

## Chapter 8

# The Impact of the Mandatory Adoption of IFRS in the Fees of Auditing in Companies of BM&FBovespa

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### ABSTRACT

*This study aims to investigate if the mandatory adoption of the IFRS by the Brazilian companies listed in BM&FBovespa has made an impact on the audit fees. The final sample was made by 151 companies, between 2009 and 2012. To restrict the relations, other control variables of the size of the companies, of the turnover of auditing companies and of the quality level of the published financial statements were listed. The results made evident that the mandatory adoption of the IFRS represented a significant increase of 20.71% in the auditing fees. It has also been noticed that a positive relation between the auditing fees charged by the services and the size of the companies. However, the rotation of the auditing companies has generated a negative impact, reducing the fees paid to the independent auditors. Related to the quality of the financial statements, it was not verified a statistically significant relation.*

### INTRODUCTION

In a demanding market, which competition grows in a fierce way, the accounting information highlights as a manner to supply opportunities of expansion, once that the investors are capable of evaluating the situation of distinct companies in distinct countries. Martins, João and Marion (2012) report that many countries have already adopted the international norms of accounting, as, for example, the countries of European Union. In Brazil, the law 11638 of 2007 was determinant for the convergence to the IFRS of the Brazilian open companies. The transition process was made in two steps, being the first and partially in the year of 2008 and the second in the year of 2010 (Pires, Decourt, Camargo & Siebel, 2012).

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After the adoption of the IFRS, the accounting world has seen and still sees many changes that have caused an impact, specially the financial statements made by the companies. Antunes, Grecco, Formigoni and Mendonça (2012) affirmed that one of the goals of the adoption of the IFRS was to improve the qualitative characteristics of accounting information, such as comprehension, relevance, reliability, comparison and providing a better quality of information.

Barth, Landsman and Lang (2007) analyzed companies of 21 countries that have voluntarily adopted the IFRS between the years of 1994 and 2003 and provided evidence that there has been an improvement in the quality of information included in the financial statements associated with the application of the IFRS. Further studies that analyzed the effect of the mandatory adoption of the IFRS in the quality of accounting information, in the European Union, reached similar results (Aharony, Barniv & Falk, 2010; Chen, Tang, Jiang & Lin, 2010; Gebhardt & Novotny-Farkas, 2011). Similarly, by other studies, it could be seen that the mandatory adoption of the IFRS had a positive effect in the capital market (Armstrong, Barth, Jagolinzer & Riedl; Florou & Pope, 2012; Hong, 2013) and in the forecast capacity of the analysts (Byard; Li & Yu, 2011; Galum, Baetge, Grothe & Oberdöster, 2013).

However, the adoption of the IFRS is usually associated with an increase of the complexity of recognition, measuring and disclosure of elements in the financial demonstration and requires a greater judgment from who prepares it, and an accurate work from who audits the disclosure information. In this context, the auditing acts in a relevant manner and contributes in many ways to society, businesses, the government and the economy as whole, providing safety of accounting information disclosure to the companies and reliability to the users, specially to the investors and creditors. In an international scope, there are evidences that the application of the IFRS is associated to an increase of the auditing complexity and, by consequence, of the fees used by the auditors.

Griffin, Lont and Sun (2009) and Viery and Schadewitz (2010) have seen that the mandatory adoption of the IFRS increased considerably the auditing fees charged to companies of New Zealand and Finland, respectively. Similarly, Kim, Liu and Zheng (2012) found that the mandatory adoption of the IFRS provided an increase in the audit fees in European companies, mainly in countries with a lower level of protection to the investors. Finally, De George, Ferguson and Spear (2012) made evident an association between the adoption of the IFRS and an increase of the fees in Australian companies, especially in bigger companies and which require a more complex auditing process.

Seeing the discussions on the subject of auditing and in the face of the existing gap, this study addresses the following research question: Has the mandatory adoption of the IFRS by Brazilian companies made an impact on the fees paid to the auditors by the service in auditing? In this manner, the study investigates if the mandatory adoption of the international norms of accounting by Brazilian companies has made an impact on the fees paid to the auditors by the service in auditing, in the period of 2009 to 2012, in companies listed in BM&FBovespa. The results supported evidence that the mandatory adoption of the IFRS in Brazil is associated with an expressive increase in the auditing fees.

The current study justifies itself, initially, by its theoretical contribution, due to the lack of studies which relate these variables in a national scope. Internationally, the research variables have been studied, as seen in the works of Griffin et al. (2009), Lin and Yen (2010), Vieru and Schadewitz (2010), De George et al. (2012) and Kim et al. (2012).

Therefore, it innovates as well, because no studies which directly verify the impact of the adoption of the IFRS in the auditing fees have been found in Brazil. Its relevance is also due to the fact which possibly provides results over the costs associated with the adoption of the IFRS that can be compared with the benefits arising from convergence.

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