “recurring.”

Summary

One cornerstone of statutory audits is the independence of the accounting firms providing the audits. Any actual or perceived impairment of auditor independence will seriously affect the credibility of financial statements. One possible signal of independence problems is the degree to which the accounting firm is economically bonded to a client. The provision of nonaudit services to audit clients by the auditor may lead to increased bonding. Providing joint services may lead the auditor to concur with management’s views on questionable accounting practices because disputing these practices will likely result in the loss of not only the audit fee, but also consultancy assignments. In some countries, the concern about auditor independence is so strong that the regulatory authorities prohibit the joint provision of audit and nonaudit services. Other countries, such as the United States, the United Kingdom, and many British Commonwealth nations, do allow the auditor to provide other services to audit clients.

Recent changes in Companies Act legislation in Britain require companies to disclose the fees paid to their auditor for nonaudit services. This requirement makes the auditor-client relationship more transparent, and so shareholders, lenders, and borrowers have more information with which to form opinions on the credibility of financial statements. The changes in reporting requirements also provide data that can be used to examine hypotheses relating to auditor independence issues.

Companies that face potentially higher agency costs are likely to be extra cautious about jeopardizing the appearance of auditor independence. This concern leads to a hypothesis that such companies will purchase a lower level of consultancy services from their auditor. A regression model is constructed relating relative consultancy levels to various proxies of agency costs, namely, director shareholdings, large shareholdings, and financial distress. The model provides moderate explanatory power, and the independent variables representing agency costs are statistically significant and have the hypothesized directional signs.

The disclosure of nonaudit services provided to audit clients in Britain gives valuable information to investors, lenders, creditors, and researchers who wish to evaluate or investigate issues related to auditor independence and audit pricing. The present study makes use of this data and finds evidence in support of agency variables influencing the relative use of auditor-provided consultancy services.

Endnotes

- 1 For example see MacErlean (1993).
- 2 Increased competition in the audit services market, fostered by the loosening of restrictions on advertising and lobbying for work and by companies putting audits out to tender, has resulted in pressure on audit fees. This pressure has offset the growth in audit work coming from the enhanced business opportunities in public-sector auditing in certain countries (e.g., Britain, Australia, New Zealand).
- 3 Providing management consultancy advice to audit clients is prohibited in Italy and severely restricted in The Netherlands, France, Germany, and in other European Community nations (Mozier 1991; Needles 1985; CAJIC 1996). Japan also prohibits management consultancy services being provided to audit clients (Nakase 1985). Similar prohibitions apply to local authority audits in Britain.
- 4 For a brief period (1978–1982), some disclosure of the joint provision of audit and nonaudit services was required in the United States (SEC 1978).
- 5 Research in Australia (Barkess and Simnett 1994; Butterworth and Houghton 1995) and the United States (Davis, Ricchiute, and Trompeter 1993) found positive relationships between audit fees and consultancy fees after controlling for other determinants of audit fees. Davis et al. also reported a positive relationship between audit effort (hours of work) and consultancy fees.
- 6 The summary statistics for Tables 1 and 2 are based on the 500 companies' financial statements with year-ends in 1993. The summary statistics for companies with year-ends in 1992 and 1994 are similar.
- 7 However, the individual partners in charge of a specific audit may be treated as a revenue or profit centre and may become "bonded" to the client. In this sense, the large portfolio of clients is of limited help in influencing the behaviour of an individual partner in a Big Six firm.
- 8 Many U.S. companies reporting under ASR 250 (SEC 1978) appeared to have consultancy services classified as "mergers and acquisitions" and "other nonaudit services" each year, so their classification as "nonrecurring" may not be appropriate.

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