THE IMPACT OF AUDITOR-PROVIDED NON-AUDIT SERVICES ON AUDIT QUALITY: A REVIEW OF THE ARCHIVAL LITERATURE

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Abstract

The paper gives an overview of the results of a structured literature review. It covers archival studies on the relationship between non-audit services (NAS) fees and factual as well as perceived audit quality published in journals included in the accounting subject category of the SCImago Journal Ranking. It also includes a critical evaluation of the research methods applied in prior research and offers avenues for future research. The provision of NAS to audit clients creates threats to auditor independence. Consequently, regulators have focused on the simultaneous provision of audit and NAS for many years and restricted it over time. This paper aims to assess which regulatory actions are justified in light of related archival research findings. Overall, prior research does not clearly prove a negative impact of non-audit services on factual audit quality. However, it demonstrates a negative relationship between non-audit fees and audit quality perceptions. Moreover, it also reveals that tax consulting fees are less problematic.

Keywords: Archival Research, Auditor Independence, Audit Quality, Literature Review, Non-Audit Services

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1. INTRODUCTION

This paper provides an overview of the state of archival research on the impact of non-audit services (NAS) provision on factual and perceived audit quality. NAS are any professional services provided by an audit firm that are not connected to an audit or review of financial statements[1]. Law entrusts auditors to conduct statutory audits. They fulfill a societal role in providing an opinion on the truth and fairness of audited entities' financial statements and reducing the risk of misstatement. The purpose of an audit is to enhance the credibility of financial reports prepared by management (Watts & Zimmermann, 1986). Thereby, audits contribute to financial stability, trust and market confidence in the economy by protecting investors from agency risk, which in turn reduces the cost of capital for companies (European Commission, 2010). To fulfill this role, auditors need to provide a reasonable level of audit quality. According to the generally accepted definition of DeAngelo (1981b), audit quality is the market-assessed joint probability that an auditor will discover material misstatements (auditor

[1] The increase in loss reporting during these periods coincide with a significant decrease in sales, suggesting that the decrease in sales in these financially distressed periods is a major cause for the reporting of losses.

competence) and report them (auditor independence). This definition stresses that providing a high factual audit quality is insufficient but that users must also perceive audit quality as appropriate. The International Auditing and Assurance Standards Board (IAASB) Framework for audit quality encompasses five key elements: Inputs, processes, outputs, key interactions within the financial reporting supply chain, and contextual factors (International Auditing and Assurance Standards Board [IAASB], 2020). The inputs are grouped similarly to the audit quality definition of DeAngelo. They include the values, ethics, and attitudes of the auditor on the one hand and the knowledge, skills, and experience of the auditor on the other hand. Thus, auditor independence is an input factor, and the provision of NAS affects both input factors. Laws and regulations regarding the provision of NAS belong to contextual factors.

For auditor independence, the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants further distinguishes between independence of mind and independence in appearance (International Ethics Standards Board for Accountants [IESBA], 2022). Independence of mind is defined as 'the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism' (IESBA, 2022, section 400.5 (a)). Independence in appearance is defined as 'the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit team member's, integrity, objectivity or professional skepticism has been compromised' (IESBA, 2022, section 400.5 (b)). Both forms of independence can be affected negatively by the provision of non-assurance services, as the International Federation of Accountants (IFAC) Code of Ethics also acknowledges (IESBA, 2022, section 600.2).

The provision of NAS to audit clients potentially threatens auditor independence, which causes permanent attention by regulators. The 2008 financial crisis triggered reactions at the European Union (EU) level and further restrictions regarding NAS provision to audit clients of public interest (public interest entities, PIEs). This regulation (European Parliament and Council of the European Union, 2014) includes a blacklist of prohibited NAS and caps non-audit fees to 70 percent of the average audit fees over the last three consecutive financial years. The restrictions of the EU regulation are moderate compared to the initial proposal for a regulation of the European Parliament and of the Council of the European Commission, where the provision of any NAS was proposed to be prohibited for large audit firms with a high share of PIE clients (audit firm only approach; European Commission, 2011). In response to a series of accounting scandals, the UK regulator expanded the prohibition of NAS by audit firms for PIE clients (Department for Business, Energy & Industrial Strategy, 2021), which is now limited to services regarding legally required reports and audit-related services (Financial Reporting Council [FRC], 2019). Furthermore, the Big 4 audit firms have to operationally separate their audit and NAS practices by 30 June 2024 (FRC, 2020). Information on non-audit fees may help the users of audited financial statements assess whether auditor independence is threatened and to what degree. According to Article 18 of Directive 2013/34/EU, large undertakings and public-interest entities shall disclose the total fees for the financial year charged by the statutory auditor for the audit of the annual financial statements and the total fees charged for other assurance services, for tax advisory services and for other non-audit services (European Parliament and Council of the European Union, 2013). This disclosure requirement was already introduced in 2006 by Article 49 of Directive 2006/43/EC (European Parliament and Council of the European Union, 2006).

Theoretically, the simultaneous provision of audit and NAS may have contradictory effects on audit quality, and the total impact remains unclear. On the one hand, the provision of NAS to audit clients could enhance the auditor's ability to detect material misstatements through knowledge spillovers (Arruñada, 1999; Knechel et al., 2012). The auditor can use client-specific information acquired by consulting activities to gain additional insights into the client's business and operations, which improves the understanding of the client's procedures and controls and results in a more precise assessment of the client's risks. In summary, the provision of NAS to audit clients potentially expands auditor competence.

On the other hand, the joint provision of audit and NAS may threaten auditor independence due to economic and social bonding (Ferguson et al., 2004, Antle et al., 2006; Svanström, 2013). NAS profit margins are higher than those of audit services, knowledge spillovers could reduce audit costs, resulting in higher quasi-rents from audit services (Beck et al., 1988; Frankel et al., 2002), and total revenues from one particular client increase, all of it creating an economic bond between auditor and auditee (self-interest threat, Arruñada, 1999; Ruddock et al., 2006; Zhang and Emanuel, 2008). Furthermore, NAS provision is based on a specific bond of trust between the consultant (i.e., the audit firm) and client management. Because of such a close relationship (social bonding), the auditor may be too sympathetic to the client's interests which may hamper the auditor's professional skepticism, which is necessary for an objective testing of a client's accounting data (familiarity threat). Another threat to independence is when the auditor reviews previous judgments or activities associated with consulting activities, threatening an objective distance (self-review threat) (IESBA, 2022, section 120.6 A3). Finally, the auditor's promotion of a client's position towards third parties also creates an advocacy threat (IESBA, 2022, section 120.6 A3). Another reason for the potentially harmful effect of high NAS fee levels is that a focus on NAS provision could distract from auditing services (Beardsley et al., 2019).

Two theoretical models explain that the provision of NAS results in additional independence threats: the quasi-rent, DeAngelo's economic model (DeAngelo, 1981a), and Antle's agency-theoretical model (Antle, 1984). Technological start-up costs new auditors must bear, and transaction costs associated with changing auditors provide comparative advantages for the incumbent auditor over competitors. As a consequence, an incumbent auditor can expect future quasi-rents. However, fees for an initial audit are below audit costs. Thus, the auditor invests in the initial year and needs follow-up engagements for pay-offs. Consequently, the client can threaten the auditor with contract termination and, thereby, a loss of future quasi-rents for the incumbent auditor. Client-specific quasi-rents may impair auditor independence (DeAngelo, 1981a, p. 118). Knowledge spillovers may reduce audit costs if the statutory auditor provides NAS to the audit client. As a result, the economic bond between the auditor and the client is strengthened since quasi-rents from auditing services increase. Thus, the risk that the auditor's independence may become impaired increases (Beck et al., 1988).

There is a principal-agent relationship between the auditor and the owners. The auditor has more and better information on audit quality which is not entirely observable by the owners. The auditor could reduce efforts in carrying out the audit, e.g., by giving up independence and accepting side payments from management for not truthfully reporting. NAS could be used to give side payments a legal character (Antle, 1984).

Given the enormous importance of appropriate audit quality, the ambiguous theoretical effect of NAS on audit quality, and the importance of ensuring the independence of mind and appearance, which may be affected differently by auditors' NAS provision, a contemporary overview of related research seems to be beneficial. Literature is abundant on the association of NAS provision with audit quality. This literature uses a wide variety of proxies for audit quality and many different settings across space and time. To answer the question of whether this research justifies regulatory intervention in NAS provision, constructing consensus knowledge from this large literature would be desirable. Doing so requires a systematic and careful interpretation of the large variety of research designs and ensuing results. Against this backdrop, our literature review intends to answer four research questions:

RQ1: Do NAS fees impact factual audit quality?

RQ2: Do NAS fees impact perceived audit quality?

RQ3: Are the applied audit quality proxies suitable?

RQ4: What are promising avenues for future research?

Therefore, this paper's objective is to perform a structured literature review and provide a critical overview of prior research results concerning the relationship between NAS fees and factual and perceived audit quality. We commenced our literature review with a journal search focusing on the six leading accounting journals ('*Journal of Accounting Research*', '*Journal of Accounting and Economics*', '*The Accounting Review*', '*Review of Accounting Studies*', '*Contemporary Accounting Research*' and '*Accounting, Organizations and Society*'). Then, we added a database search using Science Direct, EBSCOhost, and Google Scholar. Assessing the publications through their titles, abstracts, and keywords, we performed a keyword search by combining 'non-audit services' with 'audit quality' or 'auditor independence'. Finally, we conducted a backward reference search by identifying and examining references cited in the previously found papers. The number of papers is exceptionally high. Therefore, we limited our analyses to papers written in English and published in journals included in the accounting subject category of the most recent SCImago Journal Ranking[2]. We only considered archival studies using an audit quality proxy as the dependent variable. We also ignored working papers because review processes have not adequately evaluated them, and it is difficult to identify all of them, which could have caused a selection bias.

This selection process identified 124 relevant publications from 44 research journals, covering the period from 1985 to 2022. However, only five publications are from the last century because NAS fee information was private in most environmental settings before the millennium change.

Overall, the prior research findings do not indicate a negative effect of NAS fees on factual audit quality. However, previous studies predominantly reveal a negative impact of the simultaneous provision of audit and NAS on audit quality perceptions. Beyond that, they suggest that other consulting services could be more problematic than tax and audit-related services.

Our review contributes to the literature as follows. First, we provide an update to possibly outdated broad and systematic literature reviews on NAS and audit quality (e.g., Schneider et al., 2006, which is not only outdated but also focused on the impact of NAS on auditor independence rather than audit quality)[3]. The impact of NAS fees on factual and perceived audit quality may change over time, for example, due to regulatory changes, accounting scandals, or economic crises. This implies a need for contemporary research and requires updated literature reviews. Moreover, the paper provides a comprehensive overview of archival research findings on the relationship between auditor-provided NAS and audit quality in fact and appearance. This distinguishes it from more recent work with narrower foci. For instance, Francis (2006) is designed to comment on a specific piece of research, Habib (2012) limits perceptions studies to those based on earnings response coefficients, Hay (2017) focuses on non-audit fees embedded in a review related to audit fees, Knechel et al. (2013) embed it in a broader review related to audit quality, Sun and Habib (2021) only regard tax consulting fees, and Tepalagul and Lin (2015), Velte and Loy (2018), and Yakubu and Williams (2020) look at further independence threats. In addition, this study includes a critical discussion of the applied research methods. The paper should be of particular interest to regulators. Effective knowledge transfer is important because accounting and auditing policymakers face demands from stakeholders to be more evidence-based in their decision-making (e.g., Teixeira, 2014). A systematic analysis of multiple research articles, achieved through research syntheses, is key for successful knowledge transfer

[2] The SCImago Journal Ranking might include some journals of lower quality. To address such a concern, we checked whether the journals in which the papers we analyzed for the literature review are published are included in the ABS Academic Journal Guide (ABS list). Only nine of them are not. The elimination of these nine papers would not affect the conclusions drawn from our analysis.

[3] In addition, the literature review by Schneider et al. (2006) is not limited to archival studies. It also includes studies with NAS fees as the dependent variable and even studies unrelated to NAS, e.g., audit firm tenure studies.

and would likely provide the greatest knowledge transfer. It has the potential to achieve the systematic two-way communications sought by audit academic researchers and policymakers (Saltario, 2021). A final contribution is the extensive suggestions for future research avenues.

The remainder of the paper is organized as follows. Section 2 provides an overview of prior research results regarding the relationship between NAS provision and factual audit quality and discusses the essential findings and the adequacy of applied audit quality proxies. Likewise, Section 3 summarizes research outcomes on the impact of NAS fees on audit quality perceptions. The following Section 4 presents the discussion. Section 5 outlines promising avenues for future research, and Section 6 summarizes the research findings and discusses their regulatory implications.

2. NAS FEES AND FACTUAL AUDIT QUALITY

Archival studies require the disclosure of NAS fees. This explains why only a few archival studies were published before the turn of the millennium based on Australian data, where NAS fee disclosure became mandatory already in 1971. In the UK, the separate disclosure of NAS has been compulsory since 1991. The US introduced NAS fee disclosure in 2002 and the EU in 2006. Therefore, the vast majority of publications are from the new millennium. Regulatory changes, accounting standards, and the financial crisis resulted in a constant flow of publications over time.

Apart from a few experiments (Joe & Vandervelde, 2007; Kowaleski et al., 2018), prior research on the impact of NAS fees on factual audit quality is based on archival studies. Audits are credence goods, and thus, audit quality is largely unobservable (Causholli & Knechel, 2012). Consequently, archival research must apply audit quality proxies to assess the impact of auditor-provided NAS on audit quality. Such proxies are related to auditor reporting decisions or indicators of accounting quality.

2.1. Audit opinions

The auditor expresses an opinion on whether the financial statements are prepared in accordance with the financial reporting framework (International Federation of Accountants [IFAC], 2016a, para. 10), which can be unmodified or modified. Three types of modified audit opinions exist: a qualified opinion, an adverse opinion, and a disclaimer of opinion (International Federation of Accountants [IFAC], 2016b, para. 7–10). A client incurs costs in case of a modified audit opinion, for example, due to an increase in the company's cost of capital. Therefore, clients have incentives to avoid such modifications and may pressure their auditor to give up independence. Thus, modified audit opinions, signaling the auditor's resistance to such potential pressure, are used to indicate high audit quality. Table 1 provides an overview of related studies.

Table 1. Studies on the relationship between NAS fees and qualified audit opinions

Author(s)	*Country*	*Result*
Wines (1994)	Australia	-
Barkness and Simnett (1994)	Australia	0
Craswell (1999)	Australia	0
Lennox (1999)	UK	+ (weakly significant)
Craswell et al. (2002)	Australia	0
Firth (2002)	UK	-
Hay et al. (2006)	New Zealand	0
Ahmad et al. (2006)	Malaysia	-
Ahadiat (2011)	UK, Australia	-
Ianniello (2012)	Italy	0 (+ for unqualified opinions plus emphasis of matter paragraph)
Wang and Hay (2013)	New Zealand	-
Zhang et al. (2016)	Norway	0
Legoria et al. (2017)	US	-
Castillo-Merino et al. (2020)	Spain	+ (tax, other NAS) 0 (other assurance services) 0 (future other NAS and assurance services) - (future tax services)

Note: + = increased audit quality; - = decreased audit quality; 0 = no significant impact on audit quality.

The use of qualified audit opinions is problematic because it assumes that all qualifications reflect higher audit quality. However, unmodified audit opinions only indicate poor audit quality if the financial statements are not free from material misstatements. If an unmodified audit opinion is appropriate, it will represent high audit quality. Thus, it would be more appropriate to compare companies with modified audit opinions only to companies with unmodified opinions *and* problems likely giving rise to modifications. Above that, it is possible that the NAS provision may resolve problems at the client firm prior to the audit and, thus, make it more likely that unmodified opinions are appropriate. Finally, the findings must be interpreted cautiously, given the typically small number of modified audit opinions.

2.2. Going-concern opinions

Whereas the studies mentioned above use different types of modified audit opinions, the second stream of research analyzes the impact of NAS fees' ongoing concern opinions. They are a straightforward measure of audit quality. The auditor's report plays a vital role in warning market participants of upcoming going-concern problems. If the use of the going-concern assumption to prepare the financial statements is inappropriate, the auditor shall express an adverse opinion. In case of the appropriate use of this assumption but a material going-concern uncertainty, the auditor's reaction differs depending on whether the client has made adequate disclosure. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and add a separate section on this uncertainty to the auditor's report. Otherwise, the auditor must express a qualified or an adverse opinion (ISA 570 (Revised), para. 21–23). A going-concern opinion probably has negative consequences for the client, such as severe difficulties in raising fresh capital. Therefore, clients have incentives to avoid such an opinion and put the auditor under pressure for this purpose. Related studies are summarized in Table 2.

Table 2. Studies on the relationship between NAS fees and going-concern opinions

Author(s)	*Country*	*Result*
Sharma and Sidhu (2001)	Australia	-
DeFond et al. (2002)	US	0
Geiger and Rama (2003)	US	0
Robinson (2008)	US	+ (tax NAS) 0 (other NAS)
Lim and Tan (2008)	US	+ (industry specialist) 0 (non-specialist)
Fargher and Jiang (2008)	Australia	0
Basioudis et al. (2008)	UK	-
Callaghan et al. (2009)	US	0
Li (2009)	US	0
Hope and Langli (2010)	Norway	0
Ye et al. (2011)	Australia	-
Causholli et al. (2014)	US	0
Blay and Geiger (2013)	US	-
Hossain (2013)	Australia	0 (before the reform) + (after reform) Abnormal NAS: - (before the reform) 0 (after reform)
Ratzinger-Sakel (2013)	Germany	0 (also regarding unexpected NAS) - (only for Big 4, high NAS, extreme financial distress) Based on GC emphasis of matter paragraph!
Read (2015)	US	0
Lennox (2016)	US	0 (tax services)
Wu et al. (2016)	UK	0
Singh et al. (2019)	Australia	0 NAS and abnormal NAS - NAS and abnormal NAS in conjunction with short partner tenure

Note: + = increased audit quality; - = decreased audit quality; 0 = no significant impact on audit quality.

In most cases, these studies focus on distressed firms because going-concern decisions are more salient among this group. The use of financially distressed firms often applies a simple measure of distress, for example, firms with negative net profit or negative cash flow from operating activities. Due to this broad definition of distress, related samples may include many firms with a low probability of going-concern uncertainties, which should not receive a going-concern opinion. Therefore, examining bankrupt companies (Sharma & Sidhu, 2001; Robinson, 2008; Callaghan et al., 2009; Read, 2015; Wu et al., 2016) is more appropriate. A bankrupt company shows clear signs of financial distress one year before bankruptcy (Sharma & Sidhu, 2001). If a company received a going-concern opinion in the preceding year and failed in the subsequent year, the audit decision was correct, and vice versa (Mutchler, 1986). The lack of a going-concern qualification indicates that auditors are incompetent in identifying the going-concern problem or have compromised their independence (Barnes & Huan, 1993). However, the provided NAS may help the client overcome an adverse economic situation, which may give the auditor a legitimate argument to avoid a going-concern opinion, even though the company may file for bankruptcy later on. Furthermore, auditors may be reluctant to issue a going-concern qualification due to the self-fulfilling prophecy, which means an adverse effect, e.g., on the company's ability to restructure its debt or raise new funds (Citron & Taffler, 2001). Moreover, evidence of a self-defeating prophecy is also provided by companies that were issued a going-concern opinion but subsequently did not fail (Citron & Taffler, 1992; Green, 1995). In addition, it has to be mentioned that issuing a clean opinion when a going-concern opinion is appropriate (Type II error) and issuing a going-concern opinion for firms who do not deserve it (Type I error) or do not subsequently fail both are reporting failures (Francis, 2004). The latter type is often ignored when using going-concern opinions as an audit quality proxy. Above that, the number of observations employed for empirical analyses is relatively small when basing the sample on bankrupt firms. The small sample size may limit the statistical power of related tests. The restriction to financially distressed or even bankrupt firms reduces generalizability. Also, Public Company Accounting Oversight Board (PCAOB) inspection reports rarely mention going-concern audit reports as a deficiency and findings from Chu et al. (2022) caution against the use of the propensity to issue a going-concern opinion as a proxy for audit quality. Finally, it should be emphasized that a going-concern emphasis of matter paragraph is not an appropriate proxy. In this situation, the client has already disclosed the material going concern uncertainty and has no reason to pressure the auditor and request him to refrain from reporting.

2.3. Earnings management and other indicators of financial statement quality

An obvious advantage of utilizing modified audit opinions and going-concern opinions is that such opinions are a direct outcome of the audit. However, the power of related statistical analyses is limited due to low sample sizes. Moreover, the binary nature of these proxies may not adequately reflect the continuous nature of the audit quality construct. Consequently, many researchers prefer to use accounting accruals, the meeting or beating of earnings targets, or other indicators of financial statement quality as audit quality proxies. Note that some of these variables are still binary. Tables 3 and 4 present related results.

Table 3. Studies on the relationship between NAS fees and earnings management (Part 1)

Author(s)	*Country*	*Measurement*	*Result*
Frankel et al. (2002)	US	Discretionary accruals Benchmark beating (analysts' forecasts, prior year earnings)	- but 0 (prior year earnings)
Chung and Kallapur (2003)	US	Discretionary accruals	0
Ashbaugh et al. (2003)	US	Discretionary accruals Benchmark beating (analysts' forecasts)	- absolute discretionary accruals 0 Income-increasing discretionary accruals 0 analysts' forecasts 0 prior year earnings
Reynolds et al. (2004)	US	Discretionary accruals	0
Larcker and Richardson (2004)	US	Discretionary accruals	- (but only for NAS/total fee ratio) + (alternative measures of client importance)
Ferguson et al. (2004)	UK	Discretionary accruals	-
Dee et al. (2006)	US	Discretionary accruals	- (higher income-increasing accruals), but not robust to alternative fee measures than NAS fee ratio, e.g., total NAS
Antle et al. (2006)	UK	Discretionary accruals	+
Ruddock et al. (2006)	Australia	News-based earnings conservatism	0 (use of unexpected NAS)
Mitra (2007)	US	Discretionary accruals	0
Huang et al. (2007)	US	Discretionary accruals Benchmark beating (analysts' forecasts, prior year earnings)	0 + (weakly significant for tax and other assurance services, for accruals, not for benchmark beating)
Hoitash et al. (2007)	US	Discretionary accruals	-
Habib and Islam (2007)	Bangladesh	Discretionary accruals	0
Gul et al. (2007)	US	Discretionary accruals	- (positive discretionary accruals, when auditor tenure is short and for small clients) 0 (otherwise)
Srinidhi and Gul (2007)	US	Discretionary accruals	- (expected and unexpected NAS)
Cahan et al. (2008)	New Zealand	Discretionary accruals	0 (non-audit fee growth rates or the length of time of the non-audit fee relationship)
Lim and Tan (2008)	US	Discretionary accruals	0 (no or weak association regarding discretionary accruals) 0 (meet analysts' forecasts) + (avoid missing analysts' forecasts)
Cook et al. (2008)	US	changes in firms' effective tax rates	- (tax services; higher effective tax rates reductions)
Zhang and Emanuel (2008)	New Zealand	Accounting conservatism	0
Choi et al. (2009)	Korea	Discretionary accruals Book-tax-difference Tax avoidance	+ (tax services)
Duh et al. (2009)	Taiwan	Difference between audited earnings and forecast earnings	- (2003) 0 (2004, after a scandal)
Krishnan et al. (2011)	US	Discretionary accruals	- (pre-SOX and subsequent reduction in NAS fees, but only for income-decreasing abnormal accruals)
Kanagaretnam, et al. (2010)	US	Loan loss provisions in the banking industry	Unexpected NAS fees 0 (large banks) - (under-provisioning, small banks)
Krishnan and Visvanathan (2011)	US	Benchmark beating (loss avoidance)	+ (tax services; pre-SOX: -, post-SOX: +)
Knechel et al. (2012)	New Zealand	Discretionary accruals	0 (in conjunction with short audit report lag)
Knechel and Sharma (2012)	US	Discretionary accruals	0 (in general and in conjunction with short audit report lag) + tax
Koh et al. (2013)	US	Discretionary accruals Benchmark beating (analysts' forecasts)	0 (NAS and discretionary accruals) + (NAS and benchmark beating) + (IT services and discretionary accruals, IT services and benchmark beating)

Table 3. Studies on the relationship between NAS fees and earnings management (Part 2)

Author(s)	*Country*	*Measurement*	*Result*
Lim et al. (2013)	US	Discretionary accruals	- (low institutional ownership) + (high institutional ownership)
Liao et al. (2013)	Taiwan	Accounting conservatism	- (abnormal NAS)
Hossain (2013)	Australia	Discretionary accruals	- (before the reform) 0 (after reform)
Causholli et al. (2014)	US	Discretionary accruals Inflating core earnings by classification shifting of core expenses into special items	Future NAS - pre-SOX 0 post-SOX
Lisic (2014)	US	Earnings management in tax expenses	Tax NAS - higher tax earnings management (low audit committee effectiveness) + lower tax earnings management (high audit committee effectiveness)
Crockett and Ali (2015)	Australia	Accounting conservatism	0
Mande and Son (2015)	US	Discretionary accruals	- (lower accruals quality; however, the effect is weaker after SOX or even disappears)
Bamahros and Wan-Hussin (2015)	Malaysia	Discretionary accruals	-
Christensen et al. (2015)	US	Earnings management through tax accounts	+ (tax)
Habib and Hasan (2016)	US	Earnings management in tax expenses	+ (tax)
Campa and Donnelly (2016)	UK	Discretionary accruals	- when audit fees are normal or unexpectedly low 0 when audit fees are unexpectedly high
Eilifsen and Knivsflå (2016)	Norway	Discretionary accruals	- (around large equity increases; Big 4 mitigate this effect if NAS are moderate or low; Non-Big 4: the effect is moderated if NAS fees are high)
Luo (2019)	US	Book-tax difference	+ (tax)
Kang et al. (2019)	Korea	Discretionary accruals	- (only for low-performing clients)
Singh et al. (2019)	Australia	Discretionary accruals	0 NAS and abnormal NAS 0 NAS not affected by partner tenure - abnormal NAS in conjunction with short partner tenure (total and income-increasing accruals, not income-decreasing)
Amir et al. (2019)	US	Speed of loss recognition	0
Watrin et al. (2019)	Germany	Discretionary accruals Book-tax-difference	+ (tax)
Garcia-Blandon, et al. (2020)	Spain	Discretionary accruals	0
Castillo-Merino et al. (2020)	Spain	Benchmark beating (analysts' forecasts, robustness test with loss avoidance and last year's earnings)	Current fees, future fees, and earnings surprises: 0 (Tax, audit-related) - (other NAS) Other benchmarks only: - (future other NAS fees)
Abdul et al. (2020)	Malaysia	Discretionary accruals	- (NAS) - (recurring and non-recurring NAS) - (recurring tax, recurring audit-related, non-recurring audit-related) 0 (nonrecurring tax, recurring and non-recurring other services)
Al-Okaily et al. (2020)	UK	Discretionary revenues	- (the effect is higher for family firms) NAS fees in relation to the total national revenues of the auditor
Cook et al. (2020)	US	Discretionary accruals	0 (tax)
Donelson et al. (2020)	US	Discretionary accruals	Consulting acquisitions office level 0
Beardsley et al. (2021)	US	Discretionary accruals Benchmark beating (analysts' forecasts) Dechow F-score	NAS focus of audit firm office 0 (discretionary accruals, benchmark beating) - Dechow F-score
Shi et al. (2021)	US	Discretionary accruals Benchmark beating (analysts' forecasts) Dechow F-score	Audit committee interlocked firms - pro-SOX - post-SOX benchmark beating 0 post-SOX discretionary accruals and F-score
Lai (2022)	US	Discretionary accruals Benchmark beating (loss avoidance and last year's earnings)	Audit-related fees, tax fees, and other NAS fees 0 (discretionary accruals, but + tax fees at accelerated filers) 0 (loss avoidance, but + tax fees at large accelerated filers) 0 (last year's earnings)

Note: + increased audit quality; - decreased audit quality; 0 no significant impact on audit quality.

Table 4. Studies on the relationship between NAS fees and other financial statement quality domains

Author(s)	*Country*	*Quality domain*	*Result*
Gleason and Mills (2011)	US	Adequacy and accuracy of tax reserves	+ (tax)
Krishnan and Visvanathan (2011)	US	Tax avoidance	0 (tax)
Prawitt et al. (2012)	US	Risk of potentially fraudulent or misleading financial reporting	+ (internal audit)
Nam and Ronen (2012)	US	Predictability of future cash flows	+
Gaver and Paterson (2014)	US	Loss reserves	- (actuarial services for insurance companies)
Klassen et al. (2016)	US	Tax agressiveness	+ (tax)
Halioui et al. (2016)	US	Tax aggressiveness	- (tax)
Carcello et al. (2020)	US	Goodwill Impairments	-
Carr et al. (2021)	US	Income tax accrual quality	- (tax)
Choudhary et al. (2022)	US	Tax estimation error	- (tax)

Note: + increased audit quality; - decreased audit quality; 0 no significant impact on audit quality.

Discretionary accruals as an audit quality proxy give rise to several problems. First, estimated discretionary accruals may contain a significant measurement error and thus provide a noisy measure of earnings management (McNichols, 2000). Second, there are several available accruals models and none of them is clearly superior (Habib, 2012). Third, endogeneity between audit fees, non-audit fees, and discretionary accruals may exist (Ferguson et al., 2004). Fourth, management could use discretionary accruals non-opportunistically to signal private value-relevant information (Healy & Palepu, 1993; Christie & Zimmerman, 1994; Dechow, 1994; Gul et al., 2003). Fifth, firms that engage in long-term transactions or involve complex judgments and estimates may be falsely categorized as earnings managers (Kinney & Libby, 2002). Finally, most discretionary accruals models use the residual from a first-stage regression as a dependent variable in a second-stage regression, creating biased coefficients and standard errors in the second stage (Chen et al., 2018).

Benchmark measures treat all firms that meet or beat the benchmark as having low-quality earnings, regardless of whether achieving the goal through earnings management or not (e.g., improvements in operations). Clients could apply real earnings management to meet or beat a benchmark, and auditors cannot prevent this type of earnings management. Conversely, a firm that is consistently well below or above the benchmark will be deemed to have high-quality earnings regardless of its audit quality (Kinney & Libby, 2002). Similar to econometric issues with discretionary accruals, the latest econometric developments show that existing estimation techniques for benchmark beating analyses lacked statistical power (Byzalov & Basu, 2019).

In general, earnings management does not always violate accounting standards and thus, does not always indicate low audit quality. Moreover, accruals-based earnings management activities reverse over time and it is typically unobservable for researchers to what extent discretionary accruals are driven by accruals reversals and what the time lag of those reversals is. For instance, a new Chief Financial Officer (CFO) may have engaged in big bath accounting and, to do so, impaired goodwill earlier than necessary, resulting in income-decreasing abnormal accruals. This automatically causes income-increasing abnormal accruals in later periods. Dechow et al. (2012) suggests an approach to mitigate this problem.

2.4. Restatements

Accounting restatements correct misstatements in previously issued financial statements and are a direct measure of audit quality. They indicate that the auditor erroneously issued an unmodified audit opinion on materially misstated financial statements (DeFond & Zhang, 2014). A survey study by Christensen et al. (2016) revealed that auditors and investors view financial statement restatements as the best publicly available indicator of low audit quality. Aobdia (2019) showed that the propensity to restate financial statements (and the propensity to beet or beet the zero earnings threshold) has significant associations with audit firm internal inspections' and PCAOB inspections' measures of audit process quality. Likewise, in a study by Rajgopal et al. (2021), which used allegations to validate audit quality proxies, restatements emerged as the best proxy. However, restatements are relatively rare events, limiting the statistical power of related analyses, and are binary. Archival studies using restatements as a proxy of audit quality are presented in Table 5.

Table 5. Studies on the relationship between NAS fees and restatements (Part 1)

Author(s)	*Country*	*Result*
Raghunandan et al. (2003)	US	Unexpected NAS 0
Kinney et al. (2004)	US	0 (financial information systems design and implementation, internal audit services, audit-related services) + (tax) - (unspecified NAS)
Ferguson et al. (2004)	UK	-
Bloomfield and Shackman (2008)	US	0 and – (mixed results)

Table 5. Studies on the relationship between NAS fees and restatements (Part 2)

Author(s)	*Country*	*Result*
Paterson and Valencia (2011)	US	+ recurring tax services 0 non-recurring tax services (- in case of low abnormal returns) - Audit-related NAS (for both recurring and non-recurring, effect stronger for non-recurring) - Other NAS (for both recurring and non-recurring, no significant difference between them)
Seetharaman et al. (2011)	US	Tax services: 0 (general financial statement restatements) + (tax-related financial statement restatements)
Knechel and Sharma (2012)	USA	0 + (in conjunction with short audit report lag) + (tax)
Causholli et al. (2014)	US	0
Wahab et al. (2014)	Malaysia	+ (NAS, tax and audit-related services; driven by recurring services) 0 (other NAS)
Campa and Donnelly (2016)	UK	- (when audit fees are normal or unexpectedly low) 0 (when audit fees are unexpectedly high)
Lennox (2016)	US	- Accounting misstatements, tax misstatements (tax) (before SOX) 0 no change despite SOX and reduction of purchased services
Lisic et al. (2019)	US	- before SOX 0 after SOX Attention: Total NAS fees of the audit firm (not only to audit clients)
Beardsley et al. (2019)	USA	- (higher focus on NAS plus audit fee pressure) Office level
Garcia-Blandon et al. (2020)	Spain	0
Castillo-Merino et al. (2020)	Spain	0 (tax, audit-related) - (other NAS) Future Fees
Donelson et al. (2020)	US	Consulting acquisitions office level + audit-related acquisitions - non-audit-related acquisitions
Beardsley et al. (2021)	US	NAS focus of audit firm offices - (distraction from audit services; audit-related and other NAS; 0 for tax services)
Shi et al. (2021)	US	- Audit committee interlocked firms Pre- and post-SOX

Note: + increased audit quality; - decreased audit quality; 0 no significant impact on audit quality.

2.5. Further audit quality proxies

It remains unclear whether earnings management or accounting choices precisely measure audit quality. Financial reporting quality is determined by audit quality and the quality of pre-audited financial statements and, thus, a joint product of management and the auditor. A further limitation of this line of research is that audit quality cannot easily be separated from financial reporting standard quality (Knechel et al., 2013). Zhang et al. (2007) showed that US firms are more likely to be identified with an internal control weakness if NAS fees are low, and Hermanson and Ye (2009) revealed a negative association between NAS fees and an early investor warning of internal control deficiencies. Similarly, Shi et al. (2021) observed a negative impact of NAS fees on the likelihood of reporting a material weakness in internal control for US audit committee interlocked firms. Likewise, De Simone et al. (2015) found that US companies which purchase tax NAS from their auditor are significantly less likely to disclose a material internal control weakness. However, they demonstrated that this result is not due to impaired auditor independence but to a timely improvement of internal controls. Li et al. (2017) revealed a negative association between NAS fees and the likelihood of an adverse opinion on the effectiveness of a client's internal control system, but only before an auditing standard change. Using a sample of UK firms, Ferguson et al. (2004) identified a positive relationship between NAS purchases and the likelihood that clients' accounting practices were publicly criticized or regulatorily investigated. Bell et al. (2015) found no association between NAS fees and internal assessments of audit quality for their full sample. Still, they observed a positive effect on SEC registrants and a negative impact on private firms.

Some studies investigated the impact of NAS fees on audit planning decisions, like acceptance of an audit engagement, audit hours, staffing, or risk assessments (e.g., Hackenbrack & Knechel, 1997; Johnstone & Bedard, 2001). However, this stream of research does not cover independence threats because it excludes auditor reporting decisions. Likewise, analyses of the relationship between NAS fees and the audit report lag are less appropriate (e.g., Knechel & Payne, 2001; Lee et al., 2009; Knechel et al., 2012; Knechel and Sharma, 2012; Abbott et al., 2012; Walker & Hay, 2013; Durand, 2019; Chen et al., 2022; Lai, 2022). These studies frequently found that NAS fees are negatively related to the audit report lag and explain these findings by efficiency gains. However, such results do not allow conclusions on audit effectiveness or quality. For example, a short audit report lag might be caused by a lack of conflicts between management and the auditor, which in turn causes concern regarding an independence impairment.

3. NAS FEES AND PERCEIVED AUDIT QUALITY

To improve the credibility of financial reporting, it is not sufficient that audits are conducted at a high-quality level. They must also be perceived as such. Archival studies investigating the impact of NAS fees on perceived audit quality most frequently analyze capital market reactions to disclosed fees and the effect of NAS fees on the cost of capital. Few studies use the voting behavior of shareholders during general assembly's regarding the ratification of statutory auditors. Table 6 summarizes these studies.

Table 6. Studies on the impact of NAS fees on audit quality perceptions (Part 1)

Author(s)	*Country*	*Subjects*	*Measurement*	*Result*
Glezen and Millar (1985)	US	Shareholders	Auditor approval ratio in general assemblies	0
Frankel et al. (2002)	US	Shareholders	Event study, abnormal returns	- (unexpected high NAS fees; effect is economically small and insignificant when longer event windows are used)
Chaney and Philipich (2002)	US	Shareholders	Event study, abnormal returns	0 (high non-audit fees did not result in a more negative effect on the stock prices of Andersen clients)
Raghunandan (2003)	US	Shareholders	Shareholder voting against ratification of the external auditor	-
Ashbaugh et al. (2003)	US	Shareholders	Event study, abnormal returns, change in market return	0
Brandon et al. (2004)	US	Bond rating analysts	Bond ratings	- (however, classification accuracy analyses indicate no economic effect)
Mishra et al. (2005)	US	Shareholders	Auditor ratification votes	- (tax and others) + (audit-related)
Krishnan et al. (2005)	US	Shareholders	Earnings response coefficients (ERC)	- (expected and unexpected NAS fees)
Higgs and Skantz (2006)	US	Shareholders	ERC	0 (- only for one combination of unexpected earnings and residuals fee formulation)
Khurana and Raman (2006)	US	Shareholders	Cost of equity capital	-
Gul et al. (2006)	Australia	Shareholders	ERC (value relevance of earnings)	- (weaker effect for Big 6 audit firms)
Francis and Ke (2006)	US	Shareholders	ERC	-
Dhaliwal et al. (2008)	US	Bondholders	Yield spreads	- (driven by investment-grade firms)
Lim and Tan (2008)	US	Shareholders	ERC	- (when NAS are provided by an industry specialist, perceived audit quality is higher in comparison to NAS provision by a non-specialist)
Iyengar and Zampelli (2008)	US	Compensation committees	Adjustments of earnings-based compensations	-
Fortin and Pittman (2008)	US	Bondholders	Yield spreads	+ (tax)
Ghosh et al. (2009)	US	Shareholders	ERC	0 (NAS fees in relation to total fees from a client) - (NAS fees in relation to total revenues of the audit firm)
Lai and Krishnan (2009)	US	Shareholders	Market value of equity	+ (financial information systems)
Chahine and Filatotchev (2011)	UK	Shareholders	IPOs underpricing	-
Bugeja (2011)	Australia	Takeover bidders	Takeover premiums	0
Nam and Ronen (2012)	US	Shareholders	Cost of Capital Bid/ask spread	+
Schmidt (2012)	US	Plaintiffs	Restatements resulting in litigation Settlements	-
Hollingsworth and Li (2012)	US	Shareholders	Cost of Equity	- (pre-SOX; reduced effect post-SOX)
Lim et al. (2013)	US	Shareholders	ERC	- (but only when institutional ownership is low)
Krishnan et al. (2013)	US	Shareholders	Value relevance of earnings	+ (tax)
Eilifsen and Knivsfla (2013)	Norway	Shareholders	Impact of NAS violation disclosures on ERC	- (weaker effect for high-quality audit firms)
Campa and Donnelly (2016)	UK	Shareholders	ERC	- (however, positive effect regarding non-discretionary income)
Zhang et al. (2016)	Norway	Creditors	Cost of debt capital	0 (unexpected NAS fees)
Alsadoun et al. (2018)	US	Shareholders	Cost of equity capital	- (tax)

Table 6. Studies on the impact of NAS fees on audit quality perceptions (Part 2)

Author(s)	*Country*	*Subjects*	*Measurement*	*Result*
Eilifsen et al. (2018)	Germany	Shareholders	ERC	0 - (before and during the financial crisis) + (after the financial crisis, driven by tax fees)
Lisic et al. (2019)	US	Shareholders	ERC	- (before SOX) 0 (after SOX) (based on total NAS fees of the audit firm not from specific clients) ERC (short-term window) Attention: Total NAS fees of the audit firm (not only to audit clients)
Chen et al. (2019)	US	Shareholders	ERC	0 (total NAS fees) - (audit-related fees) + (tax fees)
Zalata et al. (2020)	UK	Rating agencies	Credit rating	0 - (firms suspect to earnings management loss avoidance)
Alrashidi et al. (2021)	India	Providers of Capital	Financial constraints regarding access to finance	+

Note: + = increased audit quality; - = decreased audit quality, 0 = no significant impact on audit quality.

The major problem associated with using capital market studies is that capital markets are permanently flooded with information (Habib, 2012). Therefore, it is difficult to control precisely the information contained in proxy statements in addition to audit and NAS fee information, for other conditions or events disclosed in the proxy statements, and for other contemporaneous events occurring on or around filing dates (Kinney & Libby, 2002). Moreover, the influence of audit and financial reporting quality on, e.g., firm value, is relatively small compared to other firm-level or economic-wide factors. Consequently, there is a high risk of potentially omitted correlated variables (DeFond & Zhang, 2014). In addition, adverse capital market reactions may be caused by negative perceptions about companies needing consulting services, not by questioning reporting and audit quality (Kinney & Libby, 2002).

4. DISCUSSION OF THE RESULTS

Summing up, it can be noted that the research outcome regarding the relationship between NAS fees and factual audit quality is mixed, with a tendency to fail to find a significant relationship. There is no clear evidence for the negative impact of NAS fees on factual audit quality.

Moreover, prior research suggests that the relationship between NAS fees and factual audit quality may differ by NAS type. Several studies even found a positive impact concerning tax advisory fees and IT services. This indicates that different types of NAS may influence factual audit quality differently, for example, due to varying volumes of potential knowledge spillovers. Francis (2004) argues that tax services are NAS that would likely benefit the audit in general and the going-concern assessment in particular. Poorly performing firms potentially have an enhanced need for some types of tax planning, and the audit firm acquires additional expertise for assessing the going-concern risk. Thus, tax consulting services can potentially lead to information spillover, improving audit quality. Furthermore, the effects of recurring NAS may differ from those of non-recurring NAS because, in the latter case, economic bonding and knowledge spillovers are limited.

In addition, research revealed that other engagement characteristics, such as audit firm or partner tenure, may moderate the relationship between NAS fees. For instance, research has demonstrated that high audit fees threaten auditor independence in conjunction with short tenure. Auditors with short tenure are likely to place more emphasis on profits than reputation protection and be relatively unfamiliar with the clients' accounting and control systems, making it easier for the clients to manage their reported earnings. Above that, research showed that NAS fees could be positively related to audit quality in the case of audits performed by industry specialists. Auditors with industry specializations make related investments and may be particularly concerned about preserving their reputational capital. Therefore, they are probably less likely to cave into client pressures and give up their independence.

A further observation is that findings are not always consistent when using alternative fee measures. The results could also differ depending on whether expected or unexpected NAS fees are used as the variable of interest. Research also showed that the negative impact of NAS fees on audit quality might disappear after regulatory changes and accounting scandals.

Ultimately, we must consider that studies with non-significant results have lower publication rates. Thus, there may be non-published research with insignificant findings concerning the impact of NAS fees on factual audit quality. Moreover, we cannot exclude that p-hacking occurred, i.e., researchers may have collected or selected data or statistical analyses until non-significant findings became significant and then selectively reported those. Thus, the mixed impression relayed by published prior research studies may even be biased in favor of results, meaning that there is an even greater chance that, in reality, there is no robust association (e.g., Gadbury & Allison, 2012; Head et al., 2015).

The archival research findings on the relationship between NAS fees and perceived audit quality are mixed but predominantly reveal a negative relationship. However, the impact of tax services, audit-related services, and services related to financial information systems are less clear since prior research sometimes even revealed a positive impact on audit quality perceptions. Moreover, some studies demonstrated that regulatory reforms like SOX may have reduced concerns regarding auditor independence impairment.

Overall, we conclude that regulatory intervention in NAS provision to ensure factual audit quality is not justified. However, statutory audits can only improve the credibility of financial reporting if providers of capital perceive an appropriate audit quality. Prior research findings predominantly revealed a negative impact of NAS fees on independence in appearance and thereby on perceived audit quality, and NAS prohibitions are a suitable means to reduce independence concerns. The impact of tax advisory fees on factual and perceived audit quality differs. Therefore, related prohibitions could be counterproductive.

Prior literature is based on fee data from different countries; however, most previous research uses data from Anglo-Saxon countries. Concerning the association between NAS fees and factual audit quality, studies from Australia, New Zealand, and the US mainly fail to identify a significant impact. In contrast, most UK research reveals that higher NAS fees are associated with lower factual audit quality. It is impossible to identify any country-related pattern concerning the relationship between NAS and perceived audit quality because most studies use US data. In addition, the negative association revealed by many US studies is also predominant in studies applying non-US data.

5. AVENUES FOR FUTURE RESEARCH

Prior research on the impact of auditor-provided NAS on audit quality is vast. Nevertheless, there are still promising avenues for future research formulated as research questions below.

Results on the impact of NAS provision to audit clients on factual and perceived audit quality are conflicting. They indicate that it is likely that NAS fees do not affect factual audit quality but that the users of audited financial statements still believe in adverse effects on audit quality. This indicates the existence of a specific type of expectation gap (Quick, 2020) and leads to a first research question:

RQ1: How can this expectation gap be closed or narrowed?

Based on the observation that independence perceptions vary by different types of non-audit services, it is questionable whether the current disclosure requirements regarding NAS fees are sufficient. Thus, future research could investigate the following research question:

RQ2: Can negative audit quality perceptions be reduced by more extensive external reporting on NAS types and fees?

Archival studies only observe the net effect of a joint provision of audit and NAS on audit quality, i.e., the difference between a potentially positive impact on auditor competence and a potentially negative impact on auditor independence. Thus, a third research question is:

RQ3: How can we disentangle independence effects from competence effects?

Audit quality is not directly observable. Therefore, archival research applies audit quality proxies. The majority of prior European studies used earnings quality, often measured by discretionary accruals, as a surrogate, which is not directly related to the output of an audit and may be biased (Dechow et al., 1995). Proxies directly related to the audit, like restatements or going-concern opinions, cannot be applied in many European settings due to a low number of observations, resulting in a fourth research question:

RQ4: Do we have alternative/better proxies for audit quality?

Expanded auditor reports could be a source for alternative surrogates, namely the disclosure of key audit matters or transparency reports from audit firms.

Some years ago, the EU introduced mandatory audit-firm rotation in conjunction with a black-list of prohibited NAS. Audit firms will likely sell NAS to prior audit clients after rotating out. Moreover, future NAS probably does not affect current auditor competence. Consequently, impacts on audit quality proxies can be attributed entirely to independence effects. Thus, the following fifth research question will be of increasing importance (Causholli et al., 2014; Castillo-Merino et al., 2020):

RQ5: Does the expectation of future NAS fees impair current auditor independence?

Knowledge spillovers and economic bonding may not equally offset each other across the NAS fee distribution (Beardsley et al., 2022). Based on the assumptions that knowledge spillovers may occur at low levels of NAS with diminishing benefits at higher levels, and that economic bonding reduces audit quality only at higher NAS levels, which is also assumed by the European Union when introducing the 70% NAS fee cap, the sixth research question is:

RQ6: Is the association between NAS fees and audit quality non-linear?

Regulators seriously considered the implementation of pure audit firms, and they fear that a focus on NAS distracts audit firms from audit services (Beardsley et al., 2021). Hence, a seventh research question can be formulated as follows:

RQ7: Does NAS provision to non-audit clients impact audit quality?

Moreover, Big 4 audit firms have to separate their audit and NAS practices operationally in the UK. So far, there is only some survey-based and mixed research evidence on whether Chinese walls reduce perceived independence threats (e.g., Quick & Warming-Rasmussen, 2009; Van Liempd et al., 2019). Therefore, a further research question is:

RQ8: Does the operational separation of audit and NAS improve auditor independence and audit quality?

Prior research mainly focuses on NAS provision at the audit firm level or assumes the simultaneous provision of audit and NAS by the same audit firm office. The effects on factual and perceived audit quality could be different in cases where audit and NAS are provided by different offices of the same audit firm. This results in the ninth research question:

RQ9: What effect does audit and NAS provision by different audit firm offices have on audit quality?

Finally, some research is on the adequacy of the 70 % non-audit fee cap introduced by the EU in 2014 (e.g., Eilifsen et al., 2018; Hohenfels & Quick, 2020). However, this research is based on sample periods before the reform entered into force. Thus, a further promising avenue for future research is addressed by the following research question:

RQ10: Did the introduction of the EU non-audit fee cap improve audit quality?

Prior research is based on data from different countries. However, nearly all previous studies are single-country studies. Therefore, it is possible to observe slight differences between results from different countries. In contrast, it is not possible to identify what aspects exactly caused such differences. Therefore, multi-country studies could help answer a final research question:

RQ11: What specifics of a country's environmental setting impact the association between NAS fees and factual and perceived audit quality?

6. CONCLUSION

This paper is based on a structured literature review and summarizes research findings on the impact of auditor-provided NAS fees on factual audit quality and audit quality perceptions. It focuses on archival studies.

Prior archival research on the impact of a simultaneous provision of audit and NAS on factual audit quality is extensive and inconclusive. However, the predominant result is a lack of a significant impact. Conversely, archival research on the relationship between NAS fees and perceived audit quality prevailingly reveals a negative relationship. This indicates the existence of a specific expectation gap (Quick, 2020). Past regulatory attempts to narrow this gap are characterized by stricter prohibitions of NAS, which corresponds to an adaption of standards towards misperceptions. Alternatively, regulators could choose a focus on education and reassurance of the public (Humphrey et al., 1992).

According to Article 49 Directive 2006/43/EC, the total audit fees, the total fees for other assurance services, the total fees for tax advisory services, and the total fees for other non-audit services must be disclosed separately in the notes. Likewise, the SEC requires the disclosure of audit fees, audit-related fees, tax fees, and other fees in proxy statements. The findings concerning the impact of auditor-provided NAS on perceived audit quality confirm that NAS fee information is decision-relevant. Thus, the regulatory requirements for fee disclosure seem to be justified.

The provision of tax services and other assurance services may have different effects on factual and perceived audit quality than the provision of other consulting services. Some studies even demonstrated an improvement in audit quality. Overall, it can be concluded that the effect of NAS fees on facts and, in particular, on perceived audit quality perceptions differs by service type. Archival research can only analyze the impact of publicly available fee components on perceptions of audit quality. However, experimental (e.g., Jenkins & Krawczyk, 2002; Quick & Warming-Rasmussen, 2015; Meuwissen & Quick, 2019) and survey-based research (e.g., Quick & Warming-Rasmussen, 2005; Joshi et al., 2007; Quick & Warming-Rasmussen, 2009; Van Liempd et al., 2019; Doan et al., 2020) demonstrated that also perceptions of different other consulting services differ by their type. This implies that a greater granularity of NAS fee disclosure would benefit stakeholders. This also justifies the blacklist approach chosen by the EU. In contrast, a general prohibition of providing NAS services to audit clients, or even an audit firm only-approach, seems unnecessarily strict.

Furthermore, audit quality perceptions vary between financial statement users, probably due to different interests. The lower the accounting and auditing expertise of subjects is, the more harmful they perceive auditor-provided NAS (e.g., Van Liempd et al., 2019). Hence, regulators face the problem of deciding which stakeholders they should address with the prohibitions of NAS.

This literature review has several implications for regulators, audit firms, clients, users of audited financial statements, and researchers. Regulators should notice that NAS prohibitions may not improve factual but perceived audit quality. Furthermore, the impacts of tax advisory services on audit quality differ from that of other NAS and are often positive. Related prohibitions may be counterproductive. The imposed fee cap of the EU is principally appropriate but might not be strict enough. Finally, regulators must decide beforehand which user types they intend to protect when deciding on the simultaneous provision of audit and NAS because independence perceptions vary between user groups. Audit firms and clients could benefit from this literature review by identifying the impacts of NAS and NAS categories when deciding on the supply and demand of NAS. Users receive insights for their evaluation of audit quality.

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