

# Abnormal Audit Fees and Accrual quality

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# MOTIVATION

- Our motivation comes from the unclear association between audit quality and audit fees in previous research.
- Some empirical results support the notion that abnormally high audit fees impair auditor independence (Kinny and Libby 2002; Choi et al. 2010).
- Blankley et al. (2012) contend that abnormally high audit fees reflect high audit effort because lower audit fees tend to result in restatements
- We attempt to provide additional evidence on this issue.

# LITERATURE REVIEW

- Before SOX implementation, auditor independence seemed most affected by nonaudit service fees, and some empirical results support this (Frankel et al. 2002; Krishnamurthy et al. 2006; Srinidhi and Gul 2007).
- There are two kinds of audit fees. The first are normal fees, which reflect the cost to perform the audit, including labor costs, expected litigation risk losses, and a normal profit (Simunic 1980; Choi et al. 2010; Asthana and Boone 2012).
- The second kind are abnormal fees, which include abnormal profits from audit engagement (Asthana and Boone 2012).

# LITERATURE REVIEW

- Empirical research investigates whether abnormal audit fees impair auditor independence.
- Abnormal audit fees can better capture economic bonding between auditors and clients (Choi et al. 2010).
- Blankley et al. (2012) also contend that audit fees are associated with levels of service or effort provided. They document that abnormal audit fees are negatively associated with the occurrence of future restatements. They also find that the lower the audit fees, the less time auditors spend on audits.

# HYPOTHESIS

- **Hypothesis 1:** If abnormal and normal audit fees reflect auditor effort, then the association between abnormal audit fees and audit quality should be the same as the association between normal audit fees and audit quality.
- **Hypothesis 2:** The negative association between abnormal audit fees and audit quality is more significant when audit fees are abnormally high.
- **Hypothesis 3:** The negative association between abnormal audit fees and audit quality is more significant for abnormally high audit fees in the post-SOX period as compared to the pre-SOX period.

# RESEARCH MODEL

$$\begin{aligned} LAF_{i,t} = & \beta_0 + \beta_1 LTA_{i,t} + \beta_2 CR_{i,t} + \beta_3 CA\_TA_{i,t} + \beta_4 ARINV_{i,t} + \beta_5 ROA_{i,t} + \beta_6 LOSS_{i,t} \\ & + \beta_7 LOSSLAG_{i,t} + \beta_8 FOREIGN_{i,t} + \beta_9 MERGE_{i,t} + \beta_{10} BUSY_{i,t} + \beta_{11} LEV_{i,t} \\ & + \beta_{12} INTANG_{i,t} + \beta_{13} SEGNUM_{i,t} + \beta_{14} OPINION_{i,t} + \beta_{15} BIG4_{i,t} + \beta_{16} SHORTEN_{i,t} \\ & + \beta_{17} BTM_{i,t} + \beta_{18} EXORD_{i,t} + \beta_{19} PENSION_{i,t} + \beta_{20} RESTATE_{i,t} + \beta_{21} ISSUE_{i,t} \\ & + \text{industry and year dummies} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

where:

LAF=logarithm of audit fees;

LTA=logarithm of total assets;

CR=current assets divided by current liabilities;

CA\_TA=current assets divided by total assets;

ARINV=sum of accounts receivable and inventory, divided by total assets;

ROA=earnings before interest and taxes, divided by total assets;

LOSS=1 if firm incurred a loss, and 0 otherwise;

LOSSLAG=1 if the firm reported a loss during the prior year, and 0 otherwise;

FOREIGN=1 if firm has any foreign operations, and 0 otherwise;

MERGE=1 if the firm reported the impact of a merger or acquisition on net

income, and 0 otherwise;

BUSY=1 if a company's fiscal year is December 31, and 0 otherwise;

LEV=long-term debt divided by total assets;

INTANG=ratio of intangible assets to total assets;

SEGNUM=logarithm of number of business segments;

OPINION=1 if the auditor issued a going-concern audit opinion, and 0 otherwise;

BIG4=1 if the auditor is one of the Big 4, and 0 otherwise;

SHORTEN=1 if the auditor is in the first year or second year of the audit engagement, and 0 otherwise;

BTM=book-to-market ratio;

EXORD=1 if the firm reports any extraordinary gains or losses, and 0 otherwise;

PENSION=1 if the firm has a pension or post-retirement plan, and 0 otherwise;

RESTATE=1 if the firm restates net income or assets for reasons other than accounting method changes or adoption of new standards, and 0 otherwise;

ISSUE=1 if the sum of long-term debt or equity issued during the past three years is more than 5 percent of the total assets, and 0 otherwise.

# SAMPLE SELECTION

TABLE 1

Sample Selection

Selection Procedure	Observations
Fees data available from Audit Analytics	148,699
Firms available from Compustat	38,994
Less: firms in financial or utility industry	<u>(2,476)</u>
Final Observations	<u>36,518</u>

# AUDIT FEES MODEL

TABLE 4  
Audit-Fees Model Regression Results

Variable	Coefficient	t-value	p-value
Intercept	8.8467	333.30	<0.001
LTA	0.4892	206.08	<0.001
CR	-0.0470	-31.57	<0.001
CA_TA	0.8731	40.36	<0.001
ARINV	-0.0313	-1.39	0.164
ROA	-0.1673	-20.45	<0.001
LOSS	0.1307	15.30	<0.001
LOSSLAG	0.1194	14.12	<0.001
FOREIGN	0.3043	39.94	<0.001
MERGE	0.0807	2.34	0.019
BUSY	0.0817	11.41	<0.001
LEV	0.0013	0.08	0.937
INTANG	0.6100	31.95	<0.001
SEGNUM	0.0212	26.15	<0.001
OPINION	0.1055	7.15	<0.001
BIG4	0.2436	25.74	<0.001
SHORTEN	-0.1465	-16.51	<0.001
BTM	-0.0363	-10.83	<0.001
EXORD	0.1673	14.19	<0.001
PENSION	0.1698	15.69	<0.001
RESTATE	0.1176	11.80	<0.001
ISSUE	0.0021	0.30	0.762
Industry and year dummies	Included		
R <sup>2</sup>		0.8306	
Adj-R <sup>2</sup>		0.8305	
Observations		36,518	

TABLE 5  
Accruals Quality and Audit Fees

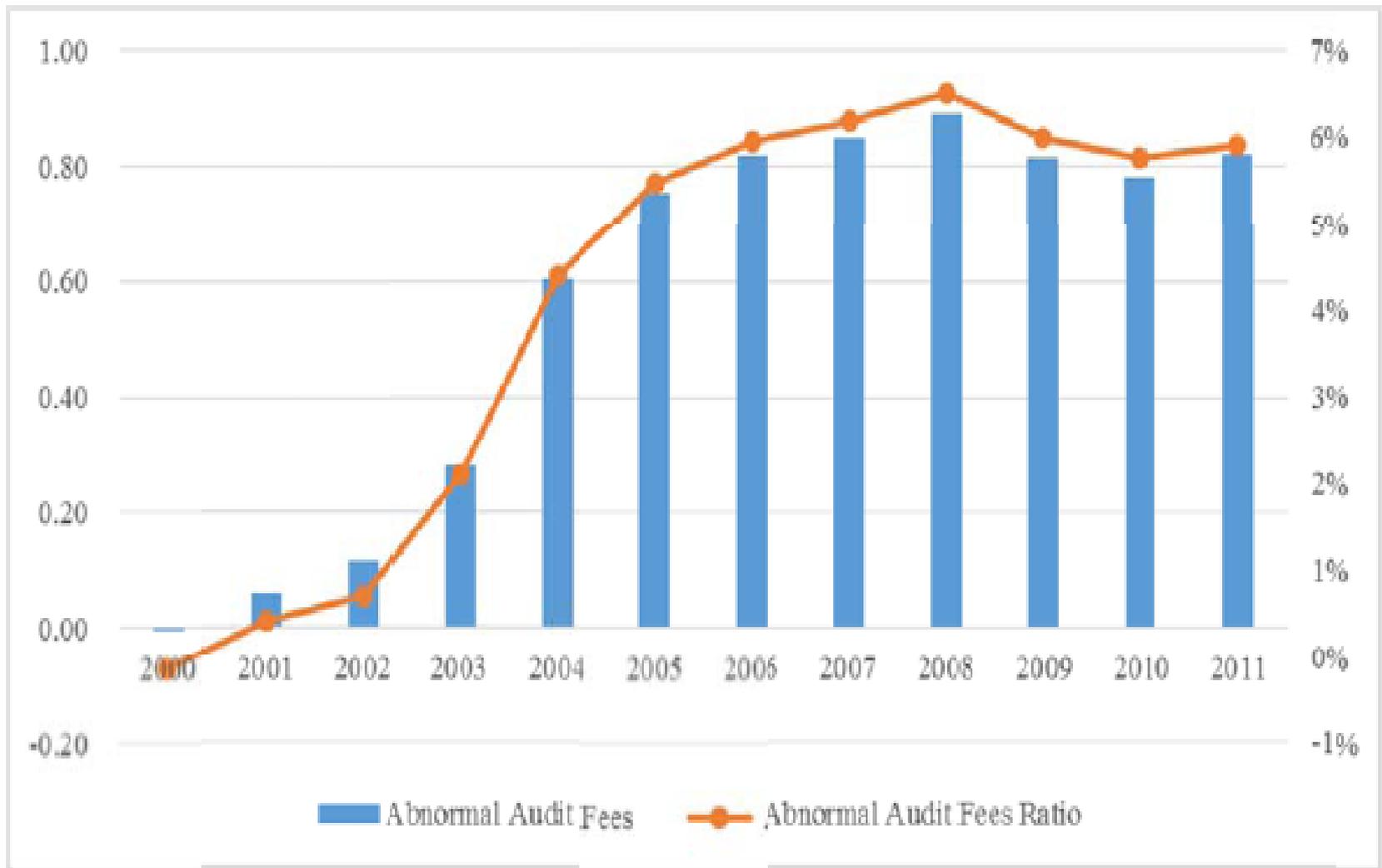
Variable	Dependent Variable			
	MDDGOOD (1a)		MDDERROR (1b)	
	Coefficient	t-value	Coefficient	t-value
Intercept	-0.0177 ***	-6.09	0.0790 ***	9.97
NORFEES	0.0014 ***	5.46	-0.0062 ***	-8.66
ABFEES	-0.0012 ***	-3.72	0.0045 ***	5.25
RESTATE	-0.0005	-0.83	0.0030 *	1.73
BIG4	0.0012 **	2.02	0.0006	0.38
OPINION	-0.0149 ***	-15.74	0.0007	0.29
SEGNUM	-0.0001 *	-1.92	0.0000	0.19
CHANGESALE	0.0283 ***	48.25	0.0176 ***	10.98
LAGACC	-0.0678 ***	-18.82	0.0752 ***	7.66
ROA	0.0161 ***	24.66	0.0918 ***	51.47
LOSS	-0.0010 *	-1.84	-0.0327 ***	-21.13
LOSSLAG	-0.0101 ***	-18.51	0.0142 ***	9.55
FOREIGN	0.0012 **	2.40	0.0015	1.09
MERGE	0.0040 *	1.79	0.0007	0.11
BUSY	-0.0002	-0.48	0.0060 ***	4.74
LEV	0.0015	1.43	0.0053 *	1.88
BTM	0.0009 ***	4.18	0.0038 ***	6.40
EXORD	-0.0015 **	-1.99	0.0088 ***	4.15
ISSUE	0.0017 ***	3.65	0.0037 ***	2.96
CFO	0.0000	-0.04	-0.1265 ***	-47.65
Observations	36,518		36,518	
Adjusted-R <sup>2</sup>	0.1910		0.1129	
F-value	454.6904		245.5704	
Prob>F	< 0.0001		< 0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.

**TABLE 6**  
**Accruals Quality and Positive/Negative Abnormal Audit Fees**

Variable	Dependent Variable							
	MDDGOOD				MDDERROR			
	(2a) negative abnormal audit fees		(2b) positive abnormal audit fees		(2c) negative abnormal audit fees		(2d) positive abnormal audit fees	
Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	
Intercept	-0.0151 **	-2.10	-0.0172 ***	-5.40	0.0270	1.46	0.0879 ***	9.94
NORFEES	0.0011 *	1.73	0.0015 ***	5.06	-0.0018	-1.08	-0.0071 ***	-8.77
ABFEES	-0.0002	-0.17	-0.0017 ***	-3.59	0.0004	0.14	0.0044 ***	3.30
RESTATE	-0.0014	-0.98	-0.0003	-0.44	0.0051	1.35	0.0025	1.27
BIG4	0.0043 ***	2.91	0.0005	0.76	-0.0022	-0.57	0.0014	0.77
OPINION	-0.0153 ***	-6.55	-0.0149 ***	-14.51	-0.0030	-0.49	0.0016	0.57
SEGNUM	-0.0004 ***	-3.11	0.0000	-0.71	0.0000	-0.07	0.0000	0.29
CHANGESALE	0.0297 ***	22.17	0.0279 ***	42.73	0.0198 ***	5.73	0.0170 ***	9.41
LAGACC	-0.1462 ***	-17.57	-0.0494 ***	-12.39	0.0720 ***	3.35	0.0745 ***	6.75
ROA	0.0291 ***	19.37	0.0130 ***	17.88	0.1005 ***	25.87	0.0894 ***	44.52
LOSS	0.0006	0.42	-0.0014 **	-2.26	-0.0329 ***	-9.66	-0.0326 ***	-18.76
LOSSLAG	-0.0079 ***	-6.22	-0.0106 ***	-17.69	0.0118 ***	3.60	0.0146 ***	8.75
FOREIGN	-0.0001	-0.11	0.0016 ***	2.82	-0.0004	-0.14	0.0021	1.34
MERGE	0.0184 **	2.05	0.0030	1.30	0.0015	0.06	0.0009	0.14
BUSY	-0.0002	-0.21	-0.0001	-0.28	0.0062 **	2.22	0.0060 ***	4.28
LEV	0.0011	0.43	0.0019 *	1.71	-0.0138 **	-2.13	0.0092 ***	2.95
BTM	0.0002	0.33	0.0011 ***	4.35	0.0037 ***	3.11	0.0038 ***	5.66
EXORD	-0.0040 **	-2.09	-0.0011	-1.28	0.0145 ***	2.94	0.0079 ***	3.38
ISSUE	0.0040 ***	3.65	0.0010 **	2.05	0.0079 ***	2.79	0.0027 *	1.92
CFO	-0.0044 *	-1.96	0.0014	1.30	-0.1305 ***	-22.33	-0.1251 ***	-41.95
Observations	6,978		29,540		6,978		29,540	
Adjusted-R <sup>2</sup>	0.2339		0.1850		0.1537		0.1036	
F-value	113.1057		353.8607		67.6916		180.7505	
Prob>F	< 0.0001		< 0.0001		< 0.0001		< 0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.



**Figure1. Abnormal Audit Fees and Abnormal Audit Fees Ratio Pre- and Post-SOX**

TABLE 7  
Accruals Quality and Audit Fees in Pre-SOX and Post-Sox Period

Panel A: Pre-SOX Period

Variable	Dependent Variable							
	MDDGOOD				MDDERROR			
	(3a) negative abnormal audit fees		(3b) positive abnormal audit fees		(3c) negative abnormal audit fees		(3d) positive abnormal audit fees	
Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	
Intercept	-0.0129	-1.54	-0.0118	-0.96	0.0046	0.20	0.0724 ***	2.95
NORFEES	0.0011	1.47	0.0006	0.56	-0.0004	-0.20	-0.0058 **	-2.47
ABFEES	0.0004	0.35	-0.0006	-0.31	0.0002	0.06	-0.0040	-0.81
RESTATE	-0.0014	-0.91	-0.0011	-0.40	0.0076 *	1.72	0.0096 *	1.91
BIG4	0.0058 ***	3.15	0.0039	1.53	-0.0023	-0.45	0.0077	1.49
OPINION	-0.0113 ***	-4.39	-0.0174 ***	-4.37	-0.0037	-0.52	-0.0003	-0.05
SEGNUM	-0.0004 ***	-3.19	-0.0003	-1.34	0.0004	0.96	-0.0005	-1.08
CHANGESALE	0.0335 ***	21.87	0.0259 ***	11.76	0.0345 ***	8.01	0.0221 ***	4.97
LAGACC	-0.0360 **	-2.00	-0.1722 ***	-15.63	-0.4423 ***	-8.74	0.0155	0.47
ROA	0.0215 ***	9.91	0.0311 ***	14.05	0.0823 ***	13.53	0.0766 ***	15.74
LOSS	0.0001	0.09	0.0003	0.11	-0.0306 ***	-7.84	-0.0447 ***	-9.98
LOSSLAG	-0.0107 ***	-8.03	-0.0062 ***	-2.69	0.0096 ***	2.58	0.0218 ***	4.98
FOREIGN	-0.0001	-0.10	0.0004	0.18	0.0007	0.20	-0.0051	-1.10
MERGE	0.0056	0.49	0.0240 *	1.77	-0.0203	-0.63	0.0239	0.62
BUSY	-0.0014	-1.16	0.0013	0.66	0.0036	1.08	0.0110 ***	2.75
LEV	0.0036	1.36	0.0027	0.60	-0.0158 **	-2.11	0.0056	0.67
BTM	-0.0013 ***	-2.79	0.0023 ***	2.62	0.0023 *	1.72	0.0017	1.19
EXORD	-0.0025	-1.25	-0.0065 *	-1.92	0.0128 **	2.25	0.0188 ***	2.70
ISSUE	0.0009	0.78	0.0067 ***	3.36	0.0119 ***	3.72	-0.0057	-1.49
CFO	-0.0081 ***	-2.84	-0.0016	-0.46	-0.1379 ***	-17.24	-0.1219 ***	-14.58
Observations	3,789		4,860		3,789		4,860	
Adjusted-R <sup>2</sup>	0.2380		0.1898		0.1497		0.0983	
F-value	63.2853		60.8950		36.1112		28.8819	
Prob>F	< 0.0001		< 0.0001		< 0.0001		< 0.0001	

TABLE 7 (Continued)

## Panel B: Post-SOX Period

Variable	Dependent Variable							
	MDDGOOD				MDDERROR			
	(4a) negative abnormal audit fees		(4b) positive abnormal audit fees		(4c) negative abnormal audit fees		(4d) positive abnormal audit fees	
Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	
Intercept	-0.0042	-0.53	-0.0176 ***	-4.89	0.0552 *	1.84	0.1007 ***	10.34
NORFEES	0.0003	0.45	0.0015 ***	4.64	-0.0036	-1.33	-0.0081 ***	-9.29
ABFEES	-0.0019	-1.23	-0.0021 ***	-3.97	-0.0005	-0.10	0.0033 **	2.30
RESTATE	0.0009	0.57	-0.0004	-0.49	0.0045	0.71	0.0007	0.31
BIG4	0.0012	0.73	0.0006	0.77	-0.0026	-0.41	0.0020	0.99
OPINION	-0.0093 ***	-4.24	-0.0162 ***	-13.95	-0.0010	-0.11	0.0029	0.93
SEGNUM	0.0001	0.40	0.0000	-0.66	-0.0002	-0.39	0.0002	1.35
CHANGESALE	0.0254 ***	17.70	0.0283 ***	38.66	0.0101 *	1.88	0.0151 ***	7.62
LAGACC	-0.0236 **	-2.20	-0.0544 ***	-12.64	0.1121 ***	4.16	0.0805 ***	6.92
ROA	0.0187 ***	11.90	0.0116 ***	14.20	0.1021 ***	18.83	0.0929 ***	42.02
LOSS	-0.0028 *	-1.91	-0.0011	-1.52	-0.0367 ***	-6.18	-0.0295 ***	-15.67
LOSSLAG	-0.0120 ***	-8.53	-0.0103 ***	-15.50	0.0091	1.63	0.0125 ***	6.97
FOREIGN	0.0031 **	2.08	0.0014 **	2.25	-0.0011	-0.22	0.0036 **	2.13
MERGE	-0.0020	-0.16	0.0029	1.23	0.0157	0.47	-0.0003	-0.05
BUSY	-0.0009	-0.72	0.0000	0.06	0.0085 *	1.81	0.0051 ***	3.42
LEV	0.0029	1.08	0.0021 *	1.73	-0.0054	-0.49	0.0113 ***	3.39
BTM	0.0002	0.37	0.0015 ***	5.00	0.0075 ***	3.51	0.0049 ***	6.30
EXORD	-0.0007	-0.30	-0.0012	-1.31	0.0160 *	1.94	0.0057 **	2.31
ISSUE	0.0021 *	1.75	0.0007	1.28	0.0019	0.39	0.0042 ***	2.84
CFO	-0.0139 ***	-5.14	0.0042 ***	3.57	-0.1221 ***	-14.29	-0.1263 ***	-39.63
Observations	3,189		24,680		3,189		24,680	
Adjusted-R <sup>2</sup>	0.2422		0.1839		0.1826		0.1061	
F-value	54.6195		293.6914		38.4930		155.2377	
Prob>F	< 0.0001		< 0.0001		< 0.0001		< 0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.

TABLE 8

## Effect of Internal Controls on the Association between Accruals Quality and Audit Fees

## Panel A: Internal Control effective

Variable	Dependent Variable							
	MDDGOOD				MDDERROR			
	negative abnormal audit fees		positive abnormal audit fees		negative abnormal audit fees		positive abnormal audit fees	
Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	
Intercept	-0.0212	-1.07	-0.0130 ***	-3.80	0.0091	0.20	0.0685 ***	6.81
NORFEES	0.0011	0.65	0.0013 ***	4.34	0.0012	0.30	-0.0053 ***	-6.12
ABFEES	-0.0011	-0.40	-0.0023 ***	-4.70	-0.0036	-0.55	0.0057 ***	3.91
RESTATE	-0.0032	-0.63	0.0004	0.49	-0.0282 **	-2.34	-0.0010	-0.46
BIG4	0.0007	0.16	0.0010	1.53	-0.0065	-0.67	-0.0005	-0.27
OPINION	-0.0082	-1.15	-0.0171 ***	-12.96	-0.0465 ***	-2.80	0.0052	1.35
SEGNUM	-0.0004	-1.12	-0.0001 *	-1.83	-0.0005	-0.68	0.0003 *	1.67
CHANGESALE	0.0343 ***	7.97	0.0300 ***	38.98	-0.0081	-0.81	0.0256 ***	11.34
LAGACC	-0.2289 ***	-10.09	-0.0075	-1.19	0.1855 ***	3.50	0.0611 ***	3.30
ROA	0.0355 ***	8.89	0.0027 **	2.57	0.0739 ***	7.91	0.0989 ***	32.54
LOSS	-0.0047	-1.17	-0.0011 *	-1.78	-0.0406 ***	-4.31	-0.0205 ***	-11.11
LOSSLAG	-0.0012	-0.31	-0.0092 ***	-15.39	0.0068	0.77	0.0071 ***	4.05
FOREIGN	0.0031	0.98	0.0017 ***	3.31	0.0013	0.18	0.0033 **	2.18
MERGE	0.0263 **	2.09	0.0025	1.45	-0.0089	-0.30	0.0013	0.26
BUSY	0.0010	0.28	-0.0006	-1.13	0.0044	0.53	0.0025 *	1.67
LEV	0.0055	0.74	-0.0015	-1.32	-0.0430 **	-2.49	0.0080 **	2.40
BTM	0.0068 ***	5.02	-0.0013 ***	-4.39	0.0051	1.61	0.0033 ***	3.98
EXORD	-0.0137 ***	-2.82	-0.0020 **	-2.55	0.0100	0.88	0.0013	0.55
ISSUE	0.0066 **	2.05	0.0017 ***	3.55	0.0199 ***	2.63	0.0010	0.73
CFO	-0.0030	-0.43	0.0108 ***	7.83	-0.1359 ***	-8.30	-0.1576 ***	-38.84
Observations	913		15,748		913		15,748	
Adjusted-R2	0.3243		0.2148		0.1752		0.1156	
F-value	24.0411		227.6613		11.1942		109.2877	
Prob>F	<0.0001		<0.0001		<0.0001		<0.0001	

TABLE 8 (Continued)

## Panel B: Internal Control effectiveness

Variable	Dependent Variable							
	MDDGOOD				MDDERROR			
	negative abnormal audit fees		positive abnormal audit fees		negative abnormal audit fees		positive abnormal audit fees	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Intercept	-0.0366	-0.31	-0.0064	-0.32	-0.0544	-0.17	0.1195 **	2.08
NORFEES	0.0027	0.27	0.0008	0.43	0.0119	0.44	-0.0101 **	-1.98
ABFEES	0.0183	1.35	-0.0034	-1.54	-0.0386	-1.06	0.0018	0.29
RESTATE	-0.0101	-0.37	0.0003	0.09	-0.0619	-0.83	0.0060	0.59
BIG4	0.0063	0.31	0.0001	0.02	-0.0509	-0.94	0.0045	0.43
OPINION	-0.0150	-0.59	-0.0053	-1.25	0.1413 **	2.07	0.0077	0.63
SEGNUM	-0.0013	-0.68	0.0001	0.31	-0.0036	-0.70	0.0001	0.11
CHANGESALE	0.0142	0.91	0.0226 ***	7.67	-0.0581	-1.40	-0.0126	-1.48
LAGACC	-0.1885 ***	-3.58	-0.0193	-1.27	0.2425 *	1.72	-0.0136	-0.31
ROA	0.0593 ***	5.07	0.0141 ***	5.02	0.0966 ***	3.08	0.1004 ***	12.34
LOSS	0.0002	0.01	-0.0032	-1.00	-0.1089 **	-2.30	-0.0445 ***	-4.83
LOSSLAG	-0.0193	-1.05	-0.0125 ***	-4.01	0.0093	0.19	0.0135	1.50
FOREIGN	-0.0037	-0.19	0.0030	0.94	-0.0116	-0.22	0.0020	0.22
MERGE	0.0087	0.15	0.0072	0.51	-0.0166	-0.11	-0.0110	-0.27
BUSY	0.0188	1.04	-0.0004	-0.14	0.0822 *	1.69	0.0174 **	2.16
LEV	0.0728 **	2.48	0.0024	0.44	-0.2362 ***	-3.00	-0.0066	-0.43
BTM	0.0102 **	2.01	0.0032 ***	3.29	-0.0176	-1.29	0.0075 ***	2.70
EXORD	0.0076	0.24	0.0025	0.59	0.0570	0.67	0.0146	1.18
ISSUE	0.0207	1.19	-0.0002	-0.06	-0.0486	-1.04	0.0150 *	1.89
CFO	-0.0328 *	-1.69	0.0079 *	1.77	-0.1137 **	-2.19	-0.1013 ***	-7.79
Observations	111		1,806		111		1,806	
Adjusted-R2	0.3501		0.1724		0.2556		0.1095	
F-value	4.1194		20.7860		2.9878		12.6821	
Prob>F	<0.0001		<0.0001		<0.0001		<0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.

**TABLE 9**  
**Accruals Quality and Abnormal Audit Fees Ratio**

**Panel A: Dependent Variable- MDDGOOD**

Variable	(7a) Total Samples		(7b) Pre-SOX Samples		(7c) Post-SOX Samples	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Intercept	-0.0023 ***	-3.17	-0.0009	-0.60	-0.0026 ***	-2.97
RATIO	-0.0132 ***	-3.34	-0.0132 *	-1.74	-0.0197 ***	-3.87
RESTATE	-0.0004	-0.70	0.0001	0.12	-0.0005	-0.66
BIG4	0.0029 ***	5.53	0.0038 ***	3.48	0.0027 ***	4.46
OPINION	-0.0151 ***	-16.05	-0.0101 ***	-6.05	-0.0164 ***	-14.48
SEGNUM	0.0000	0.02	-0.0001	-1.25	0.0000	0.59
CHANGESALE	0.0283 ***	48.19	0.0286 ***	27.16	0.0280 ***	40.06
LAGACC	-0.0674 ***	-18.71	-0.0260 ***	-2.93	-0.0759 ***	-18.99
ROA	0.0165 ***	25.22	0.0192 ***	15.65	0.0155 ***	20.22
LOSS	-0.0011 **	-2.00	-0.0017 *	-1.73	-0.0009	-1.32
LOSSLAG	-0.0103 ***	-18.92	-0.0116 ***	-11.86	-0.0098 ***	-15.23
FOREIGN	0.0024 ***	5.16	0.0022 **	2.48	0.0024 ***	4.28
MERGE	0.0047 **	2.11	0.0012	0.14	0.0046 *	1.93
BUSY	0.0000	0.01	-0.0011	-1.25	0.0004	0.69
LEV	0.0023 **	2.30	0.0035 *	1.86	0.0026 **	2.18
BTM	0.0008 ***	3.95	-0.0004	-1.30	0.0017 ***	6.01
EXORD	-0.0011	-1.40	-0.0015	-0.96	-0.0012	-1.32
ISSUE	0.0018 ***	3.90	0.0018 **	2.08	0.0016 ***	2.99
CFO	0.0002	0.17	-0.0114 ***	-5.80	0.0031 ***	2.72
Observations	36,518		8,649		27,869	
Adjusted-R <sup>2</sup>	0.1903		0.2080		0.1878	
F-value	477.9106		127.1628		358.9646	
Prob>F	< 0.0001		< 0.0001		< 0.0001	

Panel B: Dependent Variable- MDDERROR

Variable	(8a) Total Samples		(8b) Pre-SOX Samples		(8c) Post-SOX Samples	
	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Intercept	0.0120 ***	6.02	0.0065	1.48	0.0130 ***	5.70
RATIO	0.0584 ***	5.41	0.0166	0.72	0.0567 ***	4.19
RESTATE	0.0027	1.54	0.0070 **	2.05	0.0012	0.62
BIG4	-0.0064 ***	-4.52	0.0009	0.26	-0.0077 ***	-4.87
OPINION	0.0019	0.76	-0.0014	-0.28	0.0038	1.27
SEGNUM	-0.0004 ***	-3.09	-0.0005 *	-1.70	-0.0004 **	-2.44
CHANGESALE	0.0177 ***	11.07	0.0256 ***	8.07	0.0146 ***	7.89
LAGACC	0.0734 ***	7.47	-0.0703 ***	-2.62	0.0882 ***	8.33
ROA	0.0905 ***	50.88	0.0787 ***	21.25	0.0938 ***	46.22
LOSS	-0.0323 ***	-20.86	-0.0396 ***	-12.97	-0.0297 ***	-16.48
LOSSLAG	0.0151 ***	10.16	0.0175 ***	5.93	0.0136 ***	7.97
FOREIGN	-0.0036 ***	-2.80	-0.0056 **	-2.07	-0.0033 **	-2.23
MERGE	-0.0026	-0.42	0.0021	0.08	-0.0036	-0.58
BUSY	0.0050 ***	3.97	0.0071 ***	2.64	0.0042 ***	2.96
LEV	0.0015	0.56	-0.0046	-0.82	0.0047	1.47
BTM	0.0040 ***	6.81	0.0021 **	2.08	0.0054 ***	7.36
EXORD	0.0068 ***	3.21	0.0144 ***	3.11	0.0041 *	1.74
ISSUE	0.0032 **	2.54	0.0014	0.56	0.0034 **	2.41
CFO	-0.1274 ***	-47.97	-0.1302 ***	-22.03	-0.1274 ***	-42.81
Observations	36,518		8,649		27,869	
Adjusted-R <sup>2</sup>	0.1113		0.1063		0.1146	
F-value	254.9976		58.1248		201.3791	
Prob>F	< 0.0001		< 0.0001		< 0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.

TABLE 10

Effect of Internal Controls on the Association between Accruals Quality and Abnormal Audit Fees Ratio

Panel A: Dependent Variable- MDDGOOD

Variable	Internal Control effective Samples		Internal Control ineffectiveness Samples	
	Coefficient	t-value	Coefficient	t-value
Intercept	-0.0005	-0.55	-0.0005	-0.11
RATIO	-0.0211 ***	-3.78	-0.0318	-1.28
RESTATE	0.0001	0.14	-0.0004	-0.12
BIG4	0.0026 ***	4.57	0.0003	0.11
OPINION	-0.0162 ***	-12.23	-0.0050	-1.21
SEGNUM	0.0000	-0.71	0.0001	0.26
CHANGESALE	0.0301 ***	38.67	0.0234 ***	8.00
LAGACC	-0.0405 ***	-6.66	-0.0411 ***	-2.87
ROA	0.0087 ***	8.68	0.0194 ***	7.15
LOSS	-0.0013 *	-1.95	-0.0024	-0.76
LOSSLAG	-0.0084 ***	-13.81	-0.0129 ***	-4.14
FOREIGN	0.0026 ***	5.38	0.0031	1.06
MERGE	0.0042 **	2.34	0.0058	0.43
BUSY	-0.0004	-0.80	0.0012	0.42
LEV	-0.0008	-0.70	0.0063	1.18
BTM	-0.0004	-1.55	0.0039 ***	4.07
EXORD	-0.0022 ***	-2.78	0.0019	0.45
ISSUE	0.0023 ***	4.69	0.0009	0.34
CFO	0.0081 ***	5.85	0.0035	0.81
Observations	16,661		1,917	
Adjusted-R <sup>2</sup>	0.2108		0.1827	
F-value	248.2490		24.7948	
Prob>F	< 0.0001		< 0.0001	

Panel B: Dependent Variable- MDDERROR

Variable	Internal Control effective Samples		Internal Control ineffectiveness Samples	
	Coefficient	t-value	Coefficient	t-value
Intercept	0.0109 ***	4.33	0.0213	1.60
RATIO	0.0747 ***	4.71	-0.0306	-0.43
RESTATE	-0.0023	-1.10	0.0024	0.23
BIG4	-0.0064 ***	-3.96	-0.0087	-1.04
OPINION	0.0010	0.26	0.0181	1.51
SEGNUM	-0.0001	-0.68	-0.0008	-0.92
CHANGESALE	0.0238 ***	10.78	-0.0179 **	-2.13
LAGACC	0.0765 ***	4.43	0.0357	0.87
ROA	0.0951 ***	33.47	0.0986 ***	12.69
LOSS	-0.0215 ***	-11.79	-0.0525 ***	-5.78
LOSSLAG	0.0079 ***	4.57	0.0171 *	1.91
FOREIGN	-0.0006	-0.42	-0.0053	-0.62
MERGE	-0.0008	-0.15	-0.0041	-0.11
BUSY	0.0024	1.60	0.0197 **	2.45
LEV	0.0020	0.62	-0.0235	-1.54
BTM	0.0037 ***	4.62	0.0058 **	2.14
EXORD	0.0000	0.01	0.0158	1.29
ISSUE	0.0015	1.09	0.0100	1.27
CFO	-0.1563 ***	-39.87	-0.1058 ***	-8.48
Observations	16,661		1,917	
Adjusted-R <sup>2</sup>	0.1159		0.1140	
F-value	122.3059		14.6897	
Prob>F	< 0.0001		< 0.0001	

\*, \*\*, \*\*\* Implies significance at 10, 5, and 1 percent levels (two-sided), respectively.

# CONCLUSION

- We provide evidence that abnormal audit fees become the incentive to impair audit quality after SOX passage.
- Auditors only jeopardize their independence when firms with effective internal controls.

- THANKS FOR  
YOUR LISTENING