POLITICALLY CONNECTED FIRMS AND EXTERNAL AUDIT FEES IN MALAYSIA: AN INTERNAL AUDIT FUNCTION PERSPECTIVE

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ABSTRACT

This study extends the literature on the role of internal audit function in corporate governance and auditing by testing two hypotheses. The first hypothesis predicts that the association between internal audit objectivity and external audit fees is stronger after the implementation of the Bursa Malaysia Listing Requirements 2008 implementation for politically connected firms than for non-politically connected firms. The second hypothesis predicts that the association between internal audit work performance and external audit fees is stronger after the implementation of the Bursa Malaysia Listing Requirements 2008 for politically connected firms than for non-politically connected firms. Using data from 945 firm-year observations for the years 2005 to 2009, internal audit function attributes, namely, objectivity and work performance, and external audit fees are stronger post-2008. This finding suggests that politically connected firms are more likely to use a greater level of internal audit function and are more willing to pay for a higher quality of external audit work, thus acquiring higher external audit fees.

Keywords: *Audit fees, corporate governance, internal audit, political connections*

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Introduction

The importance of good governance and the need to raise corporate governance standards have been recognized since the 1997 Asian financial crisis, thus highlighting the need for strong corporate governance practices. The Malaysian corporate governance landscape transformed significantly since the release of the first Malaysian Code of Corporate Governance in 2000 (MCCG, 2000). The Code was revised in 2007 as MCCG 2007; in 2012, it was further enhanced as MCCG 2012[1]. Although the MCCG 2000 introduced the best practices in corporate governance available at that time, the MCCG 2007 later presented more enhanced corporate governance mechanisms. Some of the revised mechanisms were made mandatory for listed firms under the new Listing Requirements by Bursa Malaysia in 2008. The Bursa Malaysia Listing Requirements (BMLR) 2008 aims to strengthen the roles and responsibilities of internal audit function and audit committees to ensure the effective discharge of their duties.

Malaysia has made significant progress in developing an efficient and well-regulated capital and financial market, as well as in strengthening the institutional framework for the regulation of the accounting and auditing profession (World Bank, 2012). In addition, Khazanah is pressuring its investees (mostly political connected (PCON) firms) in its transformation program of implementing best practices in corporate governance to protect their reputational capital. Khazanah's crucial steps to introduce measures aim to enhance board effectiveness by revamping board practices and processes (Khazanah's Green Book, 2006). Good progress has been achieved in improving the quality and consistency of corporate financial reporting and corporate governance for listed firms.

The World Bank Report in 2005 observed that Malaysia achieved a high level of government equity ownership, which was then seen as a challenge to enhance good corporate governance in Malaysia. Several corporate governance studies prior to 2007 investigated PCON firms[2], and they were found to be more risky (Gul, 2006) and were perceived to exhibit poor

1 MCCG 2012 will take effect on Dec 31, 2012 and the Securities Commission's CG Blueprint 2011 with 35 new recommendations pave the way forward for the Malaysian CG reforms.

2 Politically connected firms are firms identified to have political connections with key government officials (see Gomez and Jomo, 1999; Johnson & Mitton, 2003; Mohamad et al., 2006; Abdul Wahab et al., 2009 and 2011).

corporate governance and greater agency problems (Abdul Wahab, Mat Zain, James & Haron, 2009). The political embeddedness perspective may also be pertinent to explain the corporate setting in Malaysia, where PCON firms have ties with a certain political party or politician (Okhmatovskiy, 2010). The existence of the PCON firms is due to the Malaysian government's intervention to increase Bumiputra equity ownership. The intervention started with the introduction of the New Economic Policy in 1971, and it continues to grow since then. The reason is that, from a political perspective, equitable distribution of corporate wealth is the key element under the national development policy. Despite the consensus in the extant literature that PCON firms differ from other types of ownership structured firms (Faccio, 2010), limited empirical evidence exists on the influence of corporate governance reforms between these two groups. Therefore, further investigation is necessary.

Previous studies have generally suggested that internal control (i.e., internal audit function) and external auditing can substitute for each other, so that better internal control will be associated with lower audit fees (Simunic, 1980). Prawitt, Smith, and Wood (2008) also highlight that high quality internal audit function (IAF) results in lower external audit fees. By contrast, past research has also examined the interaction between IAF and external audit services, and has found them to be complementary. From this demand-side perspective, improved corporate governance is associated with higher audit fees. Hay, Knechel, and Ling (2008) find that controls, governance, and auditing are complements, not substitutes, and an increase in one will lead to an increase in the others. According to Goodwin and Kent (2006), audit fees are positively related to the use of an internal audit function, as firms with strong corporate governance practices are likely to engage in greater levels of internal auditing and are also willing to pay for a higher quality of external audit work. Therefore, mixed findings on the relationship between the internal governance mechanisms of internal audit functions and audit fees have been reported (Goodwin & Kent, 2006). The inconclusive results compel this study to explore these associations further and suggest that enhanced internal audit function in PCON firms will lead to higher external audit fees.

The remainder of this paper is structured as follows. The following section briefly explains the literature review and hypotheses development. The third

section describes the research design. The results of the study are reported in the fourth section, and the conclusions and the implications of the study are presented in the final section.

Literature Review and Hypothesis Development

BMLR 2008 recognizes the importance of internal audit, and all listed firms are required to establish an IAF to report directly to the audit committee, as provided in Para 15.28 (1). The linkage between the internal audit and the audit committee is important for the effective communication and coordination of both parties. Moreover, Appendix 9C (30) of the BMLR 2008 requires enhanced disclosures in the annual report on implemented activities and incurred related costs for the IAF, regardless of whether the function is performed in-house or outsourced. All listed firms are required by the regulation, as stated in Para 15.28 (2), to establish an IAF independent of the activities it audits. In addition, Para 15.16 (3) of the BMLR 2008 requires the information pertaining to the internal audit activities to be disclosed in the audit committee report.

Evidently, the interaction between internal auditors and audit committee is a broad concept and includes a variety of activities (Scarbrough, Rama & Raghunandan, 1998). The quality of internal control requires assessment (Gramling, Maletta, Arnold & Bryan, 2004) by the external auditors so that they can rely on the work performed by the internal auditors (Gramling, 1999). However, the external auditors' reliance on internal audit work may not reduce external audit fees. Goodwin and Kent (2006) suggest a significant positive association between the IAF and external audit fees in the context of Australia. In addition, audit fees in Malaysia are not reduced because of the external auditors' reliance on the internal audit work, given the external auditors' increased time in examining other more critical and important areas (Mat Zain, 2005). Entities use internal audit as complementary rather than as a substitute to external audit. Therefore, such expectations on the IAF to improve corporate governance and demand for further quality audit work will undoubtedly increase external audit fees for PCON firms. Furthermore, the external auditing standards allow their external auditors to rely on the work of internal auditors in performing a financial statement audit to the extent that the internal auditors become competent and objective to perform

the work as stated in SAS No. 65 relevant to the external audit (AICPA 1997; PCAOB 2007). Audit members of PCON firms are anticipated to continue demanding for audit quality. Therefore, additional audit testing will lead to higher external audit fees. This study follows Mat Zain (2005) that uses SAS No. 65 for Malaysian data. However, only objectivity and work performance are applied in this research because of the changes in the BLMR in 2008. No available data exist to measure the competency of the IAF. Therefore, the following hypotheses are formulated:

Hypothesis 1: The association between IAF attributes, namely, objectivity and external audit fees, is stronger post BMLR 2008 implementation for PCON firms than for non-PCON firms.

Hypothesis 2: The association between IAF attributes, namely, work performance and external audit fees, is stronger post BMLR 2008 implementation for PCON firms than for non-PCON firms.

Research Method

Data Collection

The sample consists of 945 firm-year observations for 2005 to 2009. Unavailable data from DataStream are collected from the annual reports of Malaysian firms listed on Bursa Malaysia's main board. The data are then divided into the pre-test period (2005 to 2007) and the post-test period (2008 and 2009).

Audit Fee Model

The dependent variable is measured by the value (Ringgit Malaysia) of the audit fee paid by the firm to its auditors. The main experimental variables are IAF attributes, namely, objectivity (OBJ) and work performance (WP). Audit fee models from past research have used client size (TA), complexity (SUB and SEG), and risk (ROA and LOSS) of the audit client (Simunic, 1980; Craswell, 1992; Gul & Tsui, 1997; Francis, 1984; Chan, Ezzamel & Gwilliam, 1993). Non- audit fees (NAF) (Whisenant, Sankaraguruswamy & Raghunandan, 2003; Hay, Knechel & Wong, 2006; Hay, 2013) and a dummy variable for Big4 in audit quality (AQ) (Craswell & Francis, 1999;

Tsui, Janggi & Gul, 2001) are also selected in this study. A dummy variable that takes a value of "1" for PCON firms and "0" otherwise is also used as a control variable.

Descriptive Statistics

Descriptive analysis is used to describe the characteristics of the sample and the control sample. Table 1 shows the t-tests and chi-square analysis for the continuous and indicator variables. Both *t*-tests and chi-square tests are used, where appropriate, to test for differences between the pre-test and the post-test period for PCON and non-PCON firms, with the descriptive of mean, standard deviation, and median. The average audit fees (AF) is shown to have increased from M$311,428 during the pre-test period to M$392,038 during the post-test period. On average, OBJ increases from 72% to 95%, and this finding shows an increase in the head of internal audit directly reporting to the audit committee. The mean of WP in activities performed and disclosed during the year by the internal audit department also increases from 10.05 to 11.76. As expected, the sample firms' IAF attributes record significantly higher scores for the post-test period than for the pre-test period. Therefore, corporate governance generally improves after 2008, especially for the internal audit function attributes of OBJ and WP.

Table 1: Descriptive Statistics for the Number of Observations (n= 945)

	Pre-test period (Year 2005 to 2007)			Post-test period (Year 2008 to 2009)			
Variable	Mean	Std. Dev	Median	Mean	Std. Dev	Median	t-test/ Chi-square
LAF	11.86	0.97	11.75	12.09	0.99	11.95	-3.19*
AF	311482.01	806839.07	127000.00	392038.28	1089342.13	157350.00	-1.31*
LTA	13.29	1.48	13.10	13.42	1.49	13.12	-1.39
TA	2578740.30	8119084.35	489796.00	2973801.51	7970066.84	505049.00	-0.74
LNAF^{o}	3.26	10.60	9.31	4.337	10.14	9.65	-1.55
NAF	178281.09	789437.16	11000.00	193974.70	15510.00	822646.01	-0.29
SUB	20.72	12.00	31.27	22.74	33.51	13.00	-0.95
SEG	3.09	1.59	3.00	3.09	1.59	3.00	-0.03
ROA	0.06	0.09	0.06	0.06	0.09	0.062	0.97
LOSS	0.18	0.39	0.00	0.19	0.39	0.00	©0.73
AQ	0.69	0.46	1.00	0.68	0.47	1.00	©0.77
PCON	0.35	0.22	0.00	0.35	0.22	0.00	©0.53
OBJ	0.72	0.49	1.00	0.95	0.22	1.00	©0.00*
WP	10.05	2.79	10.00	11.76	2.34	12.00	-10.19*

p < 0.05; © chi-square tests ^{o}Observations with zero for LNAF are re-coded to a small positive value (0.00001) to enable a logarithmic transformation.

Notes: AF is the audit fees, and LAF is the natural logarithm of audit fees; TA is the total assets (in RM), and LTA is the natural logarithm of total assets; NAF is the non-audit fees (in RM), and LNAF is the natural logarithm of non-audit fees; SUB is the number of subsidiaries; SEG is the number of business segments; ROA is the net profit before tax over total assets; LOSS is an indicator variable equal to "1" if the firm has incurred loss in any of the years and "0" otherwise; AQ an indicator variable equal to "1" if the firm hires Big4 auditor and "0" otherwise; PCON is an indicator variable equal to "1" if PCON firms and "0" otherwise; OBJ is an indicator variable equal to "1" if the internal audit function reports to an audit committee and "0" otherwise; and WP is the voluntary disclosure on IAF under Para 43 of Statement of Internal Control (SIC).

The mean of TA of the firms for the pre- and post-test periods is M$2,578,740 and M$2,973,801, respectively. The average NAF is M$178,281 (pre-test period) and M$193,974 (post-test period). Average ROA, PCON, and SEG

for both periods are 0.06, 0.35, and 3.09, respectively. The average number of local subsidiaries (SUB) is 20.72 (pre-test period) and 22.74 (post-test period), and that of LOSS is 0.18 (pre-test period) and 0.19 (post-test period).

Model Specification

Drawing from previous literature (i.e., Craswell & Francis, 1999; Tsui, Janggi & Gul, 2001; Carcello, Hermanson, Neal & Riley, 2002), we run the following regression model to test the hypotheses:

$LAF = \beta_0 + \beta_1 TA + \beta_2 NAF + \beta_3 SUB + \beta_4 SEG + \beta_5 ROA + \beta_6 LOSS + \beta_7 AQ + \beta_8 PRD + \beta_9 PCON + \beta_{10} OBJ + \beta_{11} WP + \beta_{12} OBJ\_PCON + \beta_{13} WP\_PCON + \varepsilon$, where:

LAF	=	External Audit fee paid by the client (natural logarithm of AF)
Control Variables		
TA	=	Natural logarithm of total assets.
NAF	=	Natural logarithm of non-audit fees.
SUB	=	Number of local subsidiaries.
SEG	=	Number of business segments.
ROA	=	Profit before tax over total assets.
LOSS	=	An indicator variable equal to "1" if the firm has incurred loss in any of the years and "0" otherwise.
AQ	=	An indicator variable equal to "1" if Big4 auditor and "0" otherwise.
PRD	=	An indicator variable equals to "1" for the post-test period and "0" otherwise.
PCON	=	An indicator variable equal to "1" for PCON firms and "0" otherwise.
Experimental Variables		
OBJ	=	An indicator variable equal to "1" if head of internal audit reports directly to the AC and "0" otherwise.
WP	=	Number of voluntary disclosure under IAF per Para 43 of Statement of Internal Control (SIC)
OBJ_PCON	=	Interaction term between OBJ and PCON
WP_PCON	=	Interaction term between WP and PCON
ε	=	Error term

Results and Discussion

Table 2 reports the correlations of the variables used in the regressions for the pre-test and post-test periods between the external audit fees and other variables. From the table, the IAF attributes of objectivity and work performance have a positively significant relationship with external audit fees for both testing periods. This finding suggests that as IAF increases, the external audit fees increase as well. Although a few governance variables are significantly correlated with each other, their correlations do not indicate that multicollinearity is a serious problem.

Table 2: Pearson Correlation Matrix of the Sample Firms (Year 2005 to 2009, n= 945)

	LAF	AF	LTA	TA	LNAF	NAF	SUB	SEG	ROA	LOSS	AQ	PCON	OBJ	WP
LAF	1	0.809**	0.770**	0.445**	0.320**	0.434**	0.744**	0.386**	0.117*	-0.134**	0.262**	-0.139**	0.120**	0.197**
AF		1	0.645**	0.423**	0.189**	0.689**	0.888**	0.285**	0.138**	-0.074	0.125**	-0.128**	-0.051	0.001
LTA			1	0.624**	0.287**	0.443**	0.556**	0.270**	0.103*	-0.132**	0.312**	-0.162**	0.082	0.109**
TA				1	0.159**	0.522**	0.378**	0.151**	0.053	-0.095*	0.122**	-0.113**	0.034	0.134**
LNAF					1	0.292**	0.213**	0.070	0.124**	-0.068	0.212**	-0.162**	0.057	0.108*
NAF						1	0.539**	0.128**	0.214**	-0.036	0.146**	-0.117**	0.043	0.099*
SUB							1	0.399**	0.130*	-0.065	0.118**	-0.138**	-0.068	0.016
SEG								1	-0.042	-0.037	0.017	0.027	-0.037	0.018
ROA									1	-0.616**	0.045	-0.045	0.026	0.042
LOSS										1	-0.053	0.043	0.036	0.026
AQ											1	-0.047	-0.073	0.018
PCON												1	-0.074	0.034
OBJ													1	0.463**
WP														1
LAF	1	.805**	0.782**	0.506**	0.318**	0.349**	0.748**	0.385**	0.152**	-0.052	0.272**	-0.114*	0.145**	0.170**
AF		1	0.631**	0.611**	0.165**	0.618**	0.816**	0.268**	0.107*	-0.051	0.110*	-0.105*	0.062	-0.016
LTA			1	0.637**	0.274**	0.384**	0.562**	0.240**	0.179**	-0.103*	0.320**	-0.131*	0.068	0.096
TA				1	0.132*	0.435**	0.484**	0.133*	0.066	-0.019	0.138**	-0.083	0.063	0.130*
LNAF					1	0.234**	0.203**	0.117*	0.072	0.013	0.258**	-0.118*	0.116*	-0.015
NAF						1	0.608**	0.216**	0.113*	-0.023	0.126**	-0.090	0.047	0.016
SUB							1	0.382**	0.127*	-0.063	0.128*	-0.109*	0.072	-0.037
SEG								1	-0.012	-0.030	-0.018	0.029	0.016	0.016
ROA									1	-0.596**	0.128*	-0.108*	-0.018	-0.091
LOSS										1	-0.103*	0.052	0.053	0.001
AQ											1	-0.072	-0.009	0.027
PCON												1	-0.191**	0.018
OBJ													1	0.375**
WP														1

Notes: AF is the audit fees, and LAF is the natural logarithm of audit fees; TA is the total assets (in RM), and LTA is the natural logarithm of total assets; NAF is the non-audit fees (in RM), and LNAF is the natural logarithm of non-audit fees; SUB is the number of subsidiaries; SEG is the number of

business segments; ROA is the net profit before tax over total assets; LOSS is an indicator variable equal to "1" if the firm has incurred loss in any of the years and "0" otherwise; AQ is an indicator variable equal to "1" if the firm hires a Big4 auditor and "0" otherwise; PCON is an indicator variable equal to "1" if PCON firm and "0" otherwise; OBJ is an indicator variable equal to "1" if the internal audit function reports to an audit committee and "0" otherwise; and WP is the voluntary disclosure on IAF under Para 43 of Statement of Internal Control (SIC).

Table 3 presents the multiple regression results for testing the hypotheses. In testing the validity of the models used in the study, the traditional audit fee model introduced by Simunic (1980) is used. The natural log of audit fees is regressed in the control (Simunic, 1980; Yatim, Kent & Clarkson, 2006; Gul, 2006; Ferguson, 2005) and experimental variables. The results in Models 1 and 2 are significant at the 1% significant level (p=0.000), with an adjusted R^2 of at least 82.5%, which is comparable with those in other Malaysian studies on this area (Yatim, Kent & Clarkson, 2006; Abdul Wahab, Mat Zain & James, 2011). Model 1 shows the association between external audit fees on nine control variables derived from extant literature (Abbott et al., 2003, Goodwin & Kent, 2006; Yatim, Kent & Clarkson, 2006; Abdul Wahab, Mat Zain, James & Haron, 2009). It also introduces the IAF attributes, namely, OBJ and WP, which are positive and significantly associated with external audit fees. Model 2 shows the interaction variable of PCON, which comprises two models. Hypotheses 1 and 2 predict a stronger relationship between the IAF attributes, OBJ and WP, and AF post-BMLR 2008 implementation for PCON firms. The coefficient of OBJ is positive and significant (0.108, t=3.271, p<0.01). The association between OBJ and AF is stronger post-BMLR 2008 than before. Therefore, H1 is fully supported. The positive coefficient indicating that PCON firms' heads of internal audit report directly to the audit committee is stronger after the implementation of BMLR 2008 than before. A positive and significant result for WP and AF at the 1% significant level (0.154, t=2.256) is also observed. Therefore, H2 is fully supported. PCON firms disclose more information on internal audit activities per Para 43 of SIC. The internal audit responsibility reflects the reporting relationships of IAF with the audit committee and the role of audit committee in its oversight of IAF. Similarly, Goodwin and Kent (2006) and Hay, Knechel, and Ling (2008) reported that internal audit and external audit are complementary mechanisms within the governance framework. The reason is that external auditing standards enable external auditors to rely on the work of internal auditors in performing a financial statement audit to the extent that the

internal auditors become competent, objective, and perform work relevant to the external audit (AICPA 1997; PCAOB 2007).

Table 3: Audit Fee Regression Models (n= 945)

		Model 1		Model 2			
				I		II	
Variable	Sign	Coefficient	t-value	Coefficient	t-value	Coefficient	t-value
Constant			31.072		31.745		31.634
LTA	+	0.415	18.108***	0.406	17.685***	0.408	17.829***
TA	+	0.056	2.883***	0.052	2.703***	0.058	2.991***
LNAF	+	0.061	4.028***	0.064	4.242***	0.060	3.930***
NAF	+	0.079	3.849***	0.085	4.162***	0.080	3.922***
SUB	+	0.691	23.718***	0.701	23.960***	0.693	3.908***
SEG	+	0.055	3.524***	0.057	3.654***	0.056	3.600***
ROA	-	0.072	3.848***	0.070	3.771***	0.068	3.669***
LOSS	+	-0.005	-0.270	0.058	3.890	0.057	3.786
AQ	+	0.057	3.799***	-0.005	-0.296***	-0.007	-0.388
PRD	+	-0.070	-1.258	0.045	2.746**	0.045	2.745**
PCON	-	0.046	2.813***	0.055	1.782*	0.103	2.354**
OBJ	+	0.049	2.988***	0.026	1.407	0.052	3.207***
WP	+	0.123	7.503***	0.119	7.290***	0.093	4.944***
OBJ_ PCON	+			0.108	3.271***		
WP_ PCON	+					0.154	2.256***
F-statistic		257.641		257.660		257.660	
p-value		0.000		0.000		0.000	
Adj. R^2		0.825		0.826		0.826	

p < 0.10; **p<0.05; ***p<0.01

ºObservations with a zero for LNAF are re-coded to a small positive value (0.00001) to enable a logarithmic transformation.

Notes: AF is the audit fees, and LAF is the natural logarithm of audit fees; TA is the total assets (in RM), and LTA is the natural logarithm of total assets; NAF is the non-audit fees (in RM), and LNAF is the natural logarithm of non-audit fees; SUB is the number of subsidiaries; SEG is the number of business segments; ROA is the net profit before tax over total assets; LOSS is an indicator variable equal to "1" if the firm has incurred loss in any of the years and "0" otherwise; AQ an indicator variable equal to "1" if the firm hires a Big4 auditor and "0" otherwise; OBJ is an indicator variable equal to "1" if the internal audit function reports to an audit committee and "0" otherwise; WP is the voluntary disclosure on IAF under Para 43 of Statement of the Internal Control (SIC); OBJ_PCON is the interaction term between OBJ and PCON; and WP_PCON is the interaction term between WP and PCON.

The client size (TA) coefficient (0.052, t=2.703) is positive and significant at the 1% significant level. This finding indicates that the larger the size of a firm is, the higher the charged audit fees. The coefficient (0.085, t=4.162) on NAF is also positive and significant at the 1% significant level. Furthermore, SUB and SEG coefficients are found to be positive and significant at 0.701 and 0.057, respectively. As the complexity and risk become higher, the external audit fees also increase. AQ, PCON, and PRD are positive and significant. None of the variance inflation factors (not reported here) for any of the variables in the regressions exceeds 10, thus substantiating the absence of multicollinearity (Neter, Wasserman & Kutner, 1987).

Conclusions

Previous results on the relationship between internal governance mechanisms and external audit fees have been inconclusive and have provided conflicting results. The current study examines the relationship between IAF attributes and external audit fees in Malaysia. The BMLR 2008 mandatory regulations on the internal audit function are predicted to be positively associated with higher external audit fees for PCON firms. The panel analysis of 945 firm-years for the period of 2005 to 2009 reveals that a stronger relationship between internal audit objectivity and work performance, and external audit fees is observed for PCON firms post BMLR 2008 implementation. Internal audit and external audit are complementary mechanisms within the governance framework. Higher external audit fees for firms with improved governance are documented, and this finding is in accordance with the demand-side explanation. Although external auditors can place such reliance on the internal audit contribution, the reduction of external audit fees charged to audit client is insignificant because external auditors are not willing to pass on the cost savings to the client. Additionally, the Green Book guidelines have led PCON firms to adopt stronger governance by enhancing board effectiveness (Khazanah's Green Book, 2006).

We believe that the possible influence of these programs on PCON firms lies on their reputation as favored organizations by the government. Furthermore, firms committed to strong corporate governance are likely to engage in greater levels of internal auditing and are prepared to pay for a higher quality of external audit work. The reason is that board members who sit on

PCON firms demand for an expanded audit scope to avoid being associated with a financial misstatement and to preserve their reputational capital. Therefore, PCON firms are committed to strong corporate governance. They are in place to monitor the management, but they may also act in their own personal best interest and not in the interest of the shareholders. We also acknowledge the importance of addressing the association between IA and external audit fees from the demand-side perspective: stronger IAF is associated with increased external audit fees.

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