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Earnings Benchmarks: The Role of Auditor Tenure and Fee Structures

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Abstract

The aim of this study investigates whether audit fees and auditor tenure jointly affect the ability of firms to meet or beat earnings expectations. Prior studies provide evidence that non-audit fees are adversely affected by auditor independence when auditor tenure is short. These findings suggest that a positive relationship exists between non-audit fees and earnings management, conditional on short auditor tenure. To expand this line of research, this study tests whether integrated effects of audit fees and auditor tenure are associated with firms' upward earnings manipulation. Using firm-year observations of Korean-listed firms between 2014 and 2020, the logit analysis shows that firms with shorter auditor-client relationships and higher audit fees are more likely to achieve earnings benchmarks.

Keywords: Earnings Benchmarks; Audit Fees; Auditor Tenure; Joint Impacts

1. Introduction

Auditor independence is closely linked to audit quality, as an auditor who is dependent on client preferences may be unable to make objective decisions during the audit process. When auditor independence is compromised, it can lead to poor financial reporting quality and, consequently, low earnings quality. As a result, prior research has extensively examined various factors that may influence auditor independence—particularly the roles of audit fees and auditor tenure. Auditor independence has long attracted significant attention from regulators, investors, and accounting professionals. While many studies have investigated how these factors affect independence, the findings remain mixed. Since the passage of the Sarbanes-Oxley Act (SOX) in 2002, several audit regulations have been revised. These include prohibitions on certain non-audit services and requirements such as lead audit partner rotation. Despite these reforms, concerns about auditor independence continue to be raised by both academic and practitioner research. The restrictions introduced by SOX aim to address fears that auditor independence is undermined by high non-audit fees and prolonged auditor-client relationships. However, the question of whether audit fees and auditor tenure negatively affect auditor independence remains unresolved.

Vol. 9, No.10; 2025

ISSN: 2456-7760

Prior research has extensively considered the association of auditor independence and fees paid to audit firms. However, the results are mixed (Choi et al., 2014). By using discretionary accruals as a proxy for earnings management, several papers argue that earnings management activity increases as audit fees increase due to the positive relation between discretionary accruals and audit fees. (Frankel et al., 2002; Abbott et al., 2006; Choi et al., 2010) On the other hand, other papers report that there is no evidence for a significant adverse effect of audit fees on auditor independence. This suggests that high audit fees do not lead to high earnings management. (Geiger and Rama 2003; Ashbaughet al., 2003)

Other studies have been conducted to investigate whether audit tenure is negatively related to auditor independence. These papers also provide conflicting results. Many regulators and reports from GAO state that a long relationship between auditors and clients might lead to impaired auditor independence. Hence, managers manipulate earnings more easily as audit tenure becomes longer. However, various empirical research argues that audit quality and earnings quality are higher in the longer auditor tenure instead of the shorter auditor tenure. (Geiger and Raghunandan 2002; Myer et al., 2003; Davis et al., 2009; Riccardi 2019) Accordingly, this implies that impaired auditor independence in the early years of audit tenure leads to an increase in earnings management.

While the respective effect of audit fees and audit tenure on auditor independence has been widely studied in prior research, whether both factors jointly affect auditor independence has not been scrutinized much. Gul et al. (2007) first considered the joint effects of auditor tenure and non-audit fees on auditor independence. They found that auditor independence might be lessened by the effect of non-audit fees when auditor tenure is short. Their findings indicate that higher levels of earnings management could be associated with high non-audit fees and low audit tenure.

Following their study, this paper intends to provide further evidence for the joint effects of audit fees and audit tenure on auditor independence. Impaired auditor independence may lead to a decrease in audit quality and earnings quality due to the increase in the auditor's tolerance for earnings management. Eventually, increased opportunity for earnings management allows firms to be more likely to meet or beat the earnings expectations. Consistent with Gul et al. (2007), this research posits that high audit fees are more likely to adversely affect auditor independence for firms with short tenure. When the provision of audit fees creates economic bonding in auditor-client relationships, there could be an increased likelihood for auditors to acquiesce to clients' earnings management. Additionally, short length of auditor-client relationships could increase the failure of auditors to detect errors in financial reports because they may be less knowledgeable about clients' accounting systems. Therefore, auditor independence could deteriorate further when integrating both cases (short tenure and high audit fees), which leads to an increase in managers' incentives to manage reported earnings upward. The empirical results of this study show that the firms which pay high audit fees and have short audit tenure relationships have a higher likelihood of manipulating earnings to meet or beat earnings benchmarks. These findings can contribute to prior literature by providing evidence to resolve

Vol. 9, No.10; 2025

ISSN: 2456-7760

the conflicting conclusions in prior research which investigated the association between auditor independence and audit fees or auditor tenure. In other words, this study suggests the possibility that auditor tenure and audit fees are not independent factor influencing on auditor independency.

The remainder of the paper is organized as follows: section 2 discusses the related literature; section 3 shows hypothesis development; section 4 describes research methodology used to test the hypothesis; and section 5 presents empirical results. Finally, Section 6 includes the conclusion.

2. Related Literature

2.1 The Impacts of Audit Tenure on Auditor Independence

The association between auditor tenure and auditor independence has been extensively investigated in prior research. The basic idea of this relation stems from several concerns by regulators, practitioners, and academic researchers. Their concerns are that there could be a tendency to generate economic bonding between auditors and clients as the length of the client-auditor relation gets longer, which may lead to impairment of auditor independence. Therefore, as one possible solution to alleviate this negative impact of auditor tenure on auditor independence, several papers recommend a mandatory auditor rotation. Mautz and Sharaf (1962) primarily indicated the negative effect of audit tenure on auditor independence, though they did not support the mandatory rotation. They suggested that longer auditor tenure with the same clients could result in auditor independence impairment issues because auditors' objectivity in audit procedures may be reduced as time goes by. In the same vein, several studies show that mandatory auditor rotaion improves auditor independency, leading to higher audit quality (Malela, 2020). In addition, Kim et al. (2019) find that firms with mandatory auditor switch have lower cost of capital, suggesting that investors perceive higher audit independence and audit quality under the manadatory auditor rotations.

However, some studies argue that auditor independence is more likely to be impaired with shorter auditor tenure rather than with longer auditor tenure for various reasons such as quasi-renting and unfamiliarity with clients. Hence, those studies provide another possibility that the mandatory auditor rotation may not improve auditor independence but may actually lessen it. Pervasiveness of low-balling practice in the competitive audit market has been well investigated in prior research (Simon and Francis 1988). Low-balling practice refers to audit firms initially offering audit service prices below the costs of auditing in order to obtain the client. Then, they expect to compensate for the reduction of costs from continuing engagements. Accordingly, Geiger and Raghunandan (2002) argued that because of auditors' desires to avoid dismissals in the early years of the client-auditor engagement, auditor independence could be severely compromised. Their research shows that in the early years of the engagement, auditors are more likely to issue unmodified audit reports instead of going-concern modified audit reports for companies approaching bankruptcy. Their findings indicate that auditors may conduct audit procedures less independently when auditor tenure is short. Moreover, Johnson et al. (2002)

Vol. 9, No.10; 2025

ISSN: 2456-7760

examined whether audit-firm tenure is associated with financial reporting quality. To investigate this, they tested the relation between the absolute levels of unexpected accruals of firms and different length of auditor tenure: short tenure, medium tenure, and long tenure. They found that short auditor-client relationships were associated with higher absolute levels of accruals while medium or long relationships were not statistically different. Thus, this result implies that short auditor tenure may contribute to impairing auditor independence, which results in the decline of financial-reporting quality. Additionally, Myers et al. (2003) investigated the relation between auditor tenure and earnings quality. They documented that longer auditor tenure is generally associated with less dispersion in the distributions of discretionary accruals and current accruals. Also, they showed that auditors appeared to be more restrictive in earnings manipulation as auditor tenure increased. In other words, auditors were less likely to detect firms' earnings management activities in the early stages of auditor-client relationships. These findings imply that longer auditor tenure does positively affect auditor independence, rather than negatively.

2.2 The Impacts of Audit Fees on Auditor Independence

The SEC and legislators have addressed some concerns about the negative impacts of audit fees and non-audit fees on auditor independence. A primary reason for this concern is that auditors may be economically bonded to the clients as audit fees (and non-audit fees) increase. Simunic (1984) suggested the possibility of auditors' economic bonds with clients when the same auditor provides both audit services and non-audit services. Auditors' economic bonding with clients makes auditors more vulnerable to client pressure in decision making processes. As a result, auditors who become distressed about the potential loss of non-audit fee revenue become less independent since they are more likely to align their auditing objectives with clients' demands. Although the prior literature broadly tests the influence of audit fees and non-audit fees on auditor independency, the findings from those studies are equivocal.

Geiger and Rama (2003) examined the association between the magnitude of the audit and non-audit fees and the audit quality. As evidence of an adverse effect of audit fees on auditor independence, they showed that the magnitude of audit fees is significantly positively related to the likelihood of receiving a going-concern modified audit opinion for firms which are financially stressed. However, they do not provide evidence that non-audit fees are associated with losing auditors' sense of independence in audit processes. Additionally, several studies focused on the relation between audit fees (and? non-audit fees) and earnings management. Deteriorating auditor independency affected by auditor fees is more likely to occur with managers who manipulate their earnings because this causes auditors to be more generous in the magnitude of accruals or less rigorous in detecting reporting errors. Frankel et al. (2002) tested whether audit fees are related to earnings manipulation. In contrast to the results of Geiger and Rama (2003), they documented that non-audit fees are positively associated with upward earnings management, while audit fees are negatively related to discretionary accruals. Also, Gul et al. (2003) provided evidence for the positive relation between discretionary accruals and audit fees through regression analysis using listed Australian companies. Overall, these results imply that higher audit fees do not adversely influence auditor independence though higher non-audit fees do.

Vol. 9, No.10; 2025

ISSN: 2456-7760

On the other hand, a few studies provide conflicting evidence through investigation of the relation between non-audit fees and auditor independence. Ashbaugh et al. (2003) directly challenged the conclusions of Frankel et al. (2002). By using performance-adjusted discretionary accruals, they did not find a statistically significant relation between non-audit fees and income-increasing accruals. In addition, Francis and Ke (2006) examined the association between the ratio of non-audit fees to total audit fees and the possibility of meeting analysts' earnings forecasts by using quarterly earnings surprises. They did not find any significant evidence of the positive association between fees paid to auditors and the likelihood of meeting expected earnings. In other words, their findings suggest that higher audit fees do not systematically allow managers to use great discretionary power to manipulate earnings upward. Therefore, they concluded that there is no systematic evidence that either non-audit fees or total audit fees compromised auditor independence.

2.3 The Joint Impacts of Audit Fees and Audit Tenure on Auditor Independence

While the previous literature has widely considered the impacts of audit fees or auditor tenure on auditor independence, respectively, joint impacts of both factors have not been much considered. Recently, Gul et al. (2007) investigated whether auditor tenure and non-audit fees jointly affected auditor independence. They disputed that the prior literature which examined auditor tenure and audit fees, respectively, does not provide complete explanations about each impact on auditor independence. They insisted that it is a more appropriate investigation to analyze the impact of non-audit fees on auditor independence conditional on auditor tenure because auditors' emphasis of audit fee revenues may be different depending on the length of the auditor-client relationship. Consequently, they tested the interaction effects of non-audit fees and auditor tenure on auditor independence. They documented evidence that auditor independence is more likely to deteriorate with non-audit fees when auditor tenure is short. Their findings indicate that higher levels of earnings management could be associated with high non-audit fees and low audit tenure.

2.4 Earnings Management to Meet the Market Expectations of Earnings

Previous papers have provided evidence that firms have a tendency towards earnings manipulation to achieve zero or small positive earnings surprises. Through comparing discretionary accruals between observations of negative and positive earnings surprises, Payne and Robb (2000) tested whether managers manipulate earnings which aim to meet or exceed analysts' earnings forecasts as a proxy for market expectations of earnings. They used pre-managed earnings measured as current period earnings before discretionary accruals to compare discretionary accruals under two settings. One is when pre-managed earnings are below analysts' forecasts. The other is when pre-managed earnings are above analysts' forecasts. They documented evidence that managers have a greater desire to increase incomes to achieve forecast earnings levels when pre-managed earnings are below the market expectations for earnings. Also, Matsumoto (2002) investigated whether managers' incentives for earnings management to avoid negative earnings shocks exist. Matsumoto found that, relative to firms which report earnings below analysts' earnings forecasts, firms which report earnings above analysts' earnings

Vol. 9, No.10; 2025

ISSN: 2456-7760

forecasts have higher positive discretionary accruals. Matsumoto noted this finding as evidence of earnings manipulation to meet or beat the market consensus for expected earnings. Moreover, Dechow et al. (2006) examined how firms accomplish zero or positive earnings surprises. They considered various earnings management techniques such as discretionary accruals and use of special items to investigate existence of earnings manipulations to meet or exceed benchmarks, which are analysts' earnings forecasts. They found that firms meeting or beating analysts' earnings forecasts clearly achieved their goals through earnings management because those firms have higher discretionary accruals relative to firms which miss analysts' forecasts for earnings. Therefore, they concluded that firms manage earnings to avoid negative earnings surprises which are associated with unusually large stock declines as the market punishment.

3. Hypothesis Development

Geiger and Raghunandan (2002) argued that the prevalent low-balling practices in a competitive audit market can affect auditor independence. Low-balling is where auditors provide lower total audit service fees which are below the costs of the audit in order to acquire new clients. Hence, auditors place more weight on maintaining a relationship with clients in the early years of the audit to recover initial losses from continually obtaining audit engagements (quasi-rents) rather than protecting their reputation. As a result of auditors' incentive to sustain audit engagements, auditors may be very sensitive to audit fees, especially in the early stages of audit engagements. There could be tacit agreements between auditors and clients wherein auditors perform less rigorous audit processes for firms which pay higher audit service fees. Eventually, this makes firms' managers more likely to manipulate earnings since auditors may be willing to overlook errors. As this shows, it is more appropriate to investigate the association between audit fees and auditor independence conditioned on auditor tenure. Therefore, considering the integrated impacts both of audit fees and auditor tenure could contribute to resolving the conflicting findings provided by prior related research. In attempt to achieve this, Gul et al. (2007) examined the joint effects of auditor tenure and non-audit fees on auditor independence. They provided evidence that higher non-audit fees conditional on short auditor-client relationships further deteriorated auditor independence, as they had hypothesized. Additionally, they showed that firms which had large non-audit fees combined with short auditor tenure had higher incentives to manage earnings because auditors can provide greater allowance for earnings management. Consistent with their approach, this study tests whether audit fees influence the ability of meeting or beating expected earnings depending on auditor tenure. If higher audit fees integrated with short auditor-client relationships could result in boosting income-increasing earnings management due to impaired auditor independence, those firms would have a higher tendency to meet or exceed the expected earnings. Consequently, this paper postulates that higher audit fees are negatively associated with auditor independence when auditor tenure decreases, which causes the increase in earnings management, thereby the increased likelihood of achieving earnings benchmarks. Thus, the developed hypothesis is as follows:

H1: Firms which have higher audit fees and short auditor tenure are more likely to achieve earnings benchmarks.

Vol. 9, No.10; 2025

ISSN: 2456-7760

4. Method

4.1 Sample Selection

To investigate the research questions, this study focuses on firms listed on the Korean Composite Stock Price Index (KOSPI) between 2014 and 2020. All firm-year observations for necessary variables such as audit fees, auditor information, and other annual financial data are collected from the Korea Investor Service's database (KIS-VALUE) as well as from the Data Analysis, Retrieval, and Transfer System (DART) maintained by the Korean Financial Supervisory Service. After adopting data restrictions followed by previous research (Matsumoto, 2002; Hanlon et al., 2003) and eliminating missing observations, the total number of the final sample contains 2,675 firm-year observations. To alleviate outlier problems, all continuous variables are winsorized at the 1th percentile and 99th percentil.

4.1 Empirical Model

This research postulates that higher audit fees are more likely to impair auditor independence when auditor tenure is short, which allow managers to manipulate reported earnings to achieve earnings benchmarks. To analyze the impairment of auditor independence, two earnings benchmarks suggested in prior literature are used: 1) Avoidance of losses and 2) positive earnings surprises compared to previous year. Using these earnings benchmarks, the empirical model is constructed to examine whether combined effects of audit fees and auditor tenure increased the likelihood of avoiding negative earnings (positive earnings surprises) (Frenkel, Johnson, and Nelson, 2002; Davis, Soo, and Trompeter, 2009). Thus, the following multivariate logit regression model (1) with an interaction term between auditor tenure and audit fees is used.

$$\text{Prob (Earnings Benchmarks (Earnings\_Pos}_{i,t} \text{ or Earnings\_Sur}_{i,t})=1|X)$$
$$= \gamma_1 + \gamma_2(\text{Tendum}_{i,t}) + \gamma_3(\text{AuditFee}_{i,t}) + \gamma_4(\text{Tendum}_{i,t} * \text{AuditFee}_{i,t}) + \gamma_5(\text{Size}_{i,t}) + \gamma_6(\text{Lev}_{i,t}) + \gamma_7(\text{ROA}_{i,t}) + \gamma_8(\text{RGrowth}_{i,t}) + \gamma_9(\text{MtB}_{i,t}) + \gamma_{10}(\text{Big4}_{i,t}) + \gamma_{11}(\text{FAge}_{i,t}) + \varepsilon_{i,t} \quad (1)$$

where:

$$F(\alpha'X) = \frac{e^{\alpha'X}}{1+e^{\alpha'X}}$$

Earnings_Pos = Positive Earnings, coded as 1 if a firm has positive earnings surprise, 0 otherwise.

Earnings_Sur = Earnings Surprises, coded as 1 if a firm has equal or higher income before extraordinary items compared with prior year, 0 otherwise.
Tendum = Auditor Tenure, coded as 1 if auditor tenure is less than or equal to three years, 0 otherwise.

AuditFee = Audit Fees, measured as the natural logarithm of total audit service fees.
Tendum*AuditFee = Interaction term of total audit service fees and auditor tenure.
Size = Firm size, measured as the natural logarithm of the total assets.
Lev = Leverage ratio, computed by interest-bearing total liabilities divided by total assets.

Vol. 9, No.10; 2025

ISSN: 2456-7760

ROA = Return on Assets, equal to income before extraordinary items divided by average total assets.
RGrowth = Sales growth, measured as the changes in total sales between year *t* and year *t−1* deflated by sales in year *t−1*.
MtB = a firm's market-to-book ratio defined as its market value of equity divided by book value at the fiscal year end.

Big4 = Big4, coded 1 if firm i hires one of Big4 audit companies in year t; otherwise, 0.
FAge = Firm age, defined as the natural logarithm of the number of years since a firm initially appeared in Korean Stock Market.

5. Results

5.1 Descriptive statistics

Detailed descriptive statistics of all variables are presented in the Panel A of Table 1 . The mean of earnings benchmarks (Earnings_Pos and Earnings_Sur) indicates that approximately 77% and 49.7% of firm-year observations are classified as achieving earnings benchmarks. In addition, roughly 46.8% of the full sample maintains short-term auditor-client relationships. The average audit fees are 344,552,000 Korean Won. Moreover, Panel B of Table 1 reports the results of mean difference tests for auditor tenure and audit fees depending on each earnings benchmark. The results show that firms meeting or beating earnings benchmarks in general have shorter auditor tenure and higher audit fees. Additionally, Table 2 document Pearson correlation coefficients of all variables. Overall correlations among all independent variables are considered to be low in general, suggesting that multicollinearity issues are not serious.

Table 1. Descriptive Statistics of Sample *Panel A: Descriptive Statistics for All Variables*

Variables	N	Mean	Std	Min	Median	Max
Earnings_Pos	2675	0.768	0422	0	1	1
Earnings_Sur	2675	0.497	0.500	0	0	1
Tendum	2675	0.468	0.499	0	0	1
AuditFee	2675	12.576	1.048	10.519	12.612	15.179
Size	2675	20.652	1.801	17.326	20.365	24.877
Lev	2675	1.373	1.502	0.778	0.961	9.845
ROA	2675	0.021	0.068	-0.291	0.026	0.187
RGrowth	2675	0.047	0.215	-0.492	0.026	1.272
MtB	2675	1.245	1.208	0.187	0.859	7.483
Big4	2675	0.711	0.453	0	1	1
Fage	2675	3.571	0.604	1.792	3.738	4.489

Panel B: t-test of Mean Difference

Vol. 9, No.10; 2025

ISSN: 2456-7760

Table 2. Pearson Correlation Coefficients

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Earnings_Pos (1)	1.000										
Earnings_Sur (2)	0.264 <.001	1.000									
Tendum (3)	0.075 <.001	0.010 0.464	1.000								
AuditFee (4)	0.0712 <.001	-0.046 0.018	0.062 0.001	1.000							
Size (5)	0.148 <.001	-0.024 0.076	0.054 <.001	0.875 <.001	1.000						
Lev (6)	-0.305 <.001	-0.004 0.793	-0.140 <.001	0.215 <.001	0.207 <.001	1.000					
ROA (7)	0.436 <.001	-0.217 <.001	0.075 <.001	0.086 <.001	0.190 <.001	-0.350 <.001	1.000				
RGrowth (8)	0.124 <.001	0.140 <.001	-0.010 0.461	-0.054 0.005555	0.002 0.8839	-0.010 0.4616	0.013 0.312	1.000			
MtB (9)	-0.046 <.001	0.043 0.001	-0.013 0.343	-0.002 0.9156	-0.125 <.001	0.116 <.001	-0.019 0.144	0.079 <.001	1.000		
Big4	0.141	-	0.03	0.514	0.501	0.090	0.14	-	-	1.000	

(10)	<.001	0.006 0.674	9 0.004	<.001	<.001	<.001	7 <.001	0.014 0.298	0.016 0.241		
FAge	-0.040	0.003	0.018	-0.062	-0.034	0.008	-0.032	-0.015	-0.125	-0.091	1.000
(11)	0.002	0.829	0.181	0.001	0.011	0.5640	0.017	0.260	<.001	<.0001	

5.2 Empirical Results

Table 3 documents the results of the multivariate logit regression analysis investigating the joint impact of two factors, auditor tenure and audit fees, on the ability to meet or beat the expectations of earnings. The column (1) and (3) shows the test results without including the interaction term. Consistent to prior research, the shorter auditor tenure (Tendum) increases the probability of meeting or exceeding positive earnings surprises. However, audit fees (AuditFee) do not statistically significantly affect the likelihood of achieving earnings benchmarks, which is also consistent to earlier studies documenting the mixed results regarding to the impact of audit fees on earnings management. More importantly, column (2) and (4) show the combined impact of auditor tenure and audit fees on probability of meeting or beating earnings expectations. Both coefficients on the interaction terms between auditor tenure and audit fees (Inter_Tendum_Fee) are positive and statistically significant. These results indicate that firms with shorter auditor tenure and higher audit fees together are more likely to achieve the expected earnings, which are supporting evidence for the main hypothesis. These findings implies that higher audit fees may impair auditor independence when the length of auditor-client relationship is short, which result in earnings manipulation to meet the targeted earnings.

Vol. 9, No.10; 2025

ISSN: 2456-7760

Table 3. Logit Analysis of the Probability of Meeting or Beating Earnings Benchmarks

Variables	Earnings_Pos		Earnings_Sur	
	(1)	(2)	(3)	(4)
Tendum	0.270	-2.304	0.276**	2.116*
	(1.635)	(-1.600)	(-2.073)	(-1.922)
AuditFee	-0.077	-0.161	0.118	0.045
	(-0.546)	(-1.090)	(1.119)	(0.395)
Tendum*AuditFee		0.206*		0.146*
		(1.798)		(1.684)
Size	0.206**	0.202**	-0.203***	-0.205***
	(2.551)	(2.501)	(-3.382)	(-3.410)
Lev	-0.345***	-0.341***	0.335***	0.337***
	(-6.963)	(-6.909)	(7.189)	(7.237)
ROA	14.252***	14.362***	20.677***	20.727***
	(11.551)	(11.619)	(15.617)	(15.670)
RGrowth	1.883***	1.895***	1.473***	1.474***
	(5.892)	(5.941)	(5.999)	(5.992)
MtB	0.158**	0.166**	-0.074	-0.069
	(2.314)	(2.433)	(-1.447)	(-1.353)
Big4	0.378*	0.376*	-0.283*	-0.277*
	(1.891)	(1.883)	(-1.745)	(-1.705)
FAge	-0.072	-0.082	-0.027	-0.031
	(-0.675)	(-0.768)	(-0.353)	(-0.401)
Constant	-1.880	-0.797	0.734	1.656
	(-1.232)	(-0.488)	(0.421)	(0.893)
Observations	2,617	2,617	2,670	2,670
Pseudo R-squared	0.266	0.267	0.159	0.160
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

z-statistics are in parenthesis. Notations ***, **, and * indicate significance at 1%, 5%, and 10% significance levels, respectively.

4. Conclusion

This study examines whether the combined impact of auditor tenure and audit fees affect the likelihood of achieving earnings expectations. The findings from the empirical analysis show that firms are more likely to avoid losses and to meet or beat prior period earnings when audit fees are high and auditor tenure is short. There could be several contributions of this paper to the existing literature of the auditor independence. First, main findings of this study provide additional evidence that auditor independence is jointly affected by audit fees and auditor tenure, which is consistent with the results of Gul et al. (2007) and Davis et al. (2009). Second, the results of this research may help to resolve the conflicting conclusions in prior research which investigated the association between auditor independence and audit fees or auditor tenure.

Vol. 9, No.10; 2025

ISSN: 2456-7760

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