

## The Impact of IFRS Adoption on Audit Fees: Evidence from Jordan

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**Abstract:** This study aims to provide evidence of the impact of International Financial Reporting Standards (IFRS) adoption on audit fees in Jordan. Our study is based on publicly available information obtained from a sample of annual reports from Jordanian industrial companies listed in Amman Stock Exchange (ASE). The final sample consists of data from a total of 1274 financial statements representing 91 listed companies during the period 1998 to 2011. Based on various previous studies; we develop an Ordinary least Squares (OLS) cross-sectional regression has indicated several variables that explain the level of audit fees: client size, operational complexity and various aspects of risks. Furthermore; we develop a new variable which is the goodwill. The results indicate that the adoption of IFRS has significantly increased audit fees for Jordanian listed industrial companies in the IFRS-compliant period. Also, we find that the significantly positive coefficients on Intelligent and Expert Business (INTEXP) suggest that members of international accounting firms charge a higher level of audit fees than local Jordanian CPA firms. On the other hand, the significantly positive coefficients on ADOPT\*INTEXP suggest that, in the initial years of IFRS adoption, international member firms charge higher incremental audit fees than local Jordanian CPA firms. Furthermore, we find that all control variables (goodwill, accounts receivable, and inventory, loss, firm size and total assets) have significant impact on audit fees. It is our understanding that the impacts of IFRS adoption on audit fees in Jordan have not been widely studied, and we empirically demonstrate that IFRS-related auditing expertise is an important determinant of the audit fees. We recommend that the local Jordanian audit firms should capture potential advantage of being affiliated with international audit firms

**Keywords:** IFRS, audit fees, goodwill, Amman Stock Exchange, Jordanian Industrial Companies.

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## 1. Introduction

While many countries have adopted International Financial Reporting Standards (IFRS), Jordan has adopted IFRS for all entities and companies. This move to IFRS in the Jordanian Listed Industrial Companies may have increased additional risks for auditors which may have resulted in increased audit fees.

More than 100 countries around the world have already adopted International Financial Reporting Standards (IFRS) or are in the process of doing so (Ball, 2006; Barth, 2008; Daske *et al*, 2008). Jordanian regulatory bodies in the 2005 stated that Jordanian listed companies were to adopt IFRS from 1 January 2005. For companies the adoption of new accounting standards is likely a huge step; under these new conditions the need for sufficient resources, training, dedication, communication and preparation by local authorities, managers and auditors is required. For auditors the complexity of the transition and a client's potential insufficient preparations can result in risks in their audit assignment. Increased accounting regulation can, in turn, cause extra client risk and more time consuming work for the auditor. Logically, higher client risk and work will be associated with higher audit fees. Prior research supports this kind of conclusion (Hay *et al.*, 2006). The accounting profession and academic researchers have paid great attention to the Informational and other economic consequence of IFRS adoption. Proponents of IFRS claim that the IFRS adoption leads to greater and higher-quality disclosures.

The adoption of IFRS therefore increases the complexity of financial reporting environment in Jordan. The opportunity for management misreporting will be increased if financial statements preparers or auditors do not have sufficient expertise in IFRS. Furthermore, IFRSs require testing for goodwill impairment at least annually and write-down the goodwill against income if it is impaired. Applying the impairment testing regime requires extensive professional judgment and discretion to be exercised by preparers, thereby introducing opportunities for managerial interpretation, judgment and bias, so we argued that this needs for more audit efforts and so will result in incremental audit fees.

As Ball (2009) indicates, auditor status, independence, training, and compensation are all important factors affecting the quality of financial reporting after the adopting IFRS. In this study, we investigate the impact of IFRS adoption on the Jordan audit market; in terms of charged audit fees.

We conduct our analysis by examining the impact of IFRS adoption on audit fees for Jordanian industrial companies listed in Amman Stock Exchange during (1998-2011). Our primary sample consists of Jordanian industrial companies listed in Amman Stock Exchanges during (1998 to 2011). Years from 1998 to 2004

represent the pre-IFRS-adoption period and years from 2005 to 2011 represent the post-IFRS-adoption period.

Our study contributes to the literature as follows. First, we empirically demonstrate that IFRS Adoption is an important driver of the audit fees; it is our understanding that the impacts of IFRS adoption on audit fees in Jordan have not been widely studied. In addition to that; many previous studies of audit fees ignored the changes in regulatory and disclosure environments. Taylor and Simon (1999), Griffin *et al*, (2009) and Schadewitz *et al*, (2009) found that differences and changes in regulatory and disclosure environments do affect audit fees. Up to our knowledge; no studies exploring these changes and their impact on audit fees have been reported so far. We expect that evidence from Jordan will complement the existing international studies regarding the effects of international Financial Reporting standards adoption. Second, we empirically demonstrate that IFRS-related auditing expertise is an important determinant of the audit fees.

By affiliating with international accounting firms, more IFRS-related resources become accessible to auditing firms in Jordan. As a result, better audit service can be provided and higher audit premium can be charged. This finding also provides insight into the potential advantage of being affiliated with international accounting firms during the global convergence with IFRS.

This paper looks into the fees paid to statutory auditors associated with the companies who implement IFRS for their first time. This move increases client's accounting and reporting complexity and the resources needed for preparing of the financial reporting. Prior research has shown that the increase in a client's complexity and risk are associated with higher fees paid to statutory auditors (Hay *et al*, 2006). Although it is known that complexity and risk in general increases fees, it is mainly unknown how IFRS transition affects audit fees. Their meta-analysis shows that complexity of a client is positively associated with audit fees.

Since Simunic (1980), many studies have examined cross-sectional determinants of audit fees within a country. These studies find that audit fees are primarily determined by client size, potential legal liability or litigation risk, and audit task complexity (Simunic & Stein 1996; Craswell *et al*, 1995). To gain insights into the impact of IFRS on audit fee, we build an audit fee model, which is similar in spirit to the model of (Simunic, 1980, Hay *et al*, 2006, De George *et al*, 2008, Lin & Yen, 2009, and Vieru & Schadewitz, 2010).

The remainder of this paper is organized as follows. Section 2 reviews the previous literature and develops the hypotheses. Section 3 provides the research design. Data selection and descriptive statistics of variables are presented in section 4. Empirical results are reported in section 5. Section 6 concludes the study.

## 2. Literature Review and Hypothesis Development

From the auditor's point of view the increase in accounting regulation, therefore, increases client related risk and potentially results in more time-consuming work for the auditor to collect evidence in support of the audit opinion (Arens *et al*, 1994). Prior research has shown that the increase in client's complexity and risk is associated with higher audit fees paid to auditors and increased audit effort (Hay *et al*, 2006, Redmayne, 2005).

Hart *et al*, (2009) reported that audit fees in New Zealand increased by 48% in two years prior to adoption of IFRS in NZ and in the year of the adoption. In Cobbin's (2002) survey of auditing literature the size variable is always reported as a significant and positive determinant of audit fees. Also, the complexity of the audit increases the need to spend time and conduct larger and deeper testing procedures and analyses. Taylor and Simon (1999) pointed out the importance of including macroeconomics variables in models explaining audit fee differences across countries.

For instance, Armstrong *et al*, (2010) examine European stock market reaction to 16 events associated with the adoption of IFRS. They document an incrementally positive reaction for European firms with low pre-adoption information quality and higher pre-adoption information asymmetry. Their finding suggests the market perceives that the adoption of IFRS improves the information transparency and earnings quality. Barth *et al*, (2008) find that firms applying International Accounting Standards (IAS) from 21 countries generally evidence less earnings management, more timely loss recognition, and more value relevance of accounting information; On the other hand, Daske (2006) investigates the cost of capital for German firms during the period from 1993 to 2002. He finds that the adoption of IAS or IFRS does not help to reduce the cost of capital. Naser and Nuseibeh, (2007) finds that the corporate size, status of the audit firm, industry type, degree of corporate complexity and risk are the main determinants of audit fees. However, variables such as corporate profitability, corporate accounting year-end (YEND) and time lag between YEND and the audit report date appeared to be insignificant determinants of audit fees.

Due to lack of clear accounting treatments to follow, Marden and Brackney (2009) suggest that accountants must spend more time and efforts on analyzing business transactions under IFRS in order to make the most appropriate judgments and to ensure adequate compliance. Accounting firms must also allow auditors to receive more professional education with respect to IFRS. In other words, in response to the implementation of new standards, accounting firms are expected to make more investment in resources that enhance audit quality. The incremental costs thus will be reflected in the increased audit fees. On the other hand, the principle-based

accounting standards make accountants' judgments vulnerable to challenge. The litigation risk facing accountants will be higher when their clients mismanage their business (Love & Eickemeyer, 2009). As Hey *et al.*, (2006) suggest, one of the factors affecting audit fees is the litigation risk. To compensate the increased litigation risk, it is expected that higher audit premium will be charged by accounting firms. Lin and Yen (2009) results show that audit fees for listed companies in China significantly increased in the initial years of IFRS adoption. The significant increase in audit fees supports the conjecture that accounting firms have to spend more costs and efforts on auditing IFRS-based financial statements for listed companies in China.

A small number of studies empirically examine the impact of IFRS on audit fees. Griffin *et al.*, (2008) analyze the association between overseas and New Zealand governance regulatory reforms, and audit and non-audit fees over 2002 to 2007. Following U.S. Sarbanes-Oxley Act of 2002, a series of corporate governance regulatory reform has taken place in New Zealand. In the meantime, public listed companies are allowed to voluntarily adopt IFRS since 2005. Griffin *et al.*, (2008) find that audit fees increase in New Zealand over 2002 to 2006. For companies voluntarily adopt IFRS, their audit fees increased both in the year prior to the IFRS adoption and in the first three years post to the IFRS adoption. Schadewitz and Vieru (2009) discuss the impact of 2005 IFRS adoption on audit fees and non-audit fees for 73 listed companies in Finland. They use the magnitude of IFRS adjustments on income before tax, net income, equity and total liabilities as the proxy of complexity of IFRS transition. Their results indicate a positive association between the complexity proxy and audit fees which suggest that higher audits fees were charged to compensate the increasing complexity of IFRS transition.

De George *et al.*, (2008) analyze the effects of IFRS adoption on audit fees for 438 listed Australian companies. They find a positive and significant relation between fee increases and IFRS-exposure. They also find an increase in audit fees in the post-adoption period. Furthermore, they document that the increase is more substantial for smaller companies which contradicts the claims that smaller firms are less likely to be affected by the transition to IFRS. The general uncertainty surrounding IFRS adoption also contributes to the increased compliance costs faced by firms. Uncertainty in the financial reporting environment increases *ex-post* investor scrutiny over the relatively new IFRS financial statements, increasing the likelihood of costly shareholder litigation. To protect their reputation capital, auditors increase audit effort and/or client risk assessments (Clarkson, Ferguson, and Hall 2003) which are likely to result in increases in audit fees. Overall, we expect to observe increased audit fees associated with the adoption of IFRS attributable to increased audit effort, increased investment in audit resources, and an increased audit risk premium.

Other practical studies also point out that the IFRS adoption will increase auditing cost (Marden & Brackney, 2009) and the litigation risk of accountants (Love & Eickemeyer, 2009). Despite the significant impacts of IFRS adoption on audit markets, most existing literature on IFRS focus on examining the economic consequences of adopting new principles and the corresponding market reactions. Only a small number of studies have provided evidence regarding the effects of IFRS adoption on audit fees in different countries (De George *et al*, 2008; Griffin *et al*, 2008; Schadewitz & Vieru, 2009). Also; De George *et al*, (2008) find that auditors believe that certain aspects of the new IFRS reporting requirements (i.e., share-based incentive payments, financial instruments including hedge accounting, and impairment of goodwill and other intangible balances) require greater auditor effort and expertise to ensure adequate compliance. They confirm that the firms with the greatest exposure to these standards incur greater increases in audit fees in the year of adoption.

The auditor judgments will be influenced by the characteristics of the auditing environments and the client itself. If regulatory and disclosure environments change creating an impact upon audit pricing components, they should affect audit fees (Simunic 1980; Taylor & Simon 1999; Cobbin 2002).

The International Accounting Standards Board (IASB, 2005) claims that its goodwill impairment regime better reflects the underlying economic value of goodwill than does the alternative amortization regime. Jarva (2012) provides evidence that write-off firms pay higher audit fees, suggesting that auditors charge higher fees in response to extra audit effort. Stokes and Webster (2009) find support that goodwill impairment charges under IFRS better reflect the underlying economic value of the goodwill only in the presence of high quality auditing and that this is most apparent in ensuring that no goodwill impairment charges are made against income where this supported by the firm's circumstances. IFRSs require to test for goodwill impairment at least annually and write-down the goodwill against income if it is impaired. Applying the impairment testing regime requires extensive professional judgment and discretion to be exercised by preparers, thereby introducing opportunities for managerial interpretation, judgment and bias, so we argued that this needs for more audit efforts and so will resulted in incremental audit fees. Goodwill impairment (involving the periodic assessment and writing down of goodwill to its recoverable amount with the loss charged against income which cannot be reversed in any subsequent period) has emerged as the primary international goodwill reporting regime replacing regulations based on amortization policies.

The mandatory re-classification and revaluation also increase the degree of audit complexity. More costs and efforts must be spent on auditing IFRS-based financial reports as the audit complexity becomes higher. As a result, we posit that auditing firms will charge higher audit fees to compensate the increased litigation risk,

efforts and audit cost after the adoption of IFRS in Jordan. We test our first developed hypothesis as follows.

***H1: There is an increase in audit fees for listed Jordanian Industrial Companies after the IFRS adoption.***

Prior studies that have examined the impact of mandated shifts in accounting and corporate governance regulation on the audit function suggest these costs are significant. They attribute these costs primarily to increased audit effort and the associated increased audit risk around the time of mandated shifts in regulation (Ghosh & Pawlewicz 2009; Charles *et al*, 2010). Auditors are master consultants in providing services for companies concerning the impact of mandated shifts in accounting standards. It is expected that auditors who demonstrate an international experience and affiliation would be more qualified, and able to cope with such changes.

Audit quality is another factor that affects auditor pricing decision. Previous literature suggests that auditing firms charge different levels of audit fees based on the level of audit quality provided (Palmrose, 1986; Francis & Simon, 1986; Gul, 1999). A higher level of audit fees is charged when better audit quality is provided.

Hongendoorn (2006) has argued that companies have underestimated the complexities, effects and costs of IFRS. Jermakowicz and Gornik-Tomaszewski (2006) 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; so that; it's expected that the majority of international affiliated auditing firms in Jordan have experience and expertise in auditing financial statements in accordance with IFRS. Schadewitz and Vieru (2010) mentioned that auditors are key consultants in providing services for companies concerning the differences between local standards and the IFRS, it is very likely that there is an increased supply for audit and non-audit services during the transition process. Lin and Yen (2009) expected that the audit quality provided by international affiliated member firms can be enhanced through the knowledge-sharing among their global alliances during the adoption period. Based on the expectation that members of international accounting firms are capable of providing better auditing service than other local Jordanian audit firms, we expect higher incremental audit fees will be charged by member firms during the implementation. Our second hypothesis is stated as follows.

***H2: Members of international auditing firms in Jordan charge higher incremental audit fees than other local auditing firms after the adoption of IFRS.***

### 3. Research Method

The audit effort is needed in order to accumulate enough evidence concerning the quality of the financial statements given. Since the audit fee is the product of unit price and the quantity of audit services, a difference in audit fees can be due to quantity and/or the price component of the fee. Prior literature has indicated several variables that explain the level of audit fees: client size, operational complexity and various aspects of risks; (Schadewitz & Vieru, 2010), based on prior literature (Simunic, 1980, Hay *et al*, 2006, DeGeorge *et al*, 2008, Lin & Yen, 2009, and Vieru & Schadewitz, 2010). Furthermore; we develop a new variable which is the Goodwill. It's expected to increase the audit effort in terms of testing any prospected impairments at any given reporting date, we propose that Goodwill is increasing the litigation risks or legal liability of the auditors, so it's expected to increase the audit fees. Based on the above; we develop an OLS cross-sectional regression as follows:

$$LNFE_{it} = F(ADOPT_{it}, INTEXP_{it}, INTEXP_{it} * ADOPT_{it}, LNNTA_{it}, ARINV_{it}, LEV_{it}, LOSS_{it}, GDWILL_{it}, OPIN_{it}, AUDSIZE_{it}, INITIAL_{it}, EXCH_{it})$$

Because IFRS requires more detailed disclosure than prior GAAP, auditors are now certifying more financial information that includes management's subjective forecasts and assessments of assets and liabilities. For example, the reporting requirements for accounting hedges call for companies to undertake and document detailed tests of hedge effectiveness, and provide significantly more disclosure on assumptions underlying this analysis. Moreover, the IFRS provisions relating to share-based payments require substantial disclosure as to the nature and method of executive compensation plans, along with detailed information on inputs of fair value calculations. It has been reported that first-time IFRS-compliant annual reports are up to 60 percent longer than previous annual reports (Webb 2006; Ernst & Young 2005).

where for company  $i$  in year  $t$ ,  $LNFE$  is the natural log of audit fees,  $ADOPT$  is an indicator variable which equals 1 after IFRS is implemented and 0 otherwise,  $INTEXP$  is an indicator variable which equals 1 when the audit firm is affiliated with an international CPA firm and 0 otherwise,  $LNNTA$  is the natural log of total assets,  $ARINV$  is the total amounts of accounts receivable and inventory divided by total assets,  $LEV$  is total liabilities divided by total assets,  $INITIAL$  is an indicator variable which equals 1 if it is the initial audit of the company by the audit firm and 0 otherwise.

Our primary experimental variables are  $ADOPT$ , which aims to test Hypothesis (1), and the interaction term between  $ADOPT$  and  $INTEXP$ , which aims to test Hypothesis (2). We expect positive coefficients on  $ADOPT$  and  $ADOPT*INTEXP$



based on hypotheses 1 and 2. *LNTA* is included to control for the size of audit client. The larger the size of audit client the higher the audit fees (Lin and Yen, 2009); thus, we expect a positive coefficient on *LNTA*. The ratio of accounts receivable and inventory on total assets is included as a proxy of audit complexity. Both bad debts estimate and inventory valuation increase the audit complexity. Furthermore, confirmation of receivables and inventory physical count are required by International Standards on Auditing. We expect that the more receivables and inventory, the higher the audit complexity and the higher the audit fees. Therefore, the coefficient on *ARINV* is expected to be positive.

Following prior studies (Francis, 1984; Craswell *et al*, 1995; Lin & Yen, 2009), *LEV* and *LOSS* are included to measure operational risk of audit clients. The higher the operational risk, the higher level of audit fees may be charged. We expect both coefficients on *LEV* and *LOSS* are positive. Furthermore; *GDWILL* expected to increase the audit effort in terms of testing any prospected impairments and revaluation at any given reporting date, we propose that the existence of Goodwill is increasing the litigation risks of the auditor and the audit complexity, so it's expected to increase the audit fees. Therefore, the coefficient on *GDWILL* is expected to be positive. The opinion issued by the auditor reflects the risk sharing between the auditor and the auditee (Simunic, 1980). *OPIN* equals 1 only when a standard unqualified opinion report is issued and 0 otherwise; we expect that the coefficient on *OPIN* is negative because unqualified opinion indicates that the evaluated risk is low so that a lower level of audit fees will be charged.

Craswell and Francis (1999) indicate that audit firms charge lower audit fees on initial audit engagements. Hence, we expect that the coefficient on *INITIAL* will be negative. In addition, most literature suggests that larger audit firms charge higher audit fees (Francis, 1984; Palmrose, 1986; Hay *et al*, 2006). *LOSS* is an indicator variable which equals 1 when the company has loss in year *t* and 0 otherwise, To control for the effects of audit firm size on audit fees, we identify the Big 5 auditing firms in Jordan based on their total assets and include *AUDSIZE* in the equation. The coefficient on *AUDSIZE* is expected to be positive. *EXCH* is an indicator variable which equals 1 when the company is listed on the Amman Stock Exchange and 0 otherwise.

#### 4. Data

Our study is based on publicly available information obtained from a sample of annual reports from Jordanian industrial companies listed in Amman Stock Exchange (ASE). The final Sample consists of data from a total of (1274) financial statements representing 91 listed companies during the period 1998 to 2011.

For financial periods beginning on or after 1 January 2005, all Jordanian companies were required to prepare IFRS-compliant financial statements. We require seven years of preceding audit fee data in our pre-IFRS period (1998-2004), auditor information, and post-IFRS transition information which we hand-collect from industrial companies' annual reports of seven years after IFRS adoption (2005-2011). We collect other financial information relating to the control variables employed in the audit fee regression model from Jordanian Association of CPA's.

## **5. Empirical Results**

Table 1 provides the descriptive statistics of primary variables. Most of our sample companies are audited by accounting firms that affiliated with international auditing firms. About 96 percent of observations receive standard unqualified opinion from their audit firms, suggesting that the average audit risk as assessed by auditors is not very high among our sample firms. Finally, as reported in Table 2, we find that all independent variables are significantly correlated with the dependent variable, which means that independent variables are able to interpret the change in the dependent variable, In addition to that; we do not find a high degree of correlation among our variables based on the Pearson correlation coefficients, this suggesting no severe multicollinearity problem.

**Table 1. Descriptive Statistics (N=1274)**

<b>Variables</b>	<b>Mean</b>	<b>Std. Dev.</b>
LNFE	10.650	0.565
ADOPT	0.542	0.520
INTEXP	0.352	0.491
LNTA	15.332	0.983
LEV	0.633	0.315
ARINV	0.305	0.181
LOSS	0.429	0.787
GDWILL	0.253	0.126
AUDSIZE	0.268	0.450
OPIN	0.946	0.284
INITIAL	0.082	0.306
EXCH	0.976	0.272

Table 2. Pearson correlation coefficients

Variable *	<i>LNFE it</i>	<i>ADOPT it</i>	<i>INTEXP it</i>	<i>LNTA it</i>	<i>ARINV it</i>	<i>LEV it</i>	<i>LOSS it</i>	<i>GDWILL it</i>	<i>OPIN it</i>	<i>AUDSIZE it</i>	<i>INITIAL it</i>	<i>EXCH it</i>
<i>LNFE it</i>	1											
<i>ADOPT it</i>	0.335*	1										
<i>INTEXP it</i>	0.475*	0.356*	1									
<i>LNTA it</i>	0.261*	0.167*	-0.042	1								
<i>ARINV it</i>	0.133*	.0106	0.096	0.016	1							
<i>LEV it</i>	0.326*	-0.009	0.021	0.143*	0.139*	1						
<i>LOSS it</i>	0.314*	-0.056	-0.035	-0.021	-0.019	*0.421	1					
<i>GDWILL it</i>	0.164*	-0.002	0.089	0.009	0.001	0.009	-0.011	1				
<i>OPIN it</i>	0.061	0.052	0.036	0.051	0.042	*0.272	-0.018	0.031	1			
<i>AUDSIZE it</i>	0.494*	0.019	-0.013	0.064	0.037	-0.011	-0.023	0.165*	-0.013	1		
<i>INITIAL it</i>	-0.021	-0.031	0.014	0.017	0.003	0.061	0.297*	0.172*	-0.052	0.008	1	
<i>EXCH it</i>	0.324*	0.001	0.291*	0.251*	0.002	0.028	-0.031	0.002	0.001	0.299	0.002	1

\*: significant at the 5% level.

Model (1) in table 3 reports the regression of audit fees on *ADOPT* and other control variables. The result indicates that the adoption of IFRS has significantly increased audit fees for Jordanian listed industrial companies in the IFRS-compliant period (0.392, 0.000). This finding supports our first hypothesis (*H1*): *There is an increase in audit fees for listed Jordanian Industrial Companies after the IFRS adoption*. The significantly positive coefficients on *ADOPT* are consistent with those found in previous literature.

**Table 3: Results of regression of audit fees on the IFRS adoption, auditor experience with IFRS, state ownership and other control variables.**

	Hypotheses – H (1)		Hypotheses – H (2)	
	Coeff.	p-value	Coeff.	p-value
Intercept	9.051	0.000	9.114	0.000
ADOPT	0.392	0.000	0.561	0.000
INTEXP			0.467	0.000
ADOPT*INTEXP			0.307	0.001
LNTA	0.523	0.000	0.465	0.000
ARINV	0.322	0.001	0.387	0.001
LEV	0.202	0.000	0.416	0.000
LOSS	0.381	0.000	0.277	0.001
GDWILL	0.476	0.000	0.358	0.000
AUDSIZE	0.393	0.000	0.571	0.001
OPIN	-0.482	0.000	-0.179	0.001
INITIAL	-0.027	0.138	-0.338	0.024
EXCH	0.124	0.019	0.013	0.104
R2	56.28%		58.61%	
F	73.66		86.87	
Vif (max)	1.84		1.95	

For testing the second hypothesis (*H2*); model (2) in table 3 shows the regression of audit fees on *INTEXP*. The result indicates that members of international auditing firms in Jordan charge higher incremental audit fees than other local audit firms. In other words; positive coefficients on *ADOPT* (0.561, 0.000), *INTEXP* (0.467, 0.000) and *ADOPT\*INTEXP*(0.307,0.001) suggest that members of international accounting firms charge a higher level of audit fees than local Jordanian CPA firms. On the other hand, the significantly positive coefficients also suggest that, in the initial years of IFRS adoption, international member firms charge higher incremental audit fees than local Jordanian CPA firms. This finding supports our second hypothesis (*H2*): *Members of international auditing firms in Jordan charge higher incremental audit fees than other local auditing firms after the adoption of IFRS*. Auditors in Jordan when being affiliated with international auditing firms have access to IFRS-related resources and thus are capable of providing better audit service and charge higher audit fees.

Consistent with prior studies, the significantly positive coefficient on *AUDSIZE* suggests that Big 5 audit firms in Jordan charge a much higher level of audit fees than other local Jordanian audit firms. Both Big 5 member firms and other international auditing firms charge higher audit fees after the IFRS adoption than other local Jordanian auditing firms. Big 5 CPA firms and International affiliated audit firms are larger in their size and have rich global resources and supports (0.393, 0.000 and 0.571, 0.001). It is therefore possible for them to charge more audit fees after the implementation of new accounting standards in Jordan.

For our control variables, we find significant coefficients in the expected direction for all variables - especially for *LOSS*, *GDWILL* and *ARINV*.

## 6. Conclusions

Many literatures have supported and proved the effects of IFRS adoption on audit fees in different countries around the world. We arrive at the same conclusion in this study; except for the control variable *ARINV* in which we reported a positive correlation, and so for the control variable *GDWILL* which – up to our knowledge - has been considered for the first time in any given regression model, we also reported a positive correlation for *GDWILL*. The result indicates that the adoption of IFRS has significantly increased audit fees for Jordanian listed industrial companies in the IFRS-compliant period. Also; this study finds that the significantly positive coefficients on *INTEXP* suggest that members of international accounting firms charge a higher level of audit fees than local Jordanian CPA firms. On the other hand, the significantly positive coefficients on *ADOPT\*INTEXP* suggest that, in the initial years of IFRS adoption, international member firms charge higher incremental audit fees than local Jordanian CPA firms. The result indicates that the adoption of IFRS has significantly increased audit fees for Jordanian listed industrial companies in the IFRS-compliant period. Also; this study finds that the significantly positive coefficients on *INTEXP* suggest that members of international accounting firms charge a higher level of audit fees than local Jordanian CPA firms. We empirically demonstrate that IFRS Adoption is an important driver of the audit fees; it is our understanding that the impacts of IFRS adoption on audit fees in Jordan have not been widely studied, and we empirically demonstrate that IFRS-related auditing expertise is an important determinant of the audit fees. We recommend that the local Jordanian audit firms should capture potential advantage of being affiliated with international audit firms. The outcome of the study can be used by audit firms to determine audit fees. Companies' management can also use the results of the study to predict the amount of audit fees that they will pay. In order to generalize the outcome of the study, the same study needs to use other variables such as the market share of the audit firm and the economic conditions of the country need to be included in the regression model in future research.

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