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THE EFFECT OF THE PROVISION OF NON-AUDIT SERVICES ON AUDIT FEES IN KUWAIT

Key Words

Auditing; Kuwait; Non-audit services; Audit fees.

Abstract

The potential impact of jointly providing audit and non-audit services to the audit client on audit fees has been a concern to the accounting academics and rule-making bodies for several years. Empirical evidence about this issue, however, stems mainly from large English-speaking countries. The purpose of this paper is to extend prior audit fees research by examining the impact of the joint provision of audit and non-audit services on the pricing of audit services in Kuwait. The study's results indicated that the joint provision of audit and non-audit fees is associated with higher amounts of audit fees.

Introduction

Since the Simunic (1980) study, the pricing of audit services has been an interesting topic that has attracted extensive research in the audit literature, and a central point of much of this research has been to identify factors that have an impact on the amount of audit fees. A stream of research in this literature had a particular interest in examining the potential effect of the joint provision of audit and non-audit services to the same client on the pricing of audit services. This issue continues to be a

focal point for examination in the audit literature as the extent of jointly providing the two types of services to audit clients continues to grow.

The potential effect of jointly providing non-audit advisory services on external audit fees has been investigated by several studies. Some of these studies (e.g., Hay *et al.*, 2006; Firth, 1997; Ezzamel *et al.*, 1996; Barkess and Simnett, 1994; Turpen, 1990; Beck *et al.*, 1988; Palmrose, 1986; Simunic, 1984) found audit fees to be higher when the audit firm concur-

rently provides non-audit advisory services to the same client. Other studies (e.g., O'Keefe *at al.*, 1994; Barefield *at al.*, 1993; Abdel-Khalik, 1990), on the other hand, did not find a significant relation between audit fees and the joint provision of non-audit services.

Although the audit literature discussed here is mainly related to the impact of the joint provision on audit *pricing*, we should note that another line of this stream of research had a particular interest in examining the potential impact of such joint provision on external auditors' *independence*. This line of research is motivated by the premise that the value of a given audit client to the external audit firm becomes higher when the economic bond between the two increases. This economic bond is expected to be greater when the audit firm also provides non-audit services to the same audit client since the portion of the audit firm's wealth obtained from providing professional services to the audit client is now greater (DeAngelo, 1981; Simunic, 1984; Beck *at al.*, 1988). As Simunic (1984) suggests, when the audit firm performs both audit and non-audit services, a quasi-economic rent is said to occur to the audit firm as a result of the knowledge spillover (i.e., production efficiencies), which, if retainable by the audit firm, might create incen-

tives to resolve disputes in the client's favor, and hence creates a threat to the external auditor's independence. In fact, several studies (e.g., Joshi *at al.*, 2007; Krishnan *at al.*, 2005; Kinney *at al.*, 2004; Mauldin, 2003) have shown that the concurrent provision of non-audit service to the same audit client can lead to damaging financial statement users' perception of external auditors' independence.

Although the potential impact of the provision of non-audit services on the external auditor's independence has attracted the attentions of extensive audit research for quite some time, this study does not attempt to investigate the independence issue, and rather is focused on examining the effect of the joint provision on the pricing of audit services in Kuwait.

The research literature examining the impact of the joint provision on audit fees has emanated mainly from western countries, with little research conducted in other audit markets to examine this issue. The purpose of this study is to provide evidence on the impact of the joint provision of audit and non-audit services on audit fees in Kuwait.. Such an endeavor is expected to be useful in determining whether conclusions drawn in studies conducted overseas about the effect of the joint provision on the audit prices apply in Kuwait. The importance of

the current research study is that it is the first to provide empirical evidence about such an important research issue in Kuwait, and in doing so it extends prior research mainly stemming from English-speaking countries to another country where the audit market is different in several ways. First, unlike in western audit markets, audit firms operating in a developing country (like Kuwait) are not subject to the same litigious environment of developed western countries where there is a high risk of incurring monetary as well as reputational losses in the event of an audit failure (Habib and Islam, 2007). Second, the audit environment in a developing country, like Kuwait, lacks the traditional governance mechanisms existent in the more developed countries such as effective regulatory bodies, independent audit committees, and vibrant corporate controls (Habib and Islam, 2007). It seems, therefore, that exploring such an issue in Kuwait is meaningful to see whether observations identified in other audit markets are existent in the Kuwaiti audit market.

The results obtained in this study show that, *ceteris paribus*, the provision of non-audit services to the audit client are associated with higher amounts of

audit fees paid to the audit firm. The results further indicate that this positive relation is insensitive to the use of a dichotomous rather than a continuous (non-audit fees) variable to measure the joint provision effect on audit fees.

The remainder of this study is organized as follows; the next section provides some background information about the Kuwaiti audit market, and provides a review of previous related research. The research methodology is discussed in the following section. The fourth section provides this study's results. Concluding remarks are provided in the final section.

Background and Literature Review

Auditing in Kuwait

Since 1990, companies in Kuwait are required to follow the International Accounting Standards when preparing their financial statements, and auditors are required to conduct their financial statement audits in accordance with the International Standards of Auditing issued by International Federation of Accountants (IFAC). The External Auditing Law No. 6 of 1962 was the first to regulate the auditing profession in Kuwait⁽¹⁾.

(1) Note, however, that Law No. 15 of 1950 (Companies Law), Law No. 3 of 1951 (first Tax Law), and Law No. 1955 (amended Tax Law) included articles that dealt superficially with some accounting and auditing issues (Fakhra, 1996).

This law was amended by Law No. 3 of 1965, and then replaced by the Amiri Decree No. 5 of 1981, which is in current effect. This law describes the rights and responsibilities of external auditors, and lays out the requirements for practicing the independent audit profession. According to this law, the Ministry of Commerce and Industry is the authority responsible for issuing the resolutions needed to regulate the auditing profession. The auditing practice is also guided by the Companies Law No. 15 of 1960, which requires corporations' financial statements to be audited by an independent auditor. The Amiri Decree of 1983 regulating the Stock Exchange Market provides additional guidance with regard to auditing companies listed on the Kuwait Stock Exchange.

Provoked by the recent economic boom, the demand for audit services in Kuwait has grown rapidly in recent years as a result of the considerable increase in the number of corporations formed and listed on the Kuwait Stock Exchange⁽²⁾. Unlike in many other countries (e.g., US and UK, France), to date, there are no rules requiring companies to disclose fees paid to their external auditors for audit or other

non-audit consulting services. The Big-4 international audit firms are present in the Kuwaiti audit market through ties with local audit firms. Currently, these Big-4 affiliates dominate the audits for listed companies.

Previous Research:

In recent years, there has been an increasing interest in audit literature investigating the potential influence of audit firms' joint provision of non-audit services to their audit clients on audit prices. Prior studies examining this issue have reported mixed results, however, with some studies documenting a positive relation between the amount of external audit fees and the concurrent provision of audit and non-audit services and others finding no evidence of such a relation.

Simunic (1984) was probably the first to empirically examine the effect of the joint provision of audit and non-audit services on the pricing of audit services. Using a sample of 263 audit engagements of publicly held U.S. companies, this paper compared the mount of audit fees of audit engagements where the audit firm provides only audit services to the amount of audit fees of audit engagements where the audit firm provides

(2) For example, the number of companies listed on the Kuwait Stock Exchange has increased by about 130% from 2000 to 2007.

both audit and non-audit services to the same audit client. The results of this study revealed a positive relation between audit fees and the provision of non-audit services. Simunic interpreted this as a result of production efficiencies arising from such spillovers being retained by the audit firm and not passed on to clients.

Palmrose (1986), using a sample of 298 clients from 12 industries, further examined whether the joint provision of audit and non-audit services audit services to the same audit client have an influence on the pricing of audit services. The study's findings indicated that audit fees were significantly higher when the audit client also purchases non-audit services⁽³⁾. Abdel-Khalik (1990) investigated this issue on a sample of 84 audit engagements which were classified into whether the same audit firm provided non-audit services to the audit client or not. This study's results indicated an absence of a direct relationship between audit fees and jointly providing non-audit fees. Davis et al. (1993) extended this stream of research by examining the effect of the provision of non-audit

services to audit clients on audit efforts. Using data about 98 clients obtained from 10 U.S. offices of a large audit firm, the results of this study showed a significant increase in audit efforts for clients purchasing non-audit services. Such a result suggests that the observed positive relation between audit fees and the provision of non-audit services might be due to an increase in the audit effort and not knowledge spillover.

Barkess and Simnett (1994) used a sample of publicly listed companies in Australia to investigate, among other things, the effect of the joint provision of audit and non-audit services on audit prices. This study's findings revealed a significant and positive relationship between audit and non-audit fees. Using a sample of UK audit clients, Ezzamel *et al.*, (1996) examined the impact of jointly providing audit and non-audit services on audit fees, and found that audit fees were positively related to fees paid for non-audit services. Using a sample of audit engagements in Norway, Firth (1997) examined the impact of the joint provision of audit and non-audit services to the audit client, and reported evidence of a positive relation between payments

(3) Palmrose (1986) was among the first to decompose non-audit services into "accounting-related" services and "non-accounting-related" services to test whether the resemblance of non-audit services to accounting/auditing influences the expected beneficial effects from the joint supply of audit and non-audit services. This study's results indicated that the positive relation between audit fees and non-audit fees was also observed when the non-audit services were provided by a non-incumbent firm.

for non-audit services and audit fees. Firth (2002) examined this issue again using data from the UK, and reported evidence of a positive relation between audit fees and non-audit fees.

Jeong *et al.* (2005) examined, among other things, the audit pricing effect of the joint provision of audit and non-audit services in Korea. The results of this study revealed a significant and positive relationship between audit fees and non-audit fees. Hay *et al.* (2006) recently examined, in addition to other things, the relation between audit and non-audit fees in the New Zealand audit market. This study reported evidence of a positive relation between audit fees and non-audit fees.

While empirical results of research examining this issue are inconclusive, they are suggestive of the existence of a positive relation between audit fees and non-audit fees⁽⁴⁾. There are several possible explanations for this positive relation⁽⁵⁾. First, as Simunic (1984) suggests, non-audit services purchasers might be firms experiencing 'problems' that require greater amounts of both audit and non-audit services, which is expected to lead to higher audit fees.

Second, as indicated by Palmorse (1986), the purchase of some non-audit services might be related to changes in the client's organizational structure, which is expected to lead to increasing the mount of the required audit efforts, and consequently audit fees. Third, if there were a lack of competition in the market for non-audit services, the higher audit fees associated with the purchase of non-audit services might simply be some kind of a premium audit clients pay to obtain the monopolistic non-audit services (Solomon, 1990). Fourth, when the audit firm provides non-audit services to the audit client, audit partners and managers may mistakenly classify some non-audit fees in the audit fee category, resulting in inflated audit fees numbers (Solomon, 1990).

As the preceding literature review shows, much of the previous research on the impact of the joint provision of audit and non-audit services on external audit fees has been conducted in industrial and well-developed countries' audit markets, with very little research, if any, examining this issue in the context of the less developed

(4) The knowledge spillover hypothesis suggests that cost savings expected to result from the joint provision will be passed to the audit client via lower audit fees, and thus implies a negative relation between audit fees and non-audit fees. Empirical evidence, however, has not been supportive of such a negative relation, but instead reported either a positive relationship or no relationship between audit fees and the provision of non-audit fees.

(5) See Solomon (1990) for further discussion.

and smaller countries. The purpose of this study is to contribute in filling this gap of research by examining this issue in Kuwait.

Methodology

Sample:

The study sample consists of 47 financial statement audit engagements. Information about these audit engagements was gathered from audit firms operating in Kuwait. The participating firms were asked to provide data about a random sample of their audit clients for which 2005-fiscal-year financial statement audits were performed. Data was gathered by the use of a survey which included items designed to collect information about numerous financial statement audit engagement characteristics, including items related to the variables of interest in this study; the amount of fees charged for audit and non-audit services provided for the audit client, the

number of audit locations physically visited for the audit client, as well as some financial statement variables of the audit client.

Model:

The following OLS regression model is used to examine the effect of the joint provision on external audit fees, the research question of interest in this study⁽⁶⁾:

$$\text{LnFEE} = b_0 + b_1 \text{LnASSET} + b_2 \text{LnLOCAT} + b_3 \text{DE} + b_4 \text{QUICK} + b_5 \text{ROE} + b_6 \text{CPA} + b_7 \text{NAF}$$

Where:

LnFEE: the natural log of total audit fees;

LnASSET: the natural log of the audit client's total assets;

LnLOCAT: the natural log of the number of audit locations;

DE: the ratio of the client's total debt to total stockholders' equity;

(6) Diagnostic analysis procedures were performed to check for violations of the assumptions of the regression analysis. The problem of autocorrelation is not a concern in this study since the data used is cross-sectional only. The normal probability plots of the histogram of residuals indicate that the normality assumption is not violated. In addition, the standardized scatterplot of the dependent variable against the standardized residuals were examined and revealed no significant unusual patterns, indicating no deviation from the constant-variance (homoskedasticity) assumption.. To further avoid any potential problems related to violations of the homoskedasticity assumption, the natural log transformation of audit fees, audit locations, total assets, and the square root transformation of non-audit fees are used. The Variance Inflation Factors (VIF) were computed for the independent variables included in the regression model to check for any multicollinearity problems. VIF values of greater than 10 are considered a sign of the presence of multicollinearity (Neter et al., 1983). The greatest value obtained from this test is 1.458 which is less than the critical value of 10.

QUICK : the ratio of the client's current assets (less inventories) to current liabilities;

ROE : the ratio of the client's net income to total stockholders' equity.

CPA : a dummy variable equal one if the audit firm is a "big" one, and zero otherwise

NAF : the square root of total non-audit fees

The dependent variable in this study is the natural log of the total audit fees paid to the external audit firm (LnFEE). The independent variables included control variables, in addition to a measure of the test variable representing the impact of the joint provision of audit and non-audit services on audit fees, namely fees paid to audit firms for non-audit services.

Control variables:

The set of independent variables include control variables representing some audit engagement characteristics found by prior research (e.g., Simunic, 1980, 1984; Francis, 1984; Firth, 1997; Palmrose, 1986; Ezzamel *at al.*, 1996; Chan *at al.*, 1993; Craswell and Francis, 1999; DeFond *at al.*, 2000; Seetharaman *at al.*, 2002) to be influential in determining the magnitude of external audit fees. Hence, the following variables were included in the regression model to control for

their potential effects on external audit fees:

Client size: Almost all previous audit fees studies have repeatedly reported evidence of a positive relationship between the amount of audit fees and the size of the audit client. However, this positive relation between audit fees and client size is said to be non-linear. (Gist, 1992). Thus, the natural log of the total assets of the audit client (LnASSET) is included in the regression model to control for the potential effect of this variable on the amount of audit fees.

Client complexity: Previous research (e.g., Simunic, 1980, Palmrose, 1986; Ezzamel *at al.*, 1996; Chan *at al.*, 1993; Craswell and Francis, 1999; DeFond *at al.*, 2000) suggests that audit fees are positively related to the audit client complexity. Rationally, we would expect such a positive relationship between audit fees and client complexity to exist, since more complex audit clients means more diverse and harder to review transactions. Similar to previous research (e.g., Palmrose, 1986), the natural log of the number of audit locations visited for the audit client (LnLOCAT) is used as a measure of client's complexity.

Client risk: Prior research (e.g., Simunic, 1980; Simon and Francis, 1988; Palmrose, 1986; Seetharaman

at al., 2002) suggests that external audit fees increase when the audit client risk increases. Previous studies have typically used balance sheet measures to proxy for the riskiness of the audit client. Among the frequently used measures of the client's riskiness are the liquidity and debt ratios of the audit client. The current study uses two variables as surrogates of audit client risk; the client's quick ratio (Quick), and Debt-to-Equity ratio (DE). A high debt ratio and a small liquidity ratio are indicators of higher audit risk and hence are expected to be associated with higher levels of audit fees (Francis, 1984; Craswell and Francis, 1999; Firth, 2002; Whisenant *at al.*, 2003; McMeeking *at al.*, 2007).

Client profitability: As Waresul Karim and Moizer (1996) suggest, the potential effect of the client's profitability on external audit fees is difficult to hypothesize since there are grounds for two opposite effects. While a higher level of profitability might be indicative of a lower level of audit client risk, it might also mean less fee soliciting, and hence a greater ability to charge higher external audit fees (Firth, 1985). The audit client's return on equity (ROE) is used as a measure of the client's profitability.

Audit firm type: Several studies (e.g., Francis, 1984; Francis and Stokes, 1986; Che Ahmad and Houghton, 1996) found audit fees charged by "Big" audit firms to be significantly higher than fees charged by "non-Big" firms⁽⁷⁾. To control for the possible impact of the type of the audit firm on external audit fees, a dummy variable taking the value of one if the audit firm is a "Big" audit firm, and zero if not is added to the regression model.

Test variable:

The joint provision effect: As indicated, the main objective of this study is to examine whether the joint provision of audit and non-audit services has an impact on audit fees. To investigate such a research question, the relation between audit fees and fees paid to the audit firm for other non-audit service is examined. The square root of the total non-audit fees (NAF) is included in the regression model as a measure of the test variable.

Results & Analysis

Preliminary Results:

Table 1 reports the descriptive statistics for the variables included in

(7) There are several other studies (e.g., Brinn *et al.*, 1994; Firth, 1985; Chung and Lindsay, 1988) that found no significant effect of the type of the audit firm on audit fees.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	S. D.
Continuous Variables					
Total Assets	47	140,080	772,016,000	89,258,386	177,275,181
Total Audit Fees	47	500	15000	3,606	3,535
Total Non-audit Fees	47	1000	5000	3,150	1,116
LnLOCAT	47	.00	1.10	.0824	.24715
DE	47	.00	8.85	1.23085	1.566784
QUICK	47	.19	437.02	12.64106	63.699249
ROE	47	-.139	29.256	1.36447	4.444333
Categorical variable:					
	Value	Frequency	%		
CPA	0	30	63.8		
	1	17	36.2		

the regression model. As this table shows, the average audit fees, non-audit fees, and total assets of audit clients included in the sample are KD 3,606, KD 3,150, and KD 89,258,386, respectively. Although the natural log and square root transformation of these variables is used in the regression model, the raw measure of these variables is presented in Table 1 for descriptive purposes. Table 1 also indicates that about 36% of the audit engagements included in the study sample were performed by “Big” audit firms, while almost 64% of the engagements were performed by “non-ig” firms.

Table 2 contains a matrix of Pearson correlation coefficients among the variables used in this study. As shown, the correlations among the indepen-

dent variables are generally low (less than 0.50), with the greatest correlation coefficient value being 0.432 between the LnASSET and the CPA variables.

Empirical Results:

As indicated, the research question in this paper is whether the concurrent provision of non-audit services to audit clients has any effect on the magnitude of audit fees. This research question is tested using the audit fee regression model described earlier. The empirical results of the regression model are presented in Table 3. As indicated, the regression model is statistically significant (p-value < .000), with an R² of approximately .58.

Table 2
Correlation Matrix of Independent Variables

	nASSET	LnLOCAT	DE	QUICK	ROE	NAF	CPA
LnASSET	1.000						
LnLOCAT	.109	1.000					
DE	.169	.019	1.000				
QUICK	.015	-.058	-.132	1.000			
ROE	-.312*	-.023	.310*	-.050	1.000		
NAF	.182	.180	.244	-.057	-.032	1.000	
CPA	.432 **	.071	.036	.181	-.197	-.069	1.000

*, ** Correlation is significant at the 0.05, and 0.01 levels, respectively (2-tailed).

The results of the estimation of the regression equation reported in Table 3 shows that three of the regression coefficients are significant at 0.10 or better. Of the six control variables, three (LnASSET, QUICK, and DE) are statistically significant. Consistent with findings of much of the previous audit fees research, the LnASSET variable, measuring the size of the audit client, is significantly and positively related to the amount of external audit fees (p-value < .000). As expected, the QUICK variable is significant (p-value < .067) with the anticipated negative sign indicating that clients with high liquidity ratios are associated with lower external audit fees. The DE variable is significant with a negative sign. This negative sign is inconsistent with expectations of a positive relation between the client's

debt-to-equity ratio and audit fees. Such a negative relation was documented by some previous studies (e.g., Defond *et al.*, 2000), however. The ROE variable, which measures the audit client's profitability, has the expected positive sign, but is not significant (p-value < .115). Similarly, the LnLOCAT variable is insignificant ((p-value < .498), although has the expected positive sign.

As indicated, the square root of the total non-audit services provided to audit clients (NAF) is included in the audit fee regression model to examine the effect of simultaneously providing non-audit services to the audit client on external audit fees. If such concurrent provision has an impact on audit fees, then we would expect the regression coefficient of this variable to be significant. Results in Table 3 show a

Table 3
Regression Results

$$\text{LnFEE} = b_0 + b_1 \text{LnASSET} + b_2 \text{LnLOCAT} - b_3 \text{DE} + b_4 \text{QUICK} - b_5 \text{ROE} + b_6 \text{CPA} + b_7 \text{NAF}$$

Variable	Expected Sign	Estimated Coefficient	Standard Error	t-statistic	p-value
Intercept		3.322	.774	4.293	.000 ***
LnASSET	+	.281	.049	5.745	.000 ***
LnLOCAT	+	.241	.352	.684	.498
DE	+	-.172	.062	-2.790	.008 ***
QUICK	-	-.003	.001	-1.886	.067 *
ROE	?	.035	.022	1.612	.115
CPA	+	.067	.200	.336	.738
NAF	?	.009	.005	1.701	.097 *

Model:

R-Square = .579

F-statistic = 7.676

Signif. F < .000

n = 47

***, * p-value of statistical significance at the 0.01, and 0.10 levels, respectively.

Note:

LnFEE	Natural log of total audit fees;
LnASSET	Natural log of the audit client's total assets;
LnLOCAT	Natural log of number of audit locations;
DE	Ratio of the client's total debt to total stockholders' equity;
QUICK	Ratio of the client's current assets (less inventories) to current liabilities;
ROE	Ratio of the client's net income to total stockholders' equity.
NAF	Square root of the total non-audit fees paid to the audit firm.
CPA	A dummy variable equal one if the audit firm is a "big" one, and zero otherwise
NAF	The square root of total non-audit fees.

positive and significant regression coefficient of the NAF variable (p-value < .097). Such a result is consistent with findings of previous research (e.g., Simunic, 1984; Palmrose, 1986; Barkess and Simnett, 1994; Jeong *et*

al., 2005) documenting the existence of a positive relationship between audit fees and the joint provision of audit and non-audit services to the same client.

As indicated, the amount of the total non-audit fees (NAF) was used as the test variable in the original research model to examine the effect of the joint-supply on audit fees. As the original results of the regression analysis reveal, this variable had a significant and positive coefficient sign, suggesting that audit fees are, on average, are higher when other non-audit services are provided to the audit client. Although commonly used in the audit fee literature, the total non-audit fees variable might not be a clean measure of the effect of the mere involvement in providing non-audit services to the audit client on audit fees, since it may include the effect of the “magnitude” of the non-audit fees on audit fees as well (Simunic, 1984)⁽⁸⁾.

To test the robustness of the empirical results obtained from the original audit fee regression model, another measure representing the joint provision of audit and non-audit fees is used instead of the original total non-audit fees (NAF). The new measure (NAS) is a dichotomous variable, which takes the value of one if the audit firm provides both audit and non-audit services to the audit client, and zero if not. The research model is

re-run with the NAS dichotomous variable included as a measure of the joint-supply effect.

Results of the new audit fee model after using the NAS variable are shown in Table 4. As this table shows, the overall model is significant (p-value < .000), with an R^2 of .58. The results of the new audit fees model are similar to those of the original model. In particular, the new dichotomous variable (NAS) appears to have a significant and positive regression coefficient (p-value < .092), which is similar to that of the original measure of the joint supply, NAF.

Taken together, empirical results indicate that external audit fees in Kuwait are positively related to the joint provision of non-audit services to the same audit client. The results also indicate that this positive relation is not sensitive for the use of the total non-audit fees (as opposed to a dichotomous) variable as a measure of the joint supply effect on audit fees.

Conclusion

This study extends previous audit research on the effect on audit prices of the joint provision of audit and non-audit services. In particular, this

(8) Simunic (1984) further suggests that while the use of the total non-audit fees variable is appropriate if the amount of knowledge spillovers is expected to increase with the amount of non-audit services provided, a dichotomous variable is more appropriate if the effect of such spillovers is a lump sum amount.

Table 4
Regression Results

$$\text{LnFEE} = b_0 + b_1 \text{LnASSET} + b_2 \text{LnLOCAT} - b_3 \text{DE} + b_4 \text{QUICK} - b_5 \text{ROE} + b_6 \text{CPA} + b_7 \text{NAS}$$

Variable	Estimated Coefficient	Standard Error	t-statistic	p-value
Intercept	3.285	.770	4.263	.000***
LnASSET	.283	.049	5.818	.000***
LnLOCAT	.169	.361	.468	.642
DE	-.175	.062	-2.824	.007***
QUICK	-.003	.001	-1.912	.063*
ROE	.036	.022	1.633	.111
CPA	.085	.202	.419	.677
NAS	.521	.302	1.726	.092*

Model:

R-Square = .580

F-statistic = 7.702

Signif. F < .000

n = 47

***, * p-value of statistical significance at the 0.01, and 0.10 levels, respectively.

Note:

LnFEE	Natural log of total audit fees;
LnASSET	Natural log of the audit client's total assets;
LnLOCAT	Natural log of number of audit locations;
DE	Ratio of the client's total debt to total stockholders' equity;
QUICK	Ratio of the client's current assets (less inventories) to current liabilities;
ROE	Ratio of the client's net income to total stockholders' equity.
CPA	A dummy variable equal one if the audit firm is a "big" one, and zero otherwise
NAS	A dummy variable, taking the value of one if the audit firm provides non-audit services to the same audit client, and zero otherwise..

study aims at investigating whether the joint provision of audit and non-audit services to the same audit client has an effect on the amount of audit fees in Kuwait. Such investigation is worthwhile undertaking since most research findings on this issue stem

from the developed world, especially the English-speaking countries.

After controlling some audit engagement characteristics found to be influential in determining audit fees. This study provides evidence consistent with findings of prior research

(e.g., Simunic, 1984) of a positive relationship between jointly providing audit and non-audit services and the amount of audit fees.

The current study's results should be viewed in light of some limitations. First, the sample size of this study is fairly small. Although natural given the relatively small size of the Kuwaiti audit market, such a sample size has certainly led to reducing the power of the research tests used. Second, following most previous studies examining the same research question, the research design of this study involved the inclusion of the lump sum amount of non-audit fees in the research model to examine its effect on audit fees. A better test would be to decompose the total amount of non-audit fees into fees paid for accounting-related services, and fees paid for non-accounting-related services. Such decomposition would be useful in determining whether the positive relation identified between audit fees and non-audit fees is driven by both or only one of these two groups of non-audit services. Such analysis was not performed in the current study because of the lack of

relevant data about the different types of non-audit services provided.

The aim of this study was to examine the potential effect of the joint provision of audit and non-audit services on the amount of audit fee. Much of the related prior research was often included in their investigation examining the potential impact of such joint provision on external auditors' independence. The current study did not address such an issue, and has limited its examination to the pricing effect of the joint provision. Future research could be carried out to explore whether the joint provision has an influence on auditors' independence.

Although several explanations were provided for the existence of the positive relationship between the joint supply of audit and non-audit services and audit fees, including the quasi-rent, the 'problem' firm, and the lack-of-competition propositions, this study does not advocate any of these propositions to exclusively interpret the existence of this positive relationship. Future research could undertake this task by conducting research aiming at testing the validity of these competing theories.

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الملخص

أثر تقديم الخدمات الاستشارية لعملاء تدقيق الحسابات على أتعاب تدقيق الحسابات في الكويت

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يهدف هذا البحث إلى دراسة تقديم الخدمات الاستشارية (غير تدقيق الحسابات) من قبل مكاتب تدقيق الحسابات لعملاء تدقيق الحسابات، وأثر تقديم مثل هذه الخدمات على أتعاب تدقيق الحسابات في دولة الكويت. ولقد أجريت هذه الدراسة باستخدام عينة من المنشآت التي تمت مراجعتها من قبل مكاتب تدقيق حسابات في الكويت، ولقد أظهرت نتائج البحث أن حجم المنشأة الخاضعة للتدقيق، ودرجة سيولتها، وربحيتها من العوامل المؤثرة في تحديد أتعاب تدقيق الحسابات في الكويت، كما أظهرت النتائج التي توصلت إليها الدراسة بأن هناك علاقة طردية بين تقديم الخدمات الاستشارية (غير تدقيق الحسابات) وبين أتعاب تدقيق الحسابات.

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