

The Unintended Consequences of IFRS Adoption on The Audit Market In Africa: An Oligopoly For The Big4

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Abstract

Purpose: The perceived benefits of IFRS adoption have caused neglect in research on the possible unintended consequences of IFRS on the audit market, specifically in Africa. Motivated by this gap in the literature, we have critically evaluated whether IFRS adoption has created an oligopoly for the Big4 in terms of audit fees and auditor switching in Africa.

Design/methodology/approach: The study is based on publicly available data from 104 companies listed on the stock exchanges in 8 African countries. While we employed binary and multinomial logit regression to model auditor switching, ordinary least square was used to estimate the impact of IFRS adoption on audit fees with some diagnostics tests.

Findings: Companies are likely to replace auditors following the adoption of IFRS. Specifically, the multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4 (Small to Big -STB). The study also revealed a positive association between increases in audit fee and IFRS adoption. However, the Big4 experience significant fee increase for their services than the small audit firms.

Practical implications: These findings alert Small Medium Practitioners (SMPs) in non-IFRS countries about the potential intense competition in the audit market that can lead to the possible loss of clients to the Big4 after the adoption of IFRS. To mitigate this effect, national Professional Accountancy Organisations (PAOs) should build their local accountants through training and education to handle the complexities and continuous upgrading of IFRS. Such training is very crucial for SMP in Organization for the Harmonization of African Business Law (OHADA) countries, Ethiopia, Djibouti and other countries which are in the process of implementing IFRS.

Originality/value. This is an original study which empirically examines the impact of IFRS adoption on the audit market in Africa. It contributes to the ongoing debate on unintended consequences of IFRS adoption.

Key words: Africa, Audit fees, Auditor switching, Big4, IFRS adoption, unintended consequences,

1.0 Introduction

The introduction of any new accounting framework affects all facets of reporting, yet, majority of studies on IFRS have been geared towards the financial statement effects and firm level analysis (see Bath, Landsman and Lang, 2008; Armstrong, Barth, Jagolinzer, and Riedl, 2010; Daske, Hail, Leuz, and Verdi, 2008; Christensen, Lee, and Walker, 2008). For every change in accounting, there are always losers and winners and IFRS adoption is no exception. Even, the benefits of IFRS may have been overblown (Sunder, 2011). Or perhaps prior studies have exaggerated the perceived economic consequences at the neglect of possible unintended consequences of IFRS on the auditing market (Khlif, 2016) specifically in Africa.

In this era of globalized accounting world, promoters of Foreign Direct Investment (FDI) and private sectors are keen in the strength of local accounting regulations in Developing Countries (DC) for transparent reporting (Samsonora-Taddei and Humpéry, 2014). In response to these needs, the Big4 (Deloitte, Ernest & Young, KPMG, and PWC) have positioned themselves as the custodians of IFRS through their continuous sensitization on IFRS, campaigns for IFRS adoption and sponsorships for IFRS programs (Wieczynka, 2016; IFRS Foundation, 2012). Hence users of financial statements including regulators are convinced that global audit firms are better off in providing trust, reliable and accurate accounting services in DC (Comprix, Muller and Sinclair, 2011; Hanlon, 1994). These global firms, as well as regulators, championed the course for global accounting and auditing markets including lobbying World Trade Organisation (Hopper, Lassou and Soobaroyen, 2016). Consequently, the Big4 have gained a global presence through local franchising and auditing of transnational companies (Arnold, 2005).

The growing oligopolistic market of the audit industry and its concomitant dangers is a matter of concern even to the developed countries. The House of Lords of UK has raised alarm on the dominance of auditing of large companies by few audit firms (House of Lords, 2011). Similarly, the European Commission (EC) has classified the growing oligopolistic market of the audit industry as a threat (EC, 2011). Other national authorities and policy makers have also commented on the market concentration in the audit industry (see General Accounting Office, 2003; The American Assembly, 2005; Government Accountability Office, 2008; Oxera, 2006; Financial Reporting Council, 2010).

It is also evidential that the adoption of IFRS triggers the switching of auditors by companies. Wieczynka, (2016) has documented the frequency and direction with which companies in the European Union (EU) switch from local audit firms, to global audit firms, after IFRS has been mandated. Comprix, Muller and Sinclair, (2011) have shown that large companies are more likely to appoint Big4 firms after IFRS adoption.

Moreover, the adoption of IFRS precipitates increase in audit fees due to the increase in effort and time required to audit the detailed and complex requirements of IFRS. Extant literature has revealed the increasing cost of audit services after IFRS adoption in some countries (see Rished and Al-Saeed, 2014; Yacob and Che-Ahmad, 2012 on Malaysia; Kim, Liu and Zheng, 2012; De George, Ferguson and Spear, 2012; Griffin, Lont and Sun, 2009 on New Zealand; Ding, Jeanjean and Stolowy, 2008 on Jordan). Although African countries have been progressively embracing IFRS, this predominance and the consequence of IFRS adoption on the

audit market in Africa have not been quantified. This study therefore critically evaluates whether IFRS adoption has created an oligopolistic market for the Big4.

This study has employed cross country analyses to investigate these unintended consequences of IFRS by (i) examining whether IFRS is associated with an increase in audit fees, (ii) if the increase is higher for the Big4 audit firms and (iii) whether there is a positive relationship between IFRS adoption and auditor switching the impact of IFRS adoption on audit fees and switching of auditors with a specific focus on the Big4 in Africa. Following prior studies Rished and Al-Saeed (2014); Yacob and Che-Ahmad (2012); Kim, Liu and Zheng (2012); De George, Ferguson and Spear (2012); Griffin, Lont and Sun (2009); Ding, JeanJean and Stolowy (2008) and the detailed disclosure requirements of IFRS, we hypothesize that IFRS adoption is associated with an increase in audit fees. On auditor switching, it is assumed that companies will switch to the Big4 in the years surrounding IFRS adoption with the rationale that the Big4 are IFRS experts. In addition to these central questions, we have examined other key factors that are likely to influence auditing fees and auditor switching in Africa, an issue which is still subject to an empirical question.

Consistent with Wieczynska, (2016), our binary logit regression shows that African companies are likely to replace auditors following the adoption of IFRS. Specifically the multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4 - Small to Big (STB). And the likelihood is stronger in financial institutions. The ordinary least square estimation on the impact of IFRS adoption and audit fees suggest that increases in audit fees have occurred as a result of companies adopting IFRS. However, the Big4 experience significant fee increase for their services compared to the small audit firms. The sectoral analyses highlight the positive significant impact of IFRS adoption on audit fees in the financial, manufacturing and services sectors.

Overall, our results are consistent with the findings of Wieczynska, (2016); Rished and Al-Saeed (2014), Comprix, Muller and Sinclair, (2011); Kim, Liu and Zhen, (2012); De George, Ferguson and Spear, (2012) and the concern of SEC of US (SEC, 2010a; SEC, 2010b) that the adoption of IFRS gives comparative market advantage to the Big4 and is concomitantly a challenge for small audit firms. Our findings also support the UK House of Lords (2011) argument that the audit market is highly dominated by a Big4 oligopoly.

These findings alert local audit firms Small Medium Practitioners (SMPs) in non-IFRS countries about the potential intense competition in the audit market that can lead to the possible loss of clients to the Big4 after the adoption of IFRS. To mitigate this effect, national Professional Accountancy Organisations (PAOs) should build their local accountants through training and education to handle the complexities and continuous upgrading of IFRS. Such trainings are very crucial for SMP in OHADA countries, Ethiopia, Djibouti and other countries which are in the process of implementing IFRS. Companies should be prepared that the benefits of IFRS adoption are concomitant with cost such as increase in audit fees.

In IFRS adopted countries, there is still an opportunity for local audit firms (SMP) to attract clients by upgrading themselves with latest IFRS knowledge. Further SMP should demonstrate their expertise in IFRS by contributing to the discussion on IFRS issues in Africa. Such activities include write-ups in newspapers, comments on IASB exposure drafts, and IFRS articles on the Internet. In addition SMP can form consortium or collaboration to share resources and knowledge to meet the accounting needs of large businesses. It is better for each SMP to

have a share in a large business contract, than to struggle to retain an individual contract with a small business.

The Big4 which may be enjoying competitive advantage due to their expertise in IFRS, should make a commitment to support the SMP by sharing knowledge with them through regular workshops and conferences. It is common knowledge that most Big4 firms in Africa usually start by giving affiliation to a local firm. Hence supporting SMP is preparation of local firm for future franchising.

Whilst our findings are consistent with other prior studies elsewhere, we argue that the Big4 have more oligopolistic power in Africa than in other developed countries. Whereas in the developed countries the non-Big4 such as Grant Thompson, PKF, BDO, Nexia, Baker Tilly among others are well resourced to compete with the Big4, in Africa, the other non-Big4 are limited in resources to face this competitive environment. Thus the Big4 may be sharing the oligopolistic market with the Big6, or Big10 in developed countries. Our findings are therefore, more unique for developing countries where the audit market is dominated by the Big4.

The next section contains literature and hypothesis development on IFRS adoption and audit fees and auditor switching. Section 3 documents the research methods including model specifications. The results and discussions are presented in section 4 and section 5 concludes the paper.

2.0 Literature review and hypotheses development

2.1 IFRS adoption and audit fee

According to Simunic, (1980), theoretically, total audit fee is a component of resource cost of effort and liability loss, which are dependent on the cost of business risk of the client. Seetharaman, Gul and Lynn (2002) have empirically proven a positive relationship between litigation risk (client business risk) and audit fee with the assumption that, the regulatory framework of client business influences audit fees. Vieru and Sechadewitz (2010) concur that audit-pricing decision is affected by changes in regulations and disclosure requirements. Choi, Kim, Liu and Simunic (2008) have predicted that there is a monotonic relationship between the strength of a country's regulatory framework and audit fees. Thus, the stricter or more complex the laws are the higher the audit fees. Empirically, Griffin, Lont, and Sun (2009) have provided evidence of how changes in different regulations affected audit fees in US, Australia and New Zealand. Specifically, they documented a significant increase in audit fees in the year prior to IFRS adoption, the adoption year and years after IFRS adoption in New Zealand.

It is widely held from literature that, the time and effort required for auditing are the basic input for the determination of audit fees (Vieru and Sechadewitz, 2010); Griffin, Lont, and Sun, 2009); Simunic, 2008; Seetharaman, Gul and Lynn, 2002). These two ingredients are dependent on the complexities and requirements of the regulations surrounding auditing, including accounting standards. Pratt and Stice (1994) opine that, in line with the insurance theory, audit fee is dependent on the effort of verification needed in the engagement process. Arguably IFRS is a complex standard and involves comprehensive disclosures, which require more time and effort to audit. Hoogendorn (2006) posits that, complexities of IFRS require the deep involvement of auditors in achieving full compliance. Similarly, Cameran and Perotti (2014) suggest that the adoption of IFRS increases the efforts required for audit, which invariably

increase audit fees. To Ding, Jeanjean and Stolowy (2008), the adoption of IFRS is a major accounting event that increased the complexity of the audit process, and consequently translate into high audit fees. Not only do auditors require more effort to go through all the detailed disclosure but more importantly, auditors demand more effort and time to reduce audit liabilities. The ICAEW (2007) recognizes that conversion to IFRS is complex and detailed which results in an increase in audit risk hence auditors must be cautious as they audit IFRS statements.

Ahmed, Chalmers and Khlif (2013) suggest that audit risk and increase in efforts due to IFRS implementation stem from standards that demand fair valuation (e.g., IAS 40, IFRS 13, IFRS 9 etc). The risk or effort is higher in African countries that are challenged by the absence of a liquid market (Ball, 2006; Hoogendonk, 2006). In the absence of a liquid market, auditors will have to employ different approach and gather more information in order to assess the credibility of management estimates (Glaum, Schmidt, Street and Vogel, 2013). According to Diehl (2010), IFRS being principle based standards, are likely to generate more litigation costs and deprive auditors' specific evidence in the case of audit failure. Consequently, there is the likelihood that auditors will charge higher audit fees as a premium to compensate for risk of material misstatements and litigation which may arise due to complexity of financial statements per IFRS (Cameran and Perotti, 2014; De George, Ferguson and Spear, 2013; Kim, Liu, and Zheng, 2012).

In a cross-country analysis, Kim, Liu and Zheng (2012) found that audit fees increase from 2005 and audit fee premium increase with IFRS adoption and decrease with the improvement in financial statement quality due to IFRS adoption. Thus, IFRS adoption is likely to increase audit fees initially but can reduce the audit fees if implemented correctly by companies because proper IFRS implementation will improve financial statement quality which in turn reduce audit efforts and time for verifying records or justifying recognitions and measurements. Griffin, Lont and Sun (2009) study revealed that increase in audit fees is higher in the second and third years following IFRS adoption than the years that precede the adoption as well as the adoption year. However, there is a significant increase in audit fees for the Big4 clients in the year of adoption as compared to non-Big4 clients. Extending the debate of IFRS adoption and audit fees to Australia, De George, Ferguson and Spear (2013) revealed a significant positive impact of IFRS adoption on audit fees with substantial effect under high equity adjustments. Similarly, Yaacob and Che-Ahmad (2012) found a positive association between IFRS adoption and increased audit fees among Malaysian companies. Vieru and Schedwitz, (2010) also found that both audit and non-audit fees paid to statutory external auditors increased significantly during the adoption period in Finland. Cameran and Peroti (2014) study on non-listed banks also indicated increasing audit fees due to IFRS adoption and especially for banks, which are into derivatives and hedge accounting. Likewise,. Both theoretical and empirical literature has provided evidence that supports the axiom that audit fees increase around the adoption of IFRS. Based on these, we hypothesize that:

H1: There is a positive association between IFRS adoption and audit fees.

2.2 IFRs and increase in audit fees

Prior studies suggest that IFRS adoption causes an increase in audit fees. However, there are contrasting findings as to which set of audit firms benefit from the increase; Big4 or non-Big4. Whereas the Big4 are enjoying the increase in developing countries, the non-Big4 are benefiting in developed countries such as UK. Hassan, Crawford and Power (2014) highlighted

that in addition to the positive association between IFRS adoption and audit fees, non-Big4 clients are the hardest hit in terms of audit fees due to IFRS adoption in UK. Chen (2014) demonstrate that increase in audit fees is high among small firms in the EU (in Australia- De George, 2013). Contrary, Lin and Yen (2011) found that increases in audit fees are much more for Big4 clients after implementation of IFRS in China. Consistent with Lin and Yen (2011); Choi and Yon (2014) also demonstrated that there is a significant increase in audit fees charged by the Big4 following IFRS adoption in South Korea. Rished and Al-Saeed (2014) also showcased similar findings among Jordanian listed companies. A probable reason is non-Big4 auditing firms lack the competence in making a professional judgement and the need to extend more effort than the Big4 dealing with the complexity of IFRS (Carcello, Vanstraelen and Willenborg, 2009). Another plausible explanation may be, in the developed countries, non-Big4 may have demonstrated IFRS expertise knowledge same as their counterpart in Big4 hence their services are valued at par.

However, the case is different in developing countries. The Big4 are always seen as superior in providing quality auditing services for multinational and large companies. In addition, the Big4 contracts with transnational companies in developing countries are an extension of the agreement with client parent companies in developed countries. More so, local firms in DC usually lack professional manpower and expertise hence cannot charge at par with the Big4. It is evidential that, companies in developing countries cannot enjoy the services of the Big4 without the necessary concomitant of high audit fees (Moizer, 1997, Choi and Yoon, 2008). Due to the intense competition over the few large non-multinational companies, non-Big4 firms attempt to bargain on how to stay in business. Consequently, we assumed that Africa being a developing continent provides a more competitive advantage for the Big4 in terms of audit prices. Thus it is hypothesized that,

H2. The increase in audit fees is higher for the Big4 than small firms.

2.3 IFRS and auditor switching

A function of auditing is to ensure the application of appropriate accounting policies including accounting standards (Ball, Holderness, Jensen, and Kaplan, 1991) such as IFRS to reveal the firm's underlying financial position and performance (Stokes and Webster, 2010). Wieczynska (2016) argues that auditing is an important element of the financial reporting process. There is much anecdotal evidence that, the Big4 have more knowledge, specialised personnel and IFRS-related experience. Also they show higher standards for compliance with accounting regulation, and higher accounting quality in financial reporting (Yasar, 2013). Wieczynska (2016) argues that the Big4 competitive advantage from IFRS adoption is due to their possession of high IFRS expertise to deal with the complexity of IFRS, which create intellectual barriers for the local audit firms. It is perceived that, they provide a higher audit quality than other audit firms. In addition they are said to do a better job in financial reporting enforcement and their engagement is associated with higher compliance level with IFRS (Khelif and Achek, 2016; DeFond, Hung, and Trezevant, 2007).

Moreover, they could provide greater assistance in the implementation and transition to IFRS compared to other audit firms (Rouhou, Douagi, and Hussainey, 2015). Consistent with

DeAngelo (1981);Dye (1993) agrees that Big4 auditors are of higher quality than non-Big4 auditors. Carson (2009) suggests that the Big4 are more capable than the non-Big4 because the Big4 have the capacity to provide quality professional judgment which is supported by worldwide branches and advanced technology. Additionally, the Big4 have influence on the specific standard through their involvement in the standard setting process (Chen, 2014)

Likewise,Stokes and Webster (2010) argue that Big4 auditors are more sensitive than non-Big4 auditors to manage misreporting and its effects on the auditor's reputation, therefore they are more likely to ensure stricter compliance with IFRS. According to Dinh and Piot (2014), the complexity of IFRS strengthens the market positions of the Big4 and makes it difficult for local audit firms to compete on the audit market. Chen (2014) suggests that the Big4 already have experience from IFRS voluntary adopters to take advantage of a market in mandatory adopters. Thus auditors with high IFRS expertise such as the Big4 are better off to handle the complexity IFRS brings to the auditing operations. Other scholars such as DeAngelo (1981) and Dye (1993) posit that the Big4 are the market leader in auditing because of their motivation to protect their brand name through better performance. Moreover, the Big4 provide quality audit to avoid lawsuits and ligation that may deplete their wealth and good name (Dye, 1993).

Wieczynska (2016); Khlif and Achek (2016) study posit that as a result of the IFRS regime there has been an enlarged domination of the global audit firms and more specifically Big4 audit firms. Piot, Dumontier, and Janin (2015)'s study concur by providing evidence that Big4 auditors placed more emphasis on auditor risk incentives in the IFRS adoption context, by influencing overly conservative accounting practices in response to the new and uncertain accounting environment. On a cross-border analysis, Dinh and Piot (2014) found that IFRS adoption has increased market concentration for the Big4 with the explanation that, the Big4 have a global network to draw expertise beyond the legal jurisdictions of individual countries.

Comprix, Muller and Sinclair (2011) revealed that IFRS adoption has led to greater switching in auditor-client relationships in countries with greater GAAP changes- small to Big4. Countries with fewer GAAP changes frequently shifted more from Big4 auditors down to local auditor. Clients firms are more likely to switch from small audit firms to global audit firms in the years following IFRS adoption (Wieczynska, 2016). Furthermore, Wieczynska (2016) findings indicate that client firms are more likely to replace small audit firms when adopting IFRS. However, contrary to prior studies, Dinh and Piot (2014) findings do not support the argument that IFRS adoption positively influences market concentration at individual country level.

Since the transition to IFRS represents a complex operation and given the fact that generally, countries impose the full IFRS on listed companies, Big4 auditors will be more able to ensure the safe transition to IFRS in such litigious environment (Dye, 1993).Consequently, IFRS adoption constructs an expert advantage for Big4 audit firms during the transition period of reporting standards and as a result, this may lead to an increased frequency of switching from small audit firms to the Big4 firms. Following from these discussions we hypothesize that:

H3: IFRS adoption is positively associated with auditor switching.

3.0 Methodology

3.1 Sample selection and sample characteristics

Our study is based on publicly available information obtained from a sample of annual reports of African Countries namely Botswana, Ghana, Mauritius, Nigeria, Rwanda, South Africa, Swaziland and Tanzania retrieved manually from two electronic Databases: African Markets and Share Data for South African data. The objective of this research is to examine the consequences of IFRS adoption on the audit market, therefore our population includes only fully mandated IFRS African countries. Currently there are 16³ African countries (IFRS foundation, 2016) that fully require all listed companies to prepare IFRS financial statement. 3⁴ of these 16 countries are excluded due to lack of active stock exchanges. To accurately gauge the consequence we limit our dataset to countries that mandated IFRS after 2003 when the first IFRS was issued. Our sampling process results in 8 countries. Though the sample size is small it represents the whole of Africa. There is a continuous exclusion of financial institutions such as banks and insurance companies from samples of prior studies (Friis and Nielsen, 2010; Kim, Liu and Zheng, 2012; Lin and Yen, 2016) as their characteristics differ fundamentally from other firms (Cai, Rahman and Courtenay, 2012; Sellami and Slimi, 2016) and they are regarded as regulated industries (Roychowdhury, 2006). Contrary to that notion this study includes all financial institutions. The big four audit firms are identified in this study as PWC, KPMG, Ernst and Young and Deloitte Touche.

To be included in the sample each firm must have the full annual statements for at least 5 consecutive years. Companies were selected on the basis of the availability of annual reports for the relevant years. Relevant years include 2 years before IFRS adoption, the year of adoption and 2 years after adoption report. For example if company adopted IFRS in 2005 then to be included in the sample set, annual report should be available from 2003 to 2007. The final sample consists of 520 firm year observations across 8 countries in Africa and 104 companies listed on the main exchange boards of the above-mentioned countries. The study covers 5 years; 2 years before IFRS adoption, the IFRS adoption year and 2 years after IFRS adoption for the fiscal years 2002-2014. Due to the variations in country's IFRS adoption date, we rely on individual annual reports to determine its adoption year. A company's IFRS adoption year is determined from the first time it prepared full IFRS financial statements as stated in the annual report. This means that the adoption status of companies in the same country may differ. For instance, in South Africa, most financial institutions started applying IFRS in 2005 whilst some manufacturing companies adopted it in 2006. Since the countries in the sample use different currencies we used the official exchange rate (LCU per US\$, period average) obtained from World Bank to translate the amounts to dollars for each year under observation.

³Botswana, Ghana, Kenya, Lesotho, Liberia, Mauritius, Namibia, Nigeria, Rwanda, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe (IFRS foundation).

⁴Lesotho, Liberia and Sierra Leone

Table 1: Sample Characteristics									
Country	Botswana	Ghana	Mauritius	Nigeria	Rwanda	South Africa	Swaziland	Tanzania	Total
listed companies	26	43	101	223	7	400	10	25	827
Sample	6	7	11	27	6	37	3	7	104
Financial Institutions	5	3	4	11	4	7	1	1	36
Manufacturing	1	3	5	13	2	16	1	5	46
Natural resources	0	1	0	2	0	3	0	1	7
Services	0	0	2	1	0	11	4	0	18

Table 1 above provides sample characteristics of each country. The two countries with the largest listings are Nigeria and South Africa, the latter being the largest stock exchange in Africa. And the country with the smallest number of listed companies is Swaziland. There are variations in the quantity of sample companies crosswise over the countries because of the accessibility of complete financial accounting data. Both South Africa and Nigeria have the highest number of companies used in the study. In aggregate majority of the companies in the sample are from the manufacturing sector with a total number of 46 companies, followed by the financial institutions with 36 companies; 18 companies in the services sector and the minorities of the sample are from the natural resources sector with only 7 companies.

Dependent Variable

Previous studies have commonly used audit fees as a proxy of audit cost in firms (Judy Beckman, Shan, and Troshani, 2016; Loukil, 2016; Riccardi, 2014; De George, Ferguson and Spear, 2013; Comprix, Muller and Sinclair, 2011; Schadewitz and Vieru, 2008). It is measured as the natural log of the sum of audit service fees plus audit –related fees of firm *i* in year *t*. The audit effort is an important consideration needed to accumulate sufficient evidence about the quality of financial statements provided because the audit fee is the product of unit price and the quantity of audit services (Risheh, 2014). Consistent with aforementioned literatures, the total fees that were paid to the statutory auditors were drawn from the annual financial statements in order to analyse whether the IFRS transition is related to the fees paid to auditors. Similar to Redmayne and Laswad (2013) to examine the impact of IFRS adoption on audit fees we compared the pre adoption years i.e. 2 years prior to IFRS adoption, IFRS adoption year and 2 years post IFRS adoption.

Control Variables

Other variables are included to control for additional factors that may affect the amount of the audit fees and auditor switching (Wieczynska, 2016; Campa, 2013). Consistent with

related literature, (Ali and Lesage, 2013), this study controls for certain firm specific variables namely; leverage measured as the ratio of year-end total debt to total assets, size measured as the natural logarithm of total assets, change in size measured as the change in the level of total assets, defined as total assets at the end of the fiscal period $t - 1$ minus total assets at the end of the period $t - 2$, divided by total assets at the end of the period $t - 1$ (Wieczynska, 2016), net profit captures a firm's profitability and is measured as net profit scaled by total assets, and change in net profit measured by net profit at the end of the fiscal period $t - 1$ minus net profit at the end of the period $t - 2$, divided by net profit at the end of the period $t - 1$.

3.2 Model Specification

3.2.1 Auditor switching

Following the works of Wieczynska (2016); Landsman, Nelson and Rountree (2009); Chan, Lin and Mo (2006) we used logit regression model to examine if IFRS affects the likelihood of auditor switching. In our model the dependent variable Z_{it} is a dummy variable for audit firm substitution. Z_{it} is equal to 1 if in year t firm i used a different audit firm to audit its financial report (i.e. looking at FY_{t-1} report) than the firm used in FY_{t-1} . Given the likelihood of multiple directions of auditor switches (i.e. from Small to Big (STB), Big to Small (BTS), Small to Small (STS),) we employed a multinomial logit model. This allows for comparison of possibility of the likelihood of each direction of audit firm substitution to the reference category of no audit switching.

The regression model takes the following form:

$$Z_{it} \log \frac{p(AS_{it}=\pi)}{1-\pi} = \alpha_0 + \beta_1 IFRS_{AD_{it-1}} + \sum_{k=1}^k x_{it} - 1 + \sum_{k=1}^k c_{it} + \varepsilon_t$$

Where x_{it-1} is a vector of control variables consisting of *size*, *leverage*, *chgsiz*, *chgnetprofit*. The variable of interest is $IFRS_{AD_{it-1}}$. IFRS adoption – a categorical variable equals 1 if firm i used IFRS in FT_{t-1} annual financial report and if it used non IFRS standard; 'zero' otherwise. β_1 examines if IFRS adoption is associated with the likelihood of auditor switching.

3.2.2 Audit fees and IFRS Adoption

We further investigated other likely consequences that may arise following adoption of IFRS. This time we examined the relationship between IFRS adoption and auditor fees, where auditor fees (continuous variable) is our dependent variable, and IFRS adoption as our focused explanatory variable. β_2 – the coefficient of $IFRS_{AD_{it-1}}$ measures the change in the slope of auditor fees arising from $IFRS_{AD_{it-1}}$. This regression is estimated using ordinary least square (OLS).

$$AF_i = \alpha_0 + \beta_1 IFRS_{AD_{i-1}} + \beta_2 Big4 + \sum_{k=1}^k x_i - 1 + \varepsilon_t \quad (\text{Where } AF_i \text{ is auditor fees for firm } i).$$

3.2.3 Diagnostic tests and validity tests

To check for the validity and suitability of our OLS model, we test for heteroscedasticity and multicollinearity. According to the Brusch-Pagan/ Cook Weisberg test results, there is presence of heteroscedasticity with $\chi^2 11.75$ and $p > \chi^2 0.005$. Hence we obtain the White

(robust) standard error instead of the usual standard error. Our results on the Variance in Factor (*VIF*) (<5.0) the paired wised correlations does not indicate any issue of multicollinearity among the variables.

4.0 Analysis and discussion

4.1 Descriptive statistics

Table 2 below shows the reporting standards used before and after IFRS adoption. IFRS indicates the adoption year; IFRS-2 represents two years before IFRS; IFRS-1 represents a year before IFRS; IFRS+1 is one year after IFRS and IFRS+2 is two years after IFRS. Of the 104 companies 85 started using IFRS in the country year of adoption, whereas 19 were using their national GAAP. Only 2 companies were still using National GAAP in 2 years post IFRS period.

Table 2: Reporting standards and IFRS adoption					
Variable	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Sample	104	104	104	104	104
IFRS	6	12	85	102	104
T GAAP	98	92	19	2	0

Table 3 below shows the Auditor type and switch. Although the Big4 (B) firms have more clients than the non-Big (S) firms in all the years, the difference is much higher from the IFRS adoption year onwards. The switching of the auditor represented by STB is greater in the year of IFRS adoption than in the year before or after IFRS. The other auditor switch that has a notable change is BTB which has a higher number during the year of adoption as well as after the year of adoption. The auditor switch that has the smallest number is STS. No company switched STS during the year of adoption; however there was a switch from BTS by companies in the sample.

Table 3: Auditor Type and Switch					
	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Sample	104	104	104	104	104
Big4 (B)	55	63	86	85	83
Small (S)	49	41	18	19	21
STB	5	7	43	15	8
BTS	0	2	3	5	8
BTB	1	0	5	5	3
STS	0	1	0	2	0

Table 4 represents the percentage change in audit fees. In IFRS-1 there was a change of 11% and during the IFRS year it increased by 17% to 28%. However, audit fees decreased in IFRS +1 to 19% and two years post IFRS, it was 17% which is a 2% decrease from 19%. According to Kim, Liu, and Zheng (2012) this can be due to the fact that it takes time and effort for auditors to learn about new IFRS rules and during the initial IFRS year the fees are bound to increase, however the learning effect is likely to become insignificant after the initial year of IFRS adoption. And in the initial year of adoption firms are required to apply IFRS retrospectively to one year prior to IFRS for the purpose of establishing comparative financial statements (Kim, Liu and Zheng, 2012). Rwanda has the highest percentage change in audit fees during the year of IFRS adoption of 39%, followed by Swaziland of 33%. Nigeria's percentage change during the IFRS year is 22%, which is almost similar to 23% of both Tanzania and South Africa. Mauritius has the least percentage decrease in audit fees of 15% in the IFRS adoption year, which is almost similar to Ghana's of 18%. A year before IFRS adoption, South Africa has the least percentage change of -6% as compared to 17% for Botswana, which is the highest. Mauritius is also lower a year before IFRS with 4%. Swaziland has 11% change a year before IFRS and is almost similar to Tanzania that has 10%, and Rwanda 12%. Nigeria and Ghana have 8% and 9% respectively. Botswana has the highest percentage change a year after IFRS of 27%, however there is a high decline two years after IFRS to -2%. South Africa has the least percentage decrease a year after IFRS of 12% and a further decrease of 9% two years after IFRS.

Table 4: Percentage change in audit fees					
	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Total sample	0	11%	28%	19%	17%
Botswana	0	17%	32%	27%	-2%
Ghana	0	9%	18%	17%	13%
Mauritius	0	4%	15%	15%	16%
Nigeria	0	8%	22%	12%	13%
Rwanda	0	12%	39%	15%	18%
South Africa	0	-6%	23%	12%	9%
Swaziland	0	11%	33%	20%	22%
Tanzania	0	10%	23%	13%	11%

4.2 Regression results

From the Table 5 below, the coefficient of IFRS in the full sampled model is 0.52 and statistically significant. This indicates that controlling for other variables, fees charged by audit firms is 0.52 dollars higher for companies using IFRS standard than companies not using IFRS. However the increase in audit fees is higher for the Big4 audit firms. Consistent with prior literature Hassan (2014); Cameran and Peroti, (2014); Choi and Yon (2014); Lin and Yen (2011) we find a positive and significant association between IFRS and audit fees represented by IFRS_AD. The reason behind the increment in audit pricing is due to the extra burden put on the auditors (Yaacob and Che-Ahmad, 2012). IFRS standards require more perplexing complex fair value measurements and additional disclosures and therefore more auditing effort (Friis and Nielsen, 2010). The positive coefficients of Big4 also suggest that the Big4 charged a higher level of audit fees than local or non-Big4 firms (Risheh, 2014).

Table 5 OLS regression results on audit fees (full sample and sectorial analysis)(<i>*@10%, ** @5% Significant level</i>)										
	<i>Full Sample</i>		<i>Financial institutions</i>		<i>Manufacturing</i>		<i>Natural Resource</i>		<i>Services</i>	
Variable	C.F	S.E	C.F	S.E	CF	S.E	C.F	S.E	C.F	S.E
<i>IFRS_AD</i>	0.52**	0.09	0.77**	0.56	0.43**	0.25	0.20	0.32	0.31*	0.76
<i>Big4</i>	0.06*	0.98	0.12**	0.07	0.23*	0.32	0.10	0.13	0.21	0.55
<i>Size_{it-1}</i>	0.31**	0.20	0.96**	0.09	0.68**	0.15	0.65**	0.56	0.58**	0.65
<i>ChgSize_{it-1}</i>	0.35*	0.23	0.41*	0.11	0.61*	0.18	0.15	0.98	0.32*	0.66
<i>Net_profit_{it-1}</i>	.003	0.03	0.04*	0.07	0.12	0.13	-0.05*	0.96	0.12	0.56
<i>Chgnetprofit_{it-1}</i>	0.08**	0.05	0.23**	0.12	0.32	0.19	0.003	0.65	-0.23	0.61
<i>Leverage_{it-1}</i>	-0.17	0.11	-0.03	0.14	-0.12	0.25	0.05	0.56	0.32	0.62
<i>_cons</i>	2.24**	0.15	2.16**	1.23	1.65**	0.98	0.98**	0.85	1.78**	1.13

Number of OBS

36

46

7

11

Pseudo R²

0.51

0.44

0.38

0.45

The results of the control variables are worth noting. The coefficient of the firm-specific variables *Size_{it-1}*, *ChgSize_{it-1}* are significant and are consistent with prior studies indicating that audit fees are positively associated with client size, (Kim, Liu and Zheng, 2012; Yaacob and Che-Ahmad, 2012). Given the fact that the bigger the firm is, the more complex its audit will be. *Chgnetprofit_{it-1}* which captures a firm's profitability is also significantly correlated with audit fees. However neither *Leverage_{it-1}* nor *Net_profit_{it-1}* are significant either at the 5% or at the 10% level.

There is a significant change in the audit fees in the financial institutions because IFRS requires detailed disclosure for that sector and also complexity of their products and contracts. Other possible reasons can be attributed to the peculiarities of the financial industry, its specific regulation and the fundamental differences in their financial accounting relative to non-financial firms (Sellami and Slimi, 2016). Moreover the complex and new IFRS (such as IFRS 9 and 13) is more applicable in the financial institutions than other sectors. The services sector and the manufacturing sector also have a significant change in the audit fees. As indicated by PWC, (2011) the transition of IFRS for manufacturing and consumer products companies have shown that there are some interpretation and application challenges unique to the manufacturing and consumer products industry. However the change in the audit fees in the natural resources sector is not significant, because there are not much IFRS standards that regulate the reporting of natural resources industry. Additionally IFRS is a principle based framework and is short on industry guidance (PWC, 2012).

The binary and multinomial logit regression model results in respect of IFRS adoption and auditor switching are presented in Table 6. Following Wieczynska (2016) we report only the coefficient and White (robust) standard error with an indication of significant level at 5% and 10%. From the first model we established the relationship between a binary outcome-Auditor switching and IFRS adoption with other control variables. Specifically the results show that the likelihood of auditor switching is 0.23 higher for companies that adopt IFRS standard than non-IFRS companies. The related odds are 1.2586. This suggests that the relative likelihood of firm switching auditors following IFRS adoption is 26% higher than without IFRS. The positive and significant coefficient of *IFRS_AD* indicates that IFRS adoption influences companies' decision to replace audit firms. Similarly, the control variables; *Chgsize*, *Chgnetprofit* also have positive significant impact on switching of auditors. Implying that growing companies are likely to switch auditors than large companies.

The multinomial logit model was used to estimate the direction of auditor switch. Unlike, Wieczynska, (2016) who identifies four directions of switch, our interest is in three forms of switch; Small to Big4 (STB), Big4 to Small (BTS), Small to Small (STS). As presented in the second part of the table 4.6, it is only STB that have significant positive coefficient for *IFRS_AD_{it}*. The coefficient of *IFRS_AD_{it}* for STB is 0.42. Exponentiating this value, we obtained the relative probability or the relative odds of 1.521962. These results indicate that the relative probability of firm switching auditor from STB is 52% higher during years of IFRS adoption when the firms have the same size, income and leverage. Thus in consistent with Wieczynska (2016), IFRS adoption is likely to cause companies to switch from small audit firms to the Big4. Growing companies, measured by *Chgsize* and *Chgnetprofit*; are most likely to switch from small audit firms to the Big4. A plausible reason is that as the companies expand, small audit firms may not have the resources to render quality services. Moreover, growing companies will most likely want to associate with the Big4 for credibility.

Table 6 - Binary and multinomial logit regression results (full sample)

Table 6: binary and multinomial logit regression results (full sample)(* @10%, ** @5% Significant level									
	Binary logit Model				Multinomial logit Model				
	Switch _{it}			STB		BTS		STS	
Variable	C.F	S.E		CF	S.E	C.F	S.E	C.F	S.E
IFRS_AD	0.23*	0.18		0.42**	0.56	-1.50	1.50	1.03	1.07
Size _{it_1}	1.44	0.56		0.76*	1.34	-0.69*	2.41	-0.92	1.07
ChgSize _{it_1}	0.02*	0.35		0.12**	0.09	-0.23*	0.56	0.15*	0.89
Net_profit _{it_1}	1.95	0.03		1.27	0.19	-.263	0.19	-0.07*	0.09
Chgnetprofit _{it_1}	0.12**	0.08		0.25**	0.89	-0.13	1.10	0.09	0.06
Leverage _{it_1}	-0.56	0.24		0.219	0.62	0.03*	1.35	0.35**	0.15

To further understand the impact of IFRS adoption on auditor switching in Africa, additional binary logit regression is conducted on a sectorial basis. The results are presented in table 7. Under the financial institutions and manufacturing sectors *IFRS_AD_{it}*, have positive significant coefficient at 5%, 10% respectively. Implying that companies within these sectors are more likely to switch auditors following the adoption of IFRS. The results also show that, the impact of IFRS adoption varies among sectors. Financial institutions are probable to switch auditors to the Big4 because, they are involved in complex and market related transactions and their associated detailed disclosures compared with companies in the natural resources and services sector.

Table 7 : binary and multinomial logit regression results (sectorial analysis)(<i>*@10%, ** @5%</i>)								
	<i>Financial institutions</i>		<i>Manufacturing</i>		Natural Resource		Services	
Variable	C.F	S.E	CF	S.E	C.F	S.E	C.F	S.E
<i>IFRS_AD</i>	0.68**	1.36	0.07*	0.799	0.02	0.15	0.05*	0.09
<i>Size_{it_1}</i>	0.17*	2.44	0.39	1.99	0.76*	0.03	0.42*	0.08
<i>ChgSize_{it_1}</i>	0.04**	0.89	0.43**	1.32	0.13**	0.06	0.22**	0.32
<i>Net_profit_{it_1}</i>	0.30	0.36	0.21	0.36	-1.55	0.31	1.09	1.27
<i>Chgnetprofit_{it_1}</i>	0.61**	0.41	0.19*	1.23	0.82	0.21	0.28*	0.97
<i>Leverage_{it_1}</i>	-1.16	1.14	0.03*	1.93	-.033	3.60	-0.55	0.69
<i>_cons</i>	-1.45**	1.46	-0.80**	1.13	-1.38**	1.72	-1.52**	1.54
<i>No of obs</i>	36		46		7		11	
<i>Pseudo R²</i>	.51		.44		.38		.45	

Number of OBS

104

104

Pseudo R²

0.0587

0.0823

5.0. Conclusion

The purpose of this study was to analyse some of the unintended consequences of IFRS on the audit market, by (i) examining whether IFRS is associated with an increase in audit fees, (ii) if the increase is higher for the Big4 audit firms and (iii) whether there is a positive relationship between IFRS adoption and auditor switching.

The study focused on publicly available data from 104 companies listed on the stock exchange in 8 African countries from 2002-2014. The Big4 audit firms are identified in this study as Deloitte Touche, Ernest & Young, KPMG and PWC. The study controlled for other firm specific characteristics namely leverage, size, change in size, net profit and change in net profit. The study employed binary and multinomial logit regression to model the auditor switching. Ordinary Least Square was also used to estimate the impact of IFRS adoption on audit fees with some diagnostics tests. Additional investigations were done on a sectorial basis.

Consistent with prior studies, our findings suggest that IFRS adoption (i) is associated with increased audit fee, (ii) influences auditor switching and (iii) the impact varies among sectors.

The ordinary least square estimation suggests increases in audit fees as a result of companies adopting IFRS. However, the Big4 experience significant fee increase for their services than the small audit firms. The sectorial analysis highlights the positive significant impact of IFRS adoption on audit fees in the financial sector. This is due to the market-based measurements and detailed disclosure of product and services (e.g. financial instruments) within the financial sector.

Other possible reasons can be attributed to the peculiarities of the financial industry, its specific regulation and the fundamental differences in their financial accounting requirements relative to non-financial firms. On the contrary, the change in the audit fees in the natural resources sector is not significant, because there are not many specific IFRS standards that regulate the financial reporting of natural resources industry.

The multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4. The results show that both financial institutions and manufacturing sectors are more likely to switch auditors following the adoption of IFRS. Financial institutions are probable to switch to the Big4 because, they are involved in complex and market related transactions hence their financial statements are associated with detailed disclosures compared to companies in the natural resources and services sector.

This paper has extended the debate on the unintended consequence of IFRS on the audit market and specially a neglected area, Africa. Researchers can use this study as a foundation to explore the consequences of IFRS adoption such as mobility of accounting professionals across borders, the growth of global professional qualifications such as ACCA in Africa. Our results are useful to small practicing accounting (SMP) firms in non-IFRS countries. Furthermore, contrary to previous studies on developed country our paper examines the effects of IFRS on the audit market in Africa, which is an emerging economy. More precisely our study alerts the National Professional accountancy bodies about the need to train their local accountants in order to prepare them for the unintended waves that IFRS brings on the auditing market. This study is however not free from limitations. A notable limitation is the availability of historical data for some of the countries in our sample, which restricted us to use fewer companies.

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