

Do auditor–provided tax service fees (approved by the audit committee)
influence the quality and the price of audit services in the UK?

Adam AOUN and Alain SCHATT

HEC Lausanne

Abstract

We investigate whether tax fees influence the quality and the price of audit services in the UK. Our cross–sectional analyses suggest a positive association between tax fees and audit quality. However, when accounting for the fact that audit committee must approve the provision of tax services by the incumbent auditor, and more specifically that the presence of women is negatively associated with tax fees, we find no significant difference in audit quality but lower audit fees for firms that pay more tax fees. This result holds with our two measures of audit quality: restatements and going concern opinions. In an additional analysis, we also use a new measure of audit quality (key audit matters on income taxes) and our results are unchanged. Overall, we conclude that tax fees are beneficial to shareholders as they do not impair audit quality but reduce the price of audit services. Thus, our findings should be of great interest for investors and regulators.

Keywords

European regulation, Tax fees, Audit quality, Audit fees, United Kingdom.