

Does a Replacement of the Accounting Firm Affect Audit Fees?



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This study examines the changes in the auditor's fees following the replacement of the accounting firm in Israeli public firms. The results indicate a decrease in audit hourly rates, which is accompanied by an increase in the volume of audit hours following the replacement of the auditor. Over the course of six years, the auditing hourly rate decreased following the replacement of an auditor by approximately 13% from an average of NIS 196 per hour paid to the outgoing auditor, to an average of NIS 171 per hour paid to the incoming auditor. On the other hand, the average volume of audit hours increased by 6% following the replacement of an auditing firm. Together, the incoming auditor's fee decreased by approximately 8% following the replacement of the auditor. These results indicate a high level of competitiveness in the audit market in Israel, which is characterized by audit rates lower than those prevalent in Western countries. In particular, the level of fees in Israel is about a quarter of the average level of fees in OECD countries. The level of competitiveness is made possible due to legislation, which requires public companies to disclose the fee along with the number of audit hours in the annual financial statements. The Israel Securities Authority has recently initiated an amendment to the legislation, which will require the disclosure of auditing fees only. The adjustment of the regulation to what is customary in Western and Asian countries is done mainly due to concerns about the quality of the audit and independence of the auditor.