Impact of IFRS Adoption on Audit Cost

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Abstract

Regulators and standard setters claim that International Financial Reporting Standards (IFRS) enhance the comparability and quality of financial reporting. However, the true returns to IFRS adoption should be evaluated by trading off the costs of transition and any recurring costs of reporting against the recurring benefits of comparability and increased reporting quality. This study investigates the impact of adopting IFRS on audit fees of manufacturing companies in Sri Lanka. There are many researches conducted on IFRS, but few researches which are directly concerned with the costs of IFRS adoption focusing on audit fees whereas no research was found in Sri Lankan context. Moreover, this study provides a better insight on the relationship between disclosure and regulatory environments and audit fees within a single country setting, which brings a better understanding on the audit fee formation. Accordingly, the purpose of this study is to investigate the impact of IFRS adoption on audit fees in listed manufacturing companies Sri Lanka, by comparing audit fees in pre- and post-IFRS adoption periods. This study employs a model introduced by Emmanuel T. De George, Colin B. Ferguson, Nasser A. Spear (2013) to investigate the relationship. The pre-IFRS period is designated as 2009 through to 2012, and the post-IFRS period is designated as 2013 through to 2019. The sample comprises all 30 firms listed in Colombo Stock Exchange under manufacturing sector. The secondary data extracted will be analyzed using the multiple regression technique in order to test the formulated hypotheses. The findings of the study will provide useful insights to the accounting regulatory bodies in evaluating cost of IFRS adoption. And also, this will be helpful to standard setters, companies, auditors and future researchers as well.

Keywords: Financial literacy, financial knowledge, financial behavior, financial awareness and Investment decisions.