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WORKING PAPER

Audit pricing in a reformed nonprofit market ^{*}

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ABSTRACT

In contrast to the extant research on audit fees of for-profit companies, literature on nonprofit audit fees is scant. In this paper, audit fee determinants of previous research are tested in a nonprofit market that is characterized by a relatively low dominance of BIG4 auditors, low litigation risk, small nonprofit entities, high levels of subsidization and recent legislative reforms. Using OLS on a sample of nonprofit entities, we find that some known determinants such as auditor size and client complexity hold their ground. However, our findings on client profitability and auditor industry specialization show that refinements of audit fee models need to incorporate audit market characteristics, agency problems and signaling.