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Incentives and Preliminary Investigation of Incentives facing Accounting Standard-Setters

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This paper will discuss the various incentives facing the different elements of the accounting profession involved in the accounting standard-setting process. An empirical investigation is carried out with respect to auditors as an element involved in the standard-setting process. We predict that firms upon transition to International Financial Reporting Standards (IFRS) will experience an upwards adjustment in audit fees because of the need to perform more work because of increased complexity of accounting standards as represented by IFRS.The audit and non audit fee data for listed companies on the South Pacific Stock Exchange (SPSE) in Fiji is used. We carry out descriptive analysis only, because of the relatively small number of companies listed on the SPSE (sixteen companies) and the recent adoption of IFRS in 2007. We find that most of the companies listed on the SPSE experience an increase in audit fees prior to and following the adoption of IFRS. Apart from two companies noting significant increases in the transition period, the non-audit fee changes are mostly non-existent as majority companies refrained from seeking non-audit services from their external auditor. This may be due to filtered regulation effects from countries like United States and Australia which eliminate and scrutinize any non-audit services expanded by the incumbent auditor. The study holds serious implications for level of auditor involvement in the standard-setting process. This study is profound for Fiji given that Fiji has heavy involvement of auditors in the standard-setting process. IFRS is a complex set of accounting standards and the relatively quick adoption of IFRS by the small island state of Fiji over countries such as United States and India (which are yet to adopt IFRS), may be indicative of attempt by auditors to further deepen their pockets.

Keywords: *IFRS, audit fees, transition, non-audit fees*
Data Availability: *Data are available from the corresponding author.*

Field of Research: Accounting

1.0 Introduction

In most countries, issuing accounting standards is not the sole privilege of a "self-regulating" profession. The standard setting bodies may have constituents from other professions or sectors of the community (e.g. the FASB in USA). Different institutional arrangements prevail, which govern and can undermine the authority of the standard setting bodies (e.g. the Securities Exchange Commission in USA).

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Furthermore, accounting standard setting involves questions of social choice and has profound economic consequences. As a result, the standard setting is inevitably a political process. Therefore the accounting profession (or interest groups within the profession) have incentives to maintain control or involvement in the setting of "accounting standards" so as to safeguard its interests and to ensure that the standards are not too onerous or threatening.

In Fiji, the Fiji Institute of Accountants (FIA) regulates the profession of accountancy. Within the FIA, it is the Accounting and Auditing Standards Committee (AASC) which is bestowed with the sole responsibility of recommending the promulgation of accounting and auditing standards to the Institute’s Council. AASC membership is not fixed, but typically comprises of nine members drawn from accounting firms, the public and private sectors and academia (Pathik, 1999). The members are appointed by the Institute itself.

The motivation for this paper arises from cursory analysis which indicates that the Fiji Accounting Standard Committee is dominated by the practicing auditors despite the fact that accounting standard setting has an impact on the society as a whole. In fact the Committee’s composition altered in 2002 to reflect the new emphasis on promulgating auditing standards by being dominated by practicing auditors (ADB, 2002). The introduction of International Financial Reporting Standards (IFRS) provides us with an experimental setting to empirically test for the argument that the participation of auditors in accounting standard-setting may be subject to their self-interests.

This paper adds to the existing literature in the following ways. We capture the initial IFRS experience of a small developing state from the auditing perspective as measured by audit and non-fees. There has been little empirical research on how IFRS actually affects audit and non-audit fees with only two studies done so far on Finnish and New Zealand Companies. The area being under-researched may be due to slow IFRS adoption by giants such as USA as well as short time lapse from first adoption of IFRS with countries such as European Union and Australia being the first adoptees only recently in 2005. The standard-setting environment prevalent in Fiji enables us to investigate adoption of IFRS in the context of incentives facing the elements of the accounting profession, specifically, the incentives facing auditors.

2.0 Literature Review

2.1 Background on the Incentives Facing Elements of the Accounting Profession

It has often been claimed that a true profession has certain characteristics which distinguish it from the para-profession. For example, Benson (1981) stated that a true profession has among others the following characteristics:

- The primary function of a profession is to serve the community in a specialized field of learning.
- The government body of the profession must ensure that the members can speak with knowledge and authority on the subjects within their field of learning and that they maintain a high standard of conduct and performance.
- A rule of conduct or practice must be imposed by a profession to protect the interest of, or to enhance the level of service to, the public.

In fact, many of these characteristics are expressly embodied in the code of professional conduct or object clauses of the accounting profession. For example, the Code of professional conduct of the Australia Society of Certified Practising Accountants contains clauses on the following categories:-
B1 The Public Interest; B4 Competence and Due Care; B5 compliance with Accounting and Auditing standards; A2 Mandatory Compliance (of the Code). In addition, the introductory section of the Code (A1) states that maintaining standards of conduct is essential in

1. enhancing the personal stature of the accountants;
2. maintaining the prestige of the accounting profession and
3. securing the continuing acknowledgment of professional merits by the community as a whole.

The objects of the Society also contain numerous clauses which are aimed at protecting the interests of the profession. In particular, clause 3(3) stipulates that one of the objects is to organize deputations in relation to measures whether legislative or otherwise affecting the profession and the practice of accountancy and to procure improvements and promote uniformity in the principles, methods and practices of accountancy.

Thus, the governing bodies of the accounting profession have an obligation to actively participate in the setting of accounting standards so as to

1. safeguard the interests of the members;
2. enhance the status and prestige of the professions and
3. develop a consistent body of knowledge

There is also a view that a profession's autonomy and authority must be maintained and that involvement of lay persons and intervention by government in the affairs of a profession are generally undesirable (e.g. Benson 1981). This view appears to be implicitly shared by the profession especially in the area of standards setting. This is evidenced by the incentive of the accounting profession to control or dominate the standard setting bodies or processes or to maintain or promote the authority of profession-sponsored standards. The power of the CCAB to veto the standards prepared by the ASC is an example. The studies by Professor Walker (1987, 1990a) on the "capturing" of the ASRB by the Australian accounting profession provide another example.

2.2 The Incentive Facing Elements of Accounting Professionals in the Standard Setting Bodies

Staffs within a regulatory agency such as SEC are no different from other people who tend to maximise their own welfare. As they will be criticised if they fail to have put a regulation in force that might have prevented or mitigated a crisis, they therefore have an incentive to avoid ambiguity and judgement in the promulgated rules so as to reduce the risk. Furthermore they tend to establish detailed and complex rules that attempt to cover every possible situation. Such detailed and complex drafting not only serves to emphasize the complexity and specialist nature of their job but can also result in a more extensive and expensive bureaucracy (hence opportunities or better rewards and promotion prospects). Finally there are incentives for the regulated agency (e.g. SEC) to emphasize its status, prestige and power[1].

As members of the profession-sponsored standard-setting bodies will likewise tend to maximise their own interest, it would be assumed that they too have incentives to emphasise the importance and complexity of their work. Nevertheless, the drafting styles adopted by these bodies may be different from SEC which is a government body. They will incline to make the accounting standards more permissive so as to make it less onerous and threatening to the professionals.

2.3 The Incentives Facing Elements of Corporate Accountants

Watts and Zimmerman (1986) argued that the corporate managers or accountants' position towards a proposed accounting standard is a function of the standard's effect on the firm's value and the managers or accountants' bonus. They described three hypotheses about managers' accounting's procedure choices that form the bases of their argument: the bonus plan hypothesis, the debt/equity hypothesis and the size hypothesis.

Bonus plan hypothesis: Ceteris paribus, managers of firms with bonus plans are more likely to choose accounting procedures that shift reported earnings from future periods to the c purrenteriod. This hypothesis rests on the assumption that an increase in the present value of a firm's reported earnings increases the present value of the manager's compensation.

Debt/equity hypothesis: Ceteris paribus, the larger a firm's debt/equity ratio, the more likely the firm's manager is to select accounting procedures that shift reported earnings from future periods to the current period. The hypothesis is found on the underlying debt covenants or restrictions on the firm. Size hypothesis: Ceteris paribus, the larger the firm, the more likely the manager is to choose accounting procedures that defer reported earnings from current to future periods. This hypothesis is supported by two general assumptions. Firstly, politicians usually refer large reported earnings as "evidence" of a monopoly or crisis. Secondly, large firms are generally more politically sensitive and have higher political costs.

Various empirical studies have been carried out to examine the accounting procedures used by firms and the positions the firms' managers took on proposed standards. A large-scale study of firms' portfolio of accounting procedures by Zmijewski and Hagerman (1981) provides evidence consistent with the above three hypotheses[2]. Watts and Zimmerman (1986) also reviewed the studies on single accounting procedures choices and found evidence consistent with the debt/equity and size hypotheses. However they found that the evidence on the bonus plan hypothesis was mixed. Study by Morris (1986) in an Australian setting also found evidence consistent with the debt/equity and size hypotheses.

As pointed out by Watts and Zimmerman (1986), the above three hypotheses need to be supported by further studies. Nevertheless, they help to reveal the incentives facing elements of the managers (and implicitly the corporate accountants) in the accounting standards setting process. For example, the debt/equity hypothesis helps to explain why highly geared corporations will oppose an accounting standard which reduces reporting earnings.

2.4 The Incentives Facing Elements of the Audit Firms

Watts and Zimmerman (1986) also argued that the audit firms will generally prefer the introduction of more standards because it can increase the auditors' wealth.

New accounting standards provide opportunities for the auditor to offer services besides auditing. For example, audit firms may offer information services to their clients regarding the new standards. They may also provide lobbying services to their clients in hearings on the proposed standards. Although the audit firms may not charge their clients directly for these services, the clients (existing for potential) will presumably consider these services when choosing an auditor. Consequently, the audit firms can recoup the charges indirectly via the audit fees. In addition, the lobbying position of an audit firm will attract a clientele of firms that prefer the auditor's position. As an audit firm will presumably lobby for the interests for its major clients and as companies in the same industry tend to be affected similarly by accounting standards, the lobbying services will reinforce the auditor's induced industry specialization.

Auditor may incur astronomical loss for professional negligence. Consequently, audit firms have a strong incentive to oppose any standard that may increase their legal liability. For example the 1984 green paper by NCSC proposed statutory amendments which required directors and auditors to report on whether financial statements present a "true and fair view". This proposal would increase the auditor's obligations and hence the potential risk of the auditors. The proposal therefore received strong opposition from the audit firms.

Study by Deegan, Mooris and Stokes (1990) also suggests that the higher the expected costs of non-compliance by client with a proposed standard, the less the audit firms prefer the accounting standard. The non-compliance costs imposed on the auditors (and likewise on the clients) could include fines, damage to reputation from press and regulator criticism, cost of defending a position and costs involved in making remedial disclosures. Consequently, both auditors and clients will lobby for those standards which possess flexibility in their application. Such flexibility can be achieved if the standards are drafted in certain ways e.g. by incorporation of vagueness; permission of alternative accounting treatments and avoidance of statements of intent or purposes etc.
Finally, Watts and Zimmerman (1986) argued that audit firms also have incentives to lobby for more complicated accounting standards because the complexity may increase the quantity of auditing and the demand for auditor's services. However, they also pointed to the possibility that more complex accounting might reduce the demand for auditor's monitoring services. In such cases, the auditors would oppose the more complex standards.

2.5 Preliminary Investigation of Incentives Facing Auditors as Accounting Standard-Setters

Research Questions

Audit Fees

According to Watts and Zimmerman (1986), audit firms will generally prefer the introduction of more complex standards because it can increase the wealth of the auditors as represented by increase in audit fees. An increase in the number of accounting standards or their complexity would cause the auditor to perform more work during the course of the audit engagement and thus charge higher fees.

IFRS is considered to be a more complex form of accounting standard as it requires more complex judgements (Chand et al., 2005). Hoogendoorn (2006) has argued that companies have underestimated the complexities, effects and costs of IFRS. Jermacowitz and Gornik- Tomaszewski (2007)[3] find out, among other things, that the IFRS adoption process is costly, complex and burdensome and that the complexity of the IFRS as well as the lack of implication guidance and uniform interpretation challenge convergence the most. These findings, in turn, are likely to be reflected in audit (audit origin) and non-audit (consultation origin) fees (Schadewitz and Vieru, 2008).

Our first research question is thus as follows:
Did firms that transitioned to IFRS experience an upward audit price adjustment after the transition?

Non-Audit Fees
Closely associated with the notion of audit fees and accounting regulation is effect of regulation on non-audit fees. The promulgation of the Sarbanes- Oxley Act restricted the provision of non-audit services by the US companies. Also the enactment of CLERP 9 Act in Australia projects a similar negative effect on non-audit services.
The impact of IFRS on non-audit fees can either be positive or negative. Positive impact can be owing to the fact that firms will need preparatory work to be done prior to adoption of IFRS. In most instances these services can be sought from the firms' auditors themselves as they are most abreast with the firms activities. Hence a lower cost in terms of fees will be involved as opposed to same services from other auditors. On the same note, the auditors will be reluctant to provide non-audit services to their clients owing to litigation risk and filtered regulation effects from countries such as US and Australia which seek to keep auditor independence intact. Therefore, non-audit fees may actually decline.
Thus our second research question is as follows:

Did firms that transitioned to IFRS experience an abnormal non- audit price adjustment after the transition?

3.0 Methodology

3.1 Sample Selection

The sample is selected from firms listed on the South Pacific Stock Exchange (SPSE). All the entities listed on SPSE adopted IFRS either in the year 2007 or 2008. We eliminate three companies because of data unavailability for the year 2005. Our analysis period is 2005-2008, 2 years prior and 2 years after first IFRS adoption. The selection of period is such in order to capture maximum IFRS effect possible. Our final sample is 13 companies.

3.2 Data

Audit and non-audit fees data is gathered from the published financial statements contained in the Annual Reports of individual firms. The annual reports were obtained from SPSE or individual firm website or office. We carry out descriptive analysis only because of the relatively small number of companies listed on the SPSE (sixteen companies) hence our small sample size of 13 and the recent adoption of IFRS in 2007.

4.0 Findings And Discussion

4.1 Descriptive statistics

Audit fees (FJD)	Year 2005	2006	2007	2008
Mean	39883	47676	52535	59192
Median	30375	31000	32000	35865
Maximum	114000	124000	124000	130000
Minimum	3500	3500	3000	3000

The audit fee has significantly increased over the 4- year period. From our sample of 13 companies, 7 adopted IFRS in 2007 while 6 adopted it in 2008 (see appendix for list). Increased audit fee over the period may be due to preparatory IFRS work undertaken in these years. The mean audit fee has increased by 48.4% over the 4- year period.

Non- audit fees (FJD)	Year 2005	2006	2007	2008
Mean	13223	8587	8935	5956
Median	0	0	0	0
Maximum	159000	93000	92000	60000
Minimum	0	0	0	0

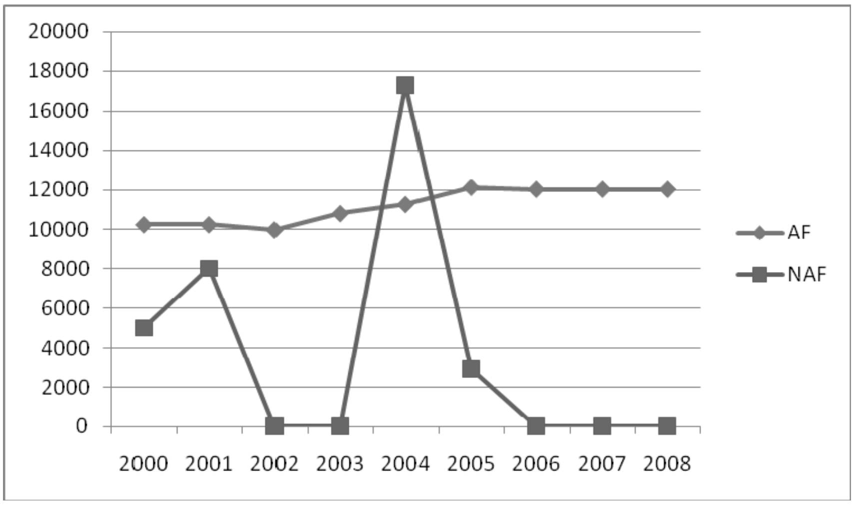
For non-audit fees, a median of FJD 0 indicates that more than half of the sample does not seek non-audit services from their external auditor. In fact, as of 2008, 10 out of 13 had zero as non-audit fees (charged by their respective external auditor). Overall, the non-audit fees have declined over the 4- year period in line with the trend and regulation prevalent in Australia and United States. This is because provision of non-audit services by the incumbent auditor is perceived as a threat to auditor independence. As a result, it appears that most firms have refrained from seeking IFRS related non-audit services from their external auditor.

4.2 Case by case Analysis of Each Company

Atlantic & Pacific Packaging Comp. Ltd (APP)
APP manufactures a wide range of packaging materials including corrugated cartons and assorted containers and packets.

Year	APP	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	10250	5000
2001	10250	8005
2002	10000	0
2003	10800	0
2004	11250	17292
2005	12093	2907
2006	12000	0
2007	12000	0
2008	12000	0

It adopted IFRS in 2008.

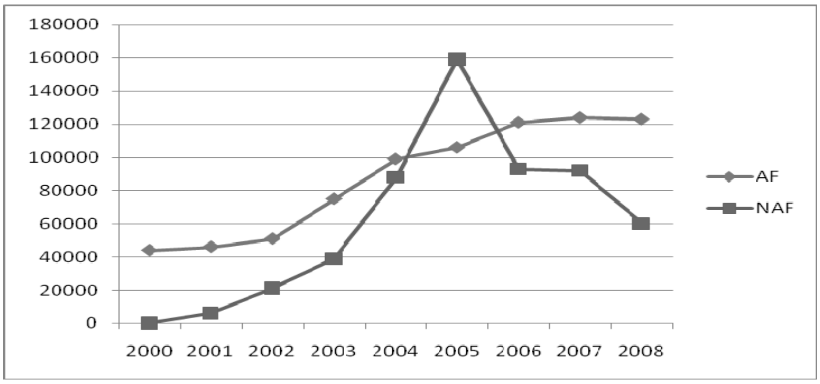


The audit fees have remained relatively constant over the period 2005-2008. Non-audit services over the same period have declined to zero. Given the adoption of IFRS only recently in year 2008, the effect of transition may result in higher audit fees in later years.

Amalgamated Telecom Holdings Ltd (ATH)
ATH provides telecommunications services in Fiji and enhances the network of telecommunications through its subsidiaries Telecom Fiji, Vodafone and Connect, and development of internet services.

Year	**ATH**	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	44000	0
2001	46000	6000
2002	51000	21000
2003	75000	39000
2004	99000	88000
2005	106000	159000
2006	121000	93000
2007	124000	92000
2008	123000	60000

It adopted IFRS in 2008.



The audit fees of ATH steadily increased over the last four years with a significant increase in 2006. The non-audit fees increased markedly in 2005. These spikes in fees may be indicative of provision of IFRS related services by their external auditor.

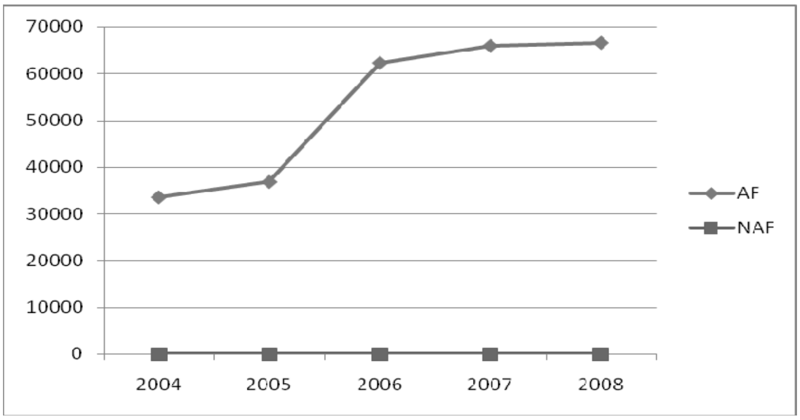
Foster's Group Pacific Ltd (FGP)

FGP engages in the manufacturing and sale of beer and ready to-drink alcoholic beverages, distribution of wines, as well as distillation and sale of portable and industrial alcohol.

Year	**FGP**	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	n. a.*	n. a.
2001	n. a.	n. a.
2002	n. a.	n. a.
2003	n. a.	n. a.
2004	33576	0
2005	36850	0
2006	62220	0
2007	65853	0
2008	66499	0

- n. a. - data is not available because firms were not listed on SPSE at that time or is not available for distribution to public now.

It adopted IFRS in 2007.



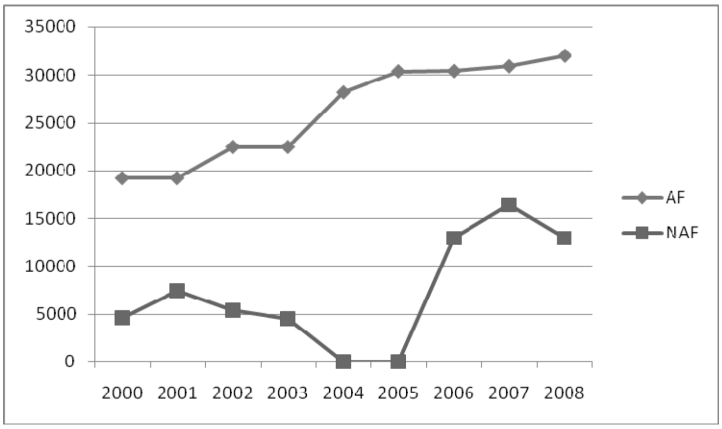
The audit fees for FGP rose significantly in 2005-2006 and it has remained high till 2008. FGP sought zero non-audit services from its external auditor. Therefore, the increased audit fees as seen may be due to IFRS related services sought from the external auditor given the company's adoption of IFRS in 2007.

Fiji Care Insurance Ltd (FIL)

FIL engages in underwriting of medical health, disability and term life insurance risks and development of new medical insurance cover products.

Year	FIL	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	19250	4615
2001	19250	7440
2002	22500	5374
2003	22500	4500
2004	28187	0
2005	30375	0
2006	30405	12925
2007	30905	16381
2008	32000	12926

It adopted IFRS in 2007.



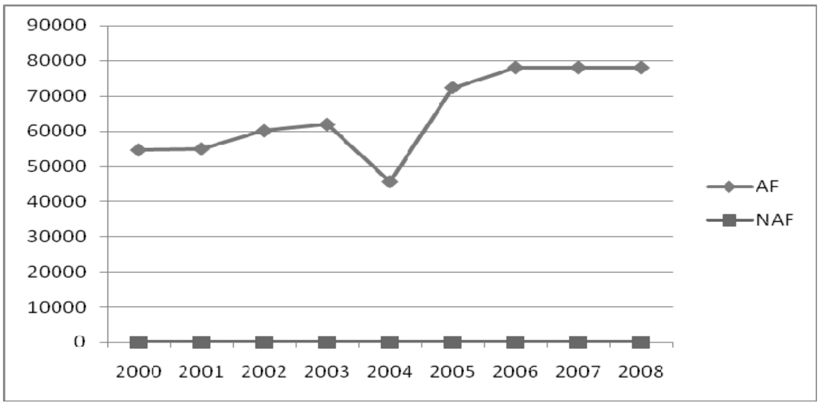
FIL's audit fees increased slightly over the last four years. However, note the drastic increase in non-audit fees over the four year period from an initial zero in 2005. Given the adoption of IFRS by FIL in 2007, it appears that it sought IFRS related services from its external auditor in 2007 and still continues to do so.

Flour Mills of Fiji Ltd (FMF)

FMF deals in activities of flour milling, managing of SNAX factory production including biscuits and potato chips with two of its subsidiaries also listed on the SPSE.

Year	FMF	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	54728	0
2001	55028	0
2002	60132	0
2003	61900	0
2004	45750	0
2005	72365	0
2006	78000	0
2007	78000	0
2008	78000	0

It adopted IFRS in 2008.

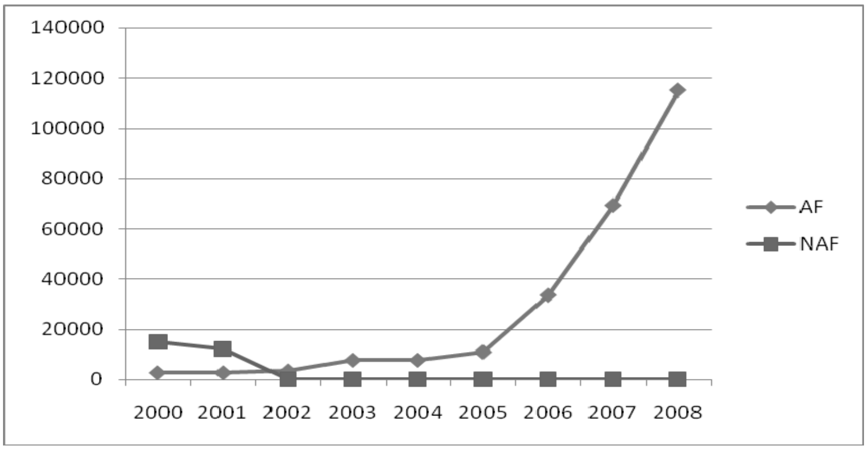


FMF's audit fees increased markedly in 2005 and stayed high over the rest of the period. Zero non-audit fees indicates no separate IFRS related service was sought rather it appears that these were incorporated in the audit fees itself.

Fiji Television Ltd (FTV)
FTV is an operator of commercial broadcasting services through its free-to-air Fiji One channel and pay channels such as Sky Entertainment, Sky Pacific, Sky Plus and Sky Sports.

Year	FTV	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	2750	14977
2001	2750	12255
2002	3500	0
2003	7750	0
2004	7750	0
2005	11000	0
2006	33552	0
2007	69331	0
2008	115000	0

It adopted IFRS in 2008.



It can be seen that audit fees rose dramatically over the last four years. This may be in line with preparatory work for IFRS in line with its IFRS adoption in 2008. These costs appear to have been incorporated within the audit fees as opposed to non-audit fees.

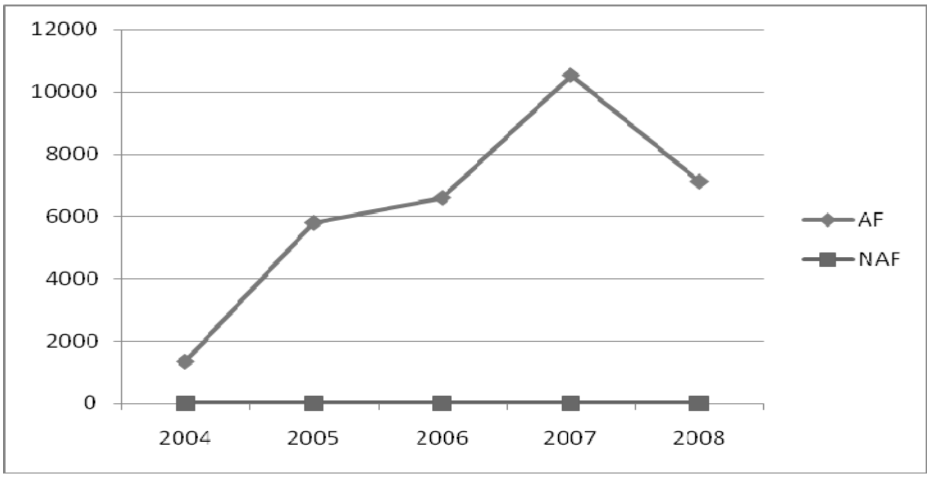
Kontiki Growth Fund Ltd (KGF)

KGF invests shareholders' funds in private equity projects and shares in Kontiki Fund with an objective of generating high growth returns for shareholders over the long-term.

Year	KGF	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	n. a.*	n. a.
2001	n. a.	n. a.
2002	n. a.	n. a.
2003	n. a.	n. a.
2004	1333	0
2005	5802	0
2006	6602	0
2007	10549	0
2008	7127	0

*n. a. - data is not available because firms were not listed on SPSE at that time or is not available for distribution to public now.

It adopted IFRS in 2007.

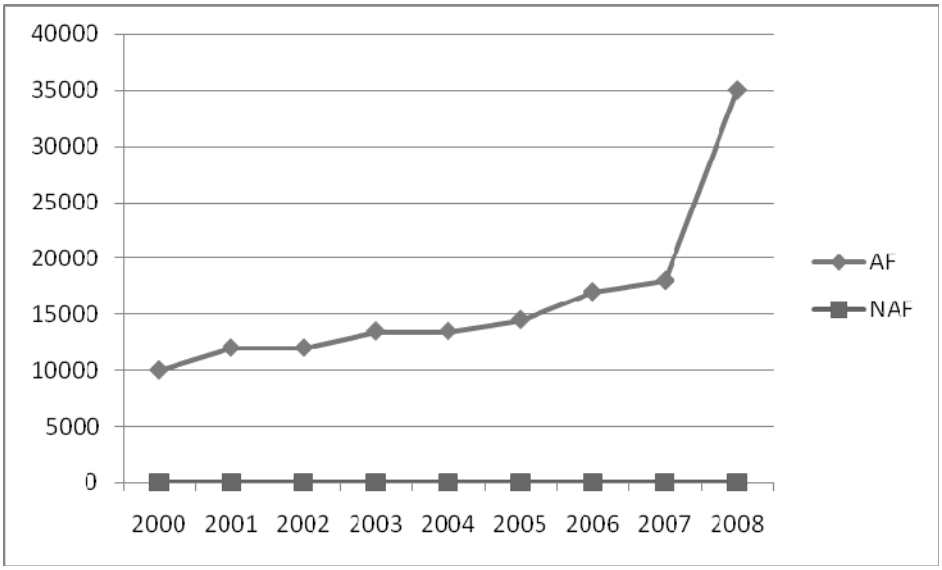


KGF experienced a sharp increase in audit fees prior to its IFRS adoption in 2007. The audit fees drops in the following year. It seems that IFRS related costs have been incorporated in its audit fees as opposed to separate non-audit fees.

Pacific Green Industries (Fiji) Ltd (PGI)
PGI engages in manufacture and sale of furniture and architectural products made from coconut palm wood.

Year	PGI	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	10000	0
2001	12000	0
2002	12000	0
2003	13500	0
2004	13500	0
2005	14500	0
2006	17000	0
2007	18000	0
2008	35000	0

It adopted IFRS in 2007.

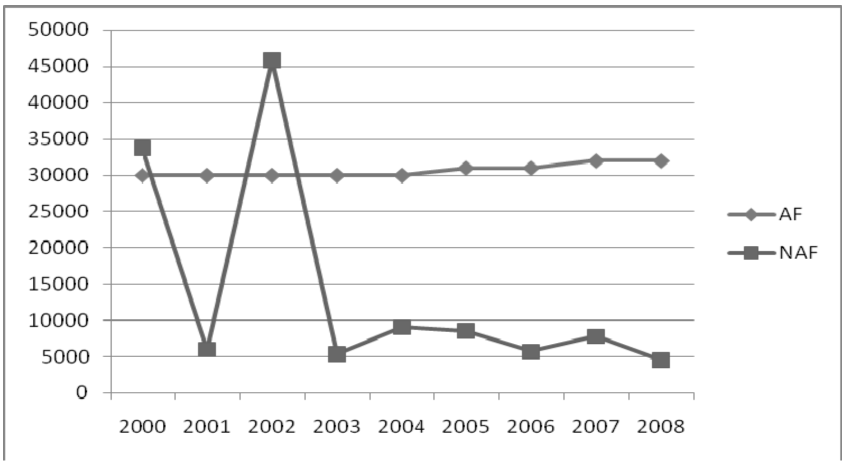


PGI's audit fees almost doubled in the year following its IFRS adoption. It appears that massive amount of IFRS related costs has been incorporated in its audit fees in 2008.

RB Patel Group Ltd (RBG)
RBG does retailing and wholesaling of general merchandise as well as owns and manages some property and equity investments.

Year	RBG	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	30000	33735
2001	30000	5960
2002	30000	45840
2003	30000	5335
2004	30000	9050
2005	31000	8555
2006	31000	5700
2007	32000	7775
2008	32000	4500

It adopted IFRS in 2008.



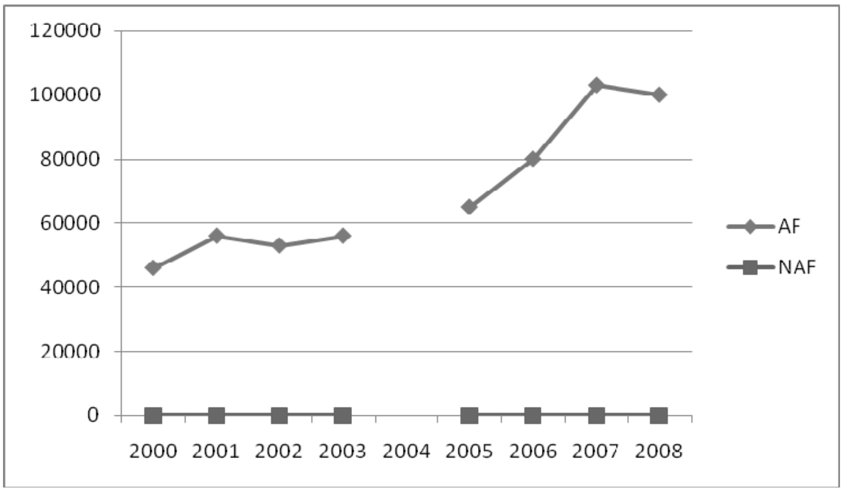
Over the last four years RBG experienced slight increase in its audit fees which previously remained constant. It continued to seek non-audit services from is external auditor. These may be inclusive of some IFRS related costs; however, greater effects may be seen in later years given its only recent adoption of IFRS in 2008.

Toyota Tsusho (South Sea) Ltd (TTS)
TTS engages in automotive importation and distribution.

Year	TTS	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	46000	0
2001	56000	0
2002	53000	0
2003	56000	0
2004	n. a.*	n. a.
2005	65000	0
2006	80000	0
2007	103000	0
2008	100000	0

*n. a. - data is not available because firms were not listed on SPSE at that time or is not available for distribution to public now.

It adopted IFRS in 2007.



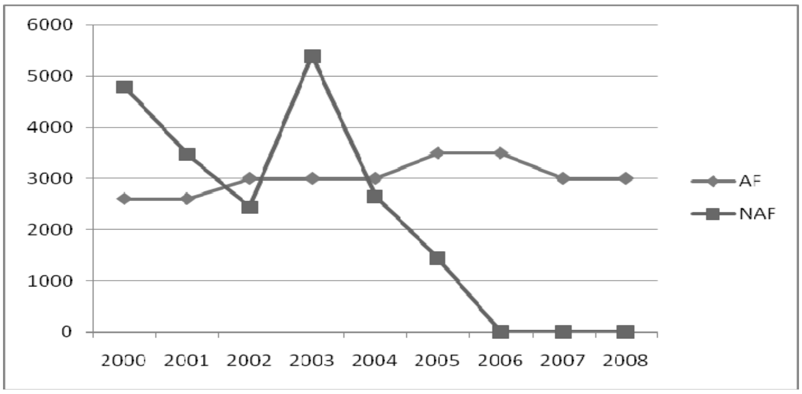
TTS has experienced significant audit fee increases in the last four years. This may be indicative of inclusion of IFRS related costs as TTS has not sought this service from other auditors as denoted by zero non-audit fees.

V B Holdings Ltd (VBL)

VBL engages in property investment, financing of vehicles sold by related entities, fleet management services and other investments.

Year	VBL	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	2600	4795
2001	2600	3477
2002	3000	2441
2003	3000	5395
2004	3000	2650
2005	3500	1440
2006	3500	0
2007	3000	0
2008	3000	0

It adopted IFRS in 2007.

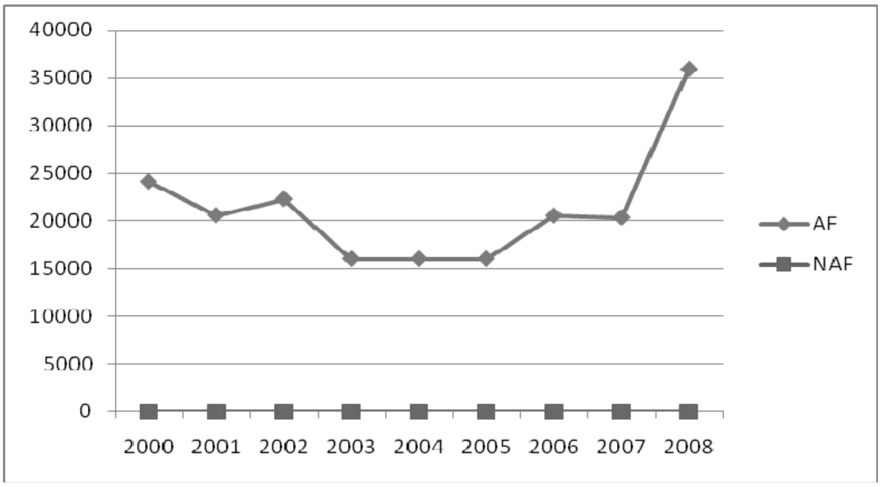


VBL experienced its highest audit fees two years prior to its IFRS adoption. The audit fee returned to the constant fee of $3000 after this. This may be indication of some IFRS related costs incurred by VBL.

Communications (Fiji) Ltd (CFM)
CFM is a holding company for Fiji's largest radio network and event organizing through Total Event Company and also has subsidiary companies such as Unwired, PNG FM and FijiVillage.com.

Year	**CFM**	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	24059	0
2001	20554	0
2002	22253	0
2003	16000	0
2004	16000	0
2005	16000	0
2006	20505	0
2007	20322	0
2008	35865	0

It adopted IFRS in 2007.

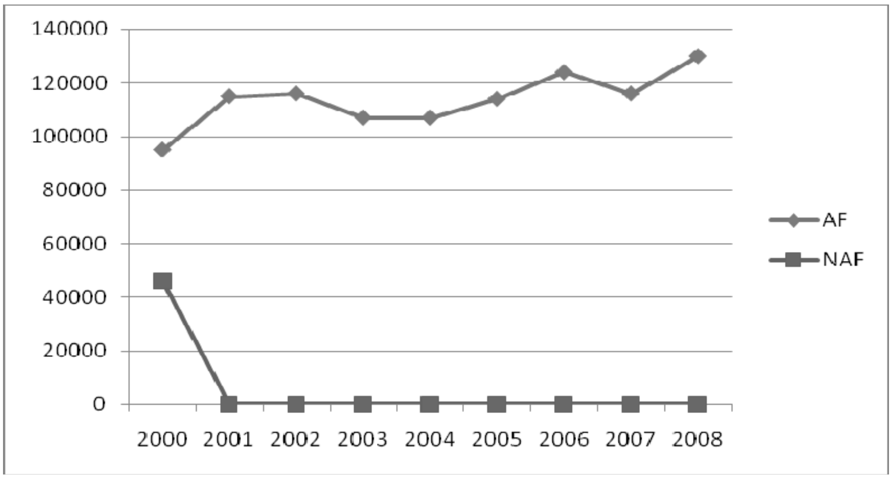


CFM's audit fees increased by 76.48% in 2008, following its IFRS adoption in 2007. It did not incur any non-audit fees. It appears that all IFRS related service cost has been channeled into CFM's audit fees.

Fijian Holdings Ltd (FHL)
FHL is an investment company with a number of subsidiaries dealing with securities under FHLS and also dealing in property trust investments under its subsidiary FHPTF.

Year	**FHL**	
	Audit fees FJD (AF)	*Non-audit fees FJD (NAF)*
2000	94989	46053
2001	115000	0
2002	116000	0
2003	107000	0
2004	107000	0
2005	114000	0
2006	124000	0
2007	116000	0
2008	130000	0

It adopted IFRS in 2008.



Following FHL's adoption of IFRS in 2008, it experienced its highest audit fees in the same year of $130000. It did not seek any non-audit services therefore all IFRS related costs it incurred it appears to have been paid to is external auditors via audit fees.

4.3 Summary of Case by Case Analysis and Research Questions Answered

The following table summarizes the findings from the individual company analysis:

Change over 4- year period (2005-2008)	Audit fees (AF)	Non-audit fees (NAF)
Significant Increase	ATH, FHL, CFM, FTV, FGP, KGF, FMF, PGI, TTS	ATH, FIL
Slight Increase	FIL, RBG, VBL	RBG***
No Increase	APP**	APP*, FTV*, VBL*, FHL*, PGI*, KGF*, FGP*, FMF*, TTS*, CFM*
Total No. of Companies	13	13

*NAF was zero **Adopted IFRS in 2008 ***NAF fluctuated

With respect to the first research question, 12 out of 13 companies (except APP) experienced an increase in audit fees over the period 2005-2008. 9 companies experienced a significant increase in audit fees over this period. APP adopted IFRS in 2008 which may be the reason why its audit fees did not increase; it may increase in the following years. Overall, firms that transitioned to IFRS did experience an upward audit price adjustment after the transition.

With respect to the second research question, the following was found. 10 companies did not seek any non-audit service from its external auditor therefore there was no change in non-audit fees for these companies. 2 companies experienced significant increase in non-audit fees over the transition period which indicates possible IFRS related services were rendered by the companies' external auditors. Overall, firms that transitioned to IFRS, did not experience an abnormal non- audit price adjustment after the transition. The reason for such a result may be because provision of non-audit services by the external auditor is perceived as a threat to auditor independence in most countries.

5.0 Conclusion And Implications

The accounting profession - or interest groups within the profession faces incentives to maintain control or involvement in the setting of accounting standards. These incentives may not be the same for all interest groups or the profession. They are generally deduced via the lobbying activities of these interest parties. However, lobbying studies have inherent shortcomings. They cannot capture the informal lobbying activities such as luncheon discussions, telephone conversations, which are no less vital than the formal activities which are evidence by writing. Moreover the studies tend to concentrate on lobbying activities after the proposed standards are put onto the agenda while it is recognised that lobbying may also occur at the pre-agenda stage. The incentive descriptions discussed in this paper are largely propositions and hypotheses that need to be supported by further studies and research. Nevertheless these incentives facing elements are useful in predicting and explaining the behaviour of the various participants involved in the setting of accounting standards.

We establish that auditors in Fiji dominated the accounting standard-setting committee over the past years when the committee was considering revision of Fiji Auditing Standards (FSA) as well as the adoption of IFRS. After deliberation by the Fiji Institute of Accountants Standard-Setting Committee (established to be dominated by auditors), Fiji officially adopted IFRS in 2007. The adoption of IFRS provided us with an experimental setting to test for incentives facing auditors as accounting standard setters.

We find that complexity of accounting standards (using IFRS as a proxy) may in fact be a determinant of the audit fees charged by audit firms. Most of the companies listed on the South Pacific Stock Exchange experienced increase in the audit fees over the 4- year transition period. The change in non-audit fees, however, was not profound although two companies did experience significant increase.

Our finding provides empirical evidence that adoption of IFRS has increased the wealth of audit firms in Fiji. This result holds serious implications for the audit firms and their participation in lobbying and setting of accounting standards. Participation of auditors in accounting standard-setting may in fact be subject to their self-interests and a need for monitoring their level of involvement therefore arises.

Our study is limited in the following ways. Audit fee literature espouses that audit fees are driven by client size, complexity and risk. In our study, we do not control for any of these variables given our small sample size and inability to carry out statistical analysis. The full effect of IFRS may not have been captured by the study as IFRS has only recently been adopted by Fiji (2007) and a greater time lapse is needed to see the full effect.

6.0 End Notes

[1] Benston (1976, 1980) gives detailed analyses and illustrations of these behaviours and incentives elements.
[2] Watts and Zimmerman (1986) pp 248-257 provides a summary of the study.
[3] As cited in Schadewitz and Vieru, 2008.

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