Supply Chain Specialization and Audit Fees*

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Abstract: This study examines the association between auditor supply chain specialization and audit fees. Analyzing data from Audit Analytics for the seven year period from 2003-2009, we find that audit fees are negatively associated with the joint supplier-buyer-related supply chain specialization and buyer-related supply chain specialization. This indicates that the auditor offers reduced audit fees to its clients within a supply chain when the auditor also audits its client’s suppliers and major buyers or its client’s major buyers, but not its client’s suppliers alone. In addition, we find that these audit fee discounts are greater when the auditor has supply chain expertise at the office level than when the auditor has supply chain expertise at the national firm level. Our findings are robust to the use of alternate measures of supply chain expertise as well as the analysis of the restricted sample comprising only supply chain companies.

Keywords: Supply chain specialization, Audit fees, Suppliers, Major buyers

Data Availability: Data are publicly available.