

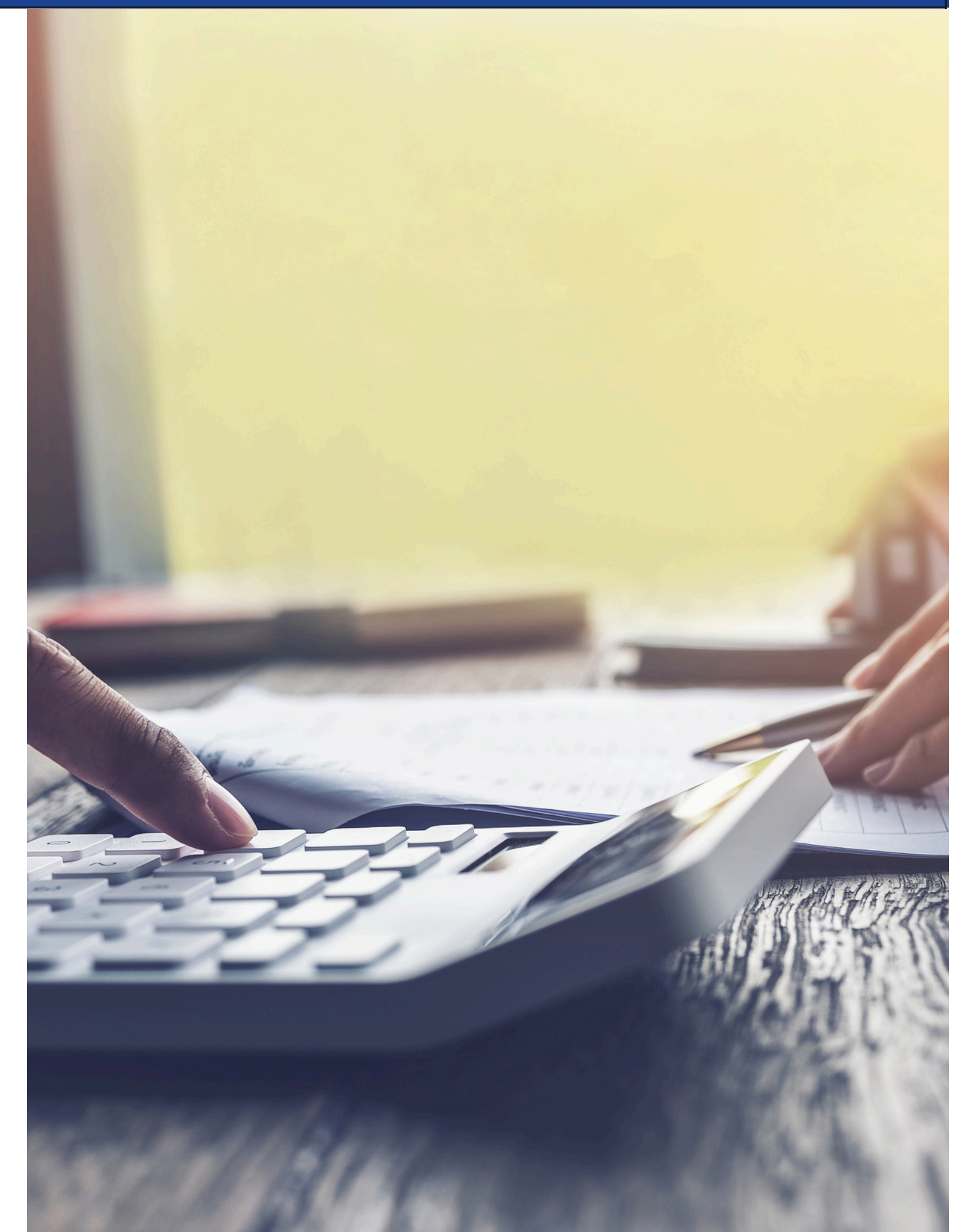
BREXIT TRADE POLICY UNCERTAINTY AND AUDIT PRICING

AUTHORS

Arash Ghorbani, Fakhroddin Mohammadrezaei, Naser Makarem, Zabihollah Rezaee

EXECUTIVE SUMMARY

This study examines the impact of Brexit trade policy uncertainty (TPU) on audit pricing within the UK. While growing geopolitical risks have drawn significant attention, their implications for audit pricing have remained largely unexplored. Using a difference-in-differences methodology on a panel of UK firms for 2012-2017, we show that firms in industries with substantial exposure to Brexit-induced TPU experience significant increases in audit fees, compared to firms less exposed to Brexit. Our analysis shows that these fee increases are associated with heightened audit efforts, evidenced by extended audit report lags. Additionally, affected firms exhibit increased business risks, evidenced by a higher likelihood of insolvency and greater levels of absolute discretionary accruals in the post-Brexit period. Our findings reveal that, contrary to prevailing theories suggesting lower fees during macroeconomic uncertainty, the enduring impact of TPU after Brexit prompts auditors to raise fees to manage the complexities and risks of the new environment. Our research contributes to the extant literature on audit pricing by highlighting the differentiated reactions of audit fees to TPU, with significant implications for policymakers and corporate governance structures. This paper also highlights the crucial role that leading audit firms play in navigating environments characterized by increased TPU.



KEYWORDS

- Brexit
- Trade policy uncertainty
- Audit fees
- Big Four

RESEARCH RELEVANCE

- Brexit-induced trade policy uncertainty increases audit fees, particularly in industries with high international exposure.
- Higher audit fees reflect elevated audit effort, evidenced by longer audit report lags and reduced audit efficiency.
- Brexit-related TPU heightens client business risk, including higher insolvency likelihood and greater discretionary accruals.
- The prolonged and structural nature of TPU after Brexit leads auditors to raise fees, contrary to fee-reduction patterns observed under short-term macroeconomic uncertainty.
- Big Four auditors exhibit the strongest fee responses to TPU, underscoring their central role in managing complex, uncertainty-driven audit environments.

BIBLIOGRAPHIC INFORMATION

Ghorbani, A., MohammadRezaei, F., Makarem, N., & Rezaee, Z. (2025). Brexit Trade Policy Uncertainty and Audit Pricing. (Social Science Research Network). SSRN. <https://doi.org/10.2139/ssrn.5822765>

“Brexit’s sustained trade policy uncertainty fundamentally reshaped audit risk and effort, compelling auditors to raise fees in response to enduring complexity rather than short-term volatility”

