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Non-Audit Fee Cap: New European Audit Regulations and Some Evidence from Italy

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Abstract

This paper focuses on recent European audit legislation reform and its first implementation in the Italian context. In particular, we seek to address some issues related to the provision of non-audit services (NASs) to public interest entity (PIE) audit clients. Broadly, there are two main changes: a wider list of prohibited NASs that the auditor cannot provide to the audited company and a cap on allowed NASs to PIEs (70% of the average of the audit fees received in the past three years). Other measures are also in place on the provision of NASs that we consider in our analysis: monitoring by the company's audit committee of all NASs provided by the auditor. The first research question concerns the impact of the new non-audit fee cap on the NAS level. The second research question refers to the effect on audit committee performance in terms of approval of NASs, fee cap disclosure and adoption of internal procedures devoted to monitoring the decision to buy additional services from the incumbent auditor. This latter aspect is linked to the third research question, which concerns the relationship between the NAS fee ratio and the internal procedure for overseeing the NAS purchase. The empirical analysis, conducted in the postreform years 2017–2023 on major Italian industrial listed companies, provides the following main results: a lack of disclosure regarding the fee cap calculus method and a significant reduction in the annual NAS fee ratio at an audit firm level from the initial years (2017–2020) to the most recent years investigated (2021–2023). In terms of corporate governance, the audit committee report does not emphasize the calculation or the disclosure of the 70% non-audit fee test; however, we detected a significant increase in the explicit mention of a corporate internal procedure devoted to monitoring NASs in recent years (2021–2023). Additionally, when these internal procedures are stated in the audit committee report, the NAS fee ratio is significantly lower.

Keywords

Non-audit fee cap, non-audit services (NAS), European audit regulation, Italian audit regulation, audit committee

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1. Introduction

This paper focuses on recent European audit legislation reform and its first implementation in the Italian context. In particular, we seek to address some issues related to the provision of non-audit services (NASs) to public interest entity (PIE) audit clients. The new audit regulation environment introduced several measures related to and limiting the auditor's provision of NASs. Broadly, there are two main changes: a wider list of prohibited NASs that the auditor cannot provide to the audited company and a cap on allowed NASs to PIEs (70% of the average of the audit fees received in the past three years). Other measures are also in place on the provision of NASs that we consider in our analysis: monitoring by the company's audit committee of all NASs provided by the auditor.

After discussing the audit regulation reform, this paper provides a descriptive analysis of NASs after the new EU regulation on statutory audits of PIEs and the enactment of the new EU Audit Directive 2014/56 in Italian law. We contribute to documenting the first-time implementation of a cap on the amount of NASs. In particular, the first research question concerns the impact of the new non-audit fee cap on the decision to buy (sell) NASs. The second research question involves the effect on audit committee performance in terms of approval of NASs, fee cap disclosure and adoption of internal procedures devoted to monitoring the decision to buy additional services from the incumbent auditor. This latter aspect leads us to the third research question concerning the relationship between the NAS fee ratio and companies that adopt internal procedures to monitor NAS purchases.

We do not intend to investigate the debatable effect of NASs on auditor independence (e.g., [Francis, 2006](#)); however, investors are concerned about NASs provided by auditors; for example, in [Amundi \(2025: p. 8\)](#), the voting policy is written as follows: "In order to avoid conflicts of interest and to ensure the quality and independence of the audit, certain situations may lead to a negative vote or abstention by Amundi, including advisory fees that are excessive compared to those of the audit, ...". Regardless of statistical evidence, "consulting and other services may shorten the distance between the auditor and management. Independence - if not in fact, then certainly in appearance - becomes a more elusive proposition" ([Levitt, 2000](#)). This is the position somehow adopted by European regulators in banning some NASs and establishing a fee cap. In addition to independence issues, the business model of an audit firm selling both audits and NASs may reduce audit quality through a distraction effect ([Beardsley et al., 2021](#)).

The empirical analysis, with a study period from 2017 to 2023, provides evidence concerning the NASs after the regulatory changes in the European context. A detailed examination of the first 70% fee cap test in major Italian industrial listed companies reveals several results. There is a lack of disclosure about a calculus method that clarifies how the 70% fee cap test is applied. Using different calculative approaches may significantly affect the outcome of the non-audit 70% fee cap test. Our findings also show that the percentage of NAS fees received from PIE audit clients declined during the period observed. Therefore, the new regulation somehow affected the choice of buying (selling) additional services in the relationship between audit clients and the incumbent auditor. In particular, we detected a significant reduction in the annual NAS fee ratio at the audit firm level from the initial years (2017–2020) to the most recent years investigated (2021–2023). In terms of corporate governance, the audit committee in its annual report does not emphasize the calculation or the disclosure of the 70% non-audit fee test; however, we detected a significant increase in the explicit mention of a corporate internal procedure devoted to approving the decision to purchase NASs in recent years (2021–2023). Additionally, companies implementing these internal procedures show a significantly lower level of the NAS fee ratio.

The paper continues as follows: the next section presents a review of the literature in the European and Italian regulatory environment, with a focus on NAS classification, monitoring and fee cap. The methods used for the empirical analysis are presented in Section 3, followed by the results and conclusions.

2. Literature Review and Hypotheses

2.1 Recent Developments in the Audit Reform

More than twenty years ago, in the wake of the Enron financial scandal in the U.S., government institutions, market authorities, professional associations and academics renewed their attention to legislative frameworks to improve auditor independence when performing their job to increase the credibility of published financial statements and to protect stakeholder groups (shareholders, consumers, employees, etc.) and the public interest ([European Commission \(EC\), 2002](#)). In Italy, following the Parmalat scandal, Law No. 262/2005 brings some innovation: a list of prohibited NAS and public disclosure of audit fees and NAS fees in annual reports. The global financial crisis that began in 2007–2008 accelerated the process of implementing audit reforms.

As often happens when developing new rules, different stakeholder groups are involved. The 2010 Green Paper on audit policy of the European Union (EC, 2010) raised a series of questions regarding statutory audit issues to identify a path toward legislative improvement. The public responses provided to the cited document seem to highlight the significant role of the interest groups represented by audit firms, the so-called Big Four (Deloitte, PwC, Ernst & Young and KPMG). Additionally, two historical issues seem to re-emerge: the choice of auditor by the audited entity and the possible impact on auditor independence stemming from the provision of additional services to audit clients (e.g., Ianniello, 2011). Following this Green Paper, in 2014, Directive 2014/56/EU (the Audit Directive) was published, which amended the previous Directive 2006/43/EC. Moreover, Regulation (EU) 537/2014 was issued with specific reference to the audit of PIEs and entered into force on 17 June 2016. In the Italian context, Directive 2006/43/EC was implemented in Legislative Decree No. 39/2010, which was subsequently amended by Legislative Decree No. 135 of 17 July 2016 in the implementation of the Audit Directive (Directive 2014/56/EU) and entered into force on 5 August 2016. This new legal framework includes a transitional period and its effects may be observed initially on 2017. Of particular interest in this context is art. 10 (Independence and objectivity) of Legislative Decree 39/2010, where the general requirement of independence is established. The factors that can compromise an auditor's independence are substantially confirmed. However, there is often a formalization of behaviors that the general principles of ethics and independence already contemplate in the eyes of a reasonable and informed third party, for example, examination of the NASs provided to the potential client in the case of the first appointment, a period of independence, and the acceptance of gifts. It appears that, from the initial principle-based approach, recent changes provide more specific facts and circumstances to restrain the technical discretionary interpretation of general rules.

2.2 Classification and Monitoring of NASs

Regulation (EU) 537/2014, confirming the policy of “prohibited NASs”, provides a series of NASs that are explicitly not permitted and establishes a quantitative limit on the fees for “permitted NASs” equal to 70% of the average fees for statutory audits in the last three consecutive accounting periods. The list of prohibited services is reported in art. 5 of the aforementioned European Regulation (EU) 537/2014. Overall, compared with the previous regulation, further restrictions are highlighted in the case of auditing PIEs. In particular, other services are added, including tax consultancy services, services relating to personnel accounting, services relating to the design and implementation of internal control systems or risk management systems, and services relating to human resource management. Notably, the “NAS prohibited” policy has the problem of describing the activities (services), which imply a certain degree of interpretation/classification. Over time, the legislation itself requires adjustments to avoid any “aggressive” interpretations of the same prohibitions. This may be the case for services related to sustainability reporting. In this regard, this service has recently been deemed as not permitted as a NAS: Directive (EU) 2022/2464 on corporate sustainability reporting establishes that “services related to the preparation of sustainability reporting, including any consulting services, should also be considered as prohibited services ... The prohibition of the provision of such services should apply in all cases where the statutory auditor carries out the statutory audit of financial statements” (EU, 2022: [78]). This business relation may have occurred since a technical discretionary interpretation contemplates that what is not explicitly listed as a prohibited NAS is allowed. On the same point, it is clarified that the assurance of sustainability reporting should not count in calculating the limit on fees for other services that the statutory auditor can obtain.

Furthermore, the European regulation itself provides for the possibility of derogations and options. In this respect, it should be noted that, for example, the Netherlands has opted for a more restrictive solution by prohibiting all NASs and admitting only a list of assurance services required by law. Outside the EU, a similar position was adopted in the UK, where, in 2019, the code of ethics and independence allows the provision of a list of NASs, changing the approach followed in 2016 to list the prohibited NASs. The underlying problem is that the policy of prohibiting NASs is potentially open to different interpretations (FRC, 2019, 2024). Other European countries have introduced derogations related to the possibility of carrying out some tax services (for details on derogations and options in EU countries, see EC, 2022: pp. 44 et seq.). In the case of Italy, no option or derogation was adopted. It seems that the rules adopted are the result of a compromise between different stakeholders as opposed to a more restrictive solution initially envisioned for large audit firms. In fact, at the core of the European debate to strengthen auditor independence, in a 2011 proposal for a regulation, it was written that “audit firms of significant size must focus their professional activity on the performance of statutory audits and *are not permitted to provide services other than auditing*” (EC, 2011: sec. 3.3.2., *emphasis added*). The compromise was to expand the list of prohibited NASs, to introduce a NAS fee cap at 70% and, finally, to allow Member States a certain degree of flexibility in applying the rules within their own economic and cultural contexts.

2.2.1 Disclosure of the NAS Fee Cap

The NAS fee cap for nonprohibited additional services has been set at 70% of the average audit fees of the last three consecutive financial years of the entity being audited. This limit can be considered largely compatible with Italian corporate practice, where, in 2007, the average NAS fee was 24% of the total remuneration (Ianniello, 2012), i.e., a corresponding mathematical ratio of NAS over the audit fee of 32%. In another context, for example, in the UK, this ratio decreased from a peak of 191% in 2002 to 71% in 2008 (Hughes, 2009), approximately the cap established by European regulators in 2014. Regardless of the legal fee cap, the policies of individual companies or the business strategies of audit firms themselves may be more cautious on this issue, which may negatively affect users' perceptions of auditor independence (Shockley, 1981; Quick et al., 2023). A survey study suggested that an appropriate fee cap would be just below 30%, per the perception of German investors (Quick & Warming-Rasmussen, 2009). Few studies have addressed the issue of the non-audit fee cap and its impact in the European context. The EC (2022: p. 158) shows that in European countries, of a sample of 952 firms, 234 (25%) exceeded the non-audit fee cap in 2015; of those, 63% (147/234) reduced their NAS fees to below the limit in 2018. Overall, this study shows that in 2018, 13.5% of PIEs had NAS fees above the 70% threshold, cautioning about exceptions and divergences in the way countries implement the audit regulation. Using a sample of German listed companies, Friedrich et al. (2024) suggested that the EU regulation may have increased awareness of independence concerns. In this research, in the years 2009–2019, before the actual implementation of the fee cap test, the ratio (calculated over three years) of NASs (for year t) to the average of audit fees (for years $t-2$ to t) was 0.526. Ratzinger-Sakel & Schönberger (2015) showed that the average NAS fee cap ratio, as defined in the European regulation, was largely below 70% in the UK (50.0%), Germany (55.5%) and France (23.5%), although approximately one-third of the companies in the FTSE 100 and the DAX 30 had a ratio above 0.70 in 2013. Van Limpt & Dekeyser (2024) showed initial evidence of an impact (reducing earnings management and increasing audit fees) in listed European PIEs during 2013–2018, particularly in 2016, the year the regulation entered into force. Using a sample of Spanish listed companies for the years between 2005 and 2016, Castillo-Merino et al. (2020) documented a turning point in 2016 with an annual 37.5% decrease in the amount of NAS fees, highlighting the relevance of future NASs and their categories (classification) in studying their impact on audit quality. In the case of Austria, Graszitz & Steller (2025) documented a declining NAS to audit fee ratio in the period 2010–2022, particularly in response to the EU audit reform, with values of 29% and 26%, respectively, in 2021 and 2022. In a survey study in Denmark, Van Liempd et al. (2019) concluded that the EU's 70% cap on NASs seems to be high enough to ensure that auditors are perceived as independent. In this debate, our study contributes to the literature by examining the effective application of the 70% fee cap test.

In addition to the question of the classification of prohibited or permitted NASs, the issue of determining the permitted NASs provided by the auditor (including the network) to the entity being audited (including group companies) to be included or excluded in the 70% threshold may also arise because they are "strictly connected to the audit", as in the case of the assurance of sustainability reporting previously mentioned. Furthermore, from the point of view of the entity providing the NASs, a prudent interpretation should include the total of the approved NASs provided by the auditor and its network to all the companies in the corporate group. It is clear that this choice can affect the determination of the 70% threshold with respect to the average revenues per statutory audit in the previous three consecutive accounting periods. However, the text of the rule potentially supports a different interpretation by considering, in the calculation of the threshold of approved NASs, only those provided by the audit firm in charge and excluding those invoiced by other entities belonging to the auditor's network (e.g., Assirevi, 2021). The regulatory solution appears to be the result of a compromise, since the reference to the auditor's "network" has not been formally added, while the reference to companies in the group (entity being audited) has been made explicit. In fact, when the intention was to prohibit certain NASs, this prohibition was extended to "any member of the network to which the statutory auditor or the audit firm belongs" (art. 5, sec. 1, EU Regulation 537/2014). For this reason, in the empirical analysis, we use three calculative approaches to measure the non-audit fee cap: at an audit firm level, at a network level, and at a mixed level. Overall, the previous analysis leads us to our first hypothesis (in alternate form):

H1: The magnitude of NASs provided between the initial years and more recent years of the postreform period investigated has been significantly reduced.

2.2.2 The Monitoring Role of the Audit Committee

In the regulatory framework, all nonprohibited NASs may be provided to the audited company (or corporate group), subject to authorization by the Internal Control and Audit Committee (in the traditional Italian corporate governance structure, the board of statutory auditors named *Collegio sindacale*), which should, in any case, assess the effects of NASs on auditor independence. For example, the types of services should be assessed from a qualitative and quantitative point of view, with reference to a certain quantitative threshold of NASs compared to the statutory audit fees. This threshold should be considered critical according to a company's policy or for regulatory provisions, as indicated above. In the U.S., [Shi et al. \(2023\)](#) reported that total NASs in audit committee-interlocked firms are positively correlated in the overall sample period from 2000 to 2016 and in each of the subperiods pre- and post-SOX (Sarbanes-Oxley Act of 2002). In the same U.S. context, [Abbott et al. \(2003\)](#) shows that independent and active audit committees are associated with lower usage of NASs. In the European context, according to the [EC \(2024\)](#), the overwhelming majority of audit committees (87%) did not set a non-audit service fee cap lower than 70% for monitoring. It is at the time of "approval" that the intellectual effort to protect auditor independence should be made, avoiding behaviors that would limit the scope of the rule, supported by a statement by the same auditor that a type of service is not explicitly prohibited and does not compromise the essential principle of independence. A classic example in this regard is represented by legal, financial, and accounting due diligence services (not explicitly mentioned in the list of prohibited NASs) that may be viewed as problematic and could have an impact on auditor independence. However, at the same time, the economic benefit of NASs to the audit client should be considered when the purchase of these services is approved. In this respect, [Geiger et al. \(2025\)](#) showed in the U.S. context that increased NAS fees are generally negatively associated with investment efficiency.

The regulatory framework provides a dual monitoring mechanism. On the one hand, the self-assessment by the auditors that "confirm annually in writing to the audit committee that the statutory auditor, the audit firm and partners, senior managers and managers, conducting the statutory audit are independent of the audited entity" and "discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats" (art. 6, sec. 2(a)(b), EU Regulation 537/2014). On the other hand, the auditor may provide NASs to the audited entity "subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied" (art. 5, sec. 4, EU Regulation 537/2014). In the Italian legislative equivalent devoted to PIEs, the committee for internal control and statutory auditing (i.e., the *Collegio sindacale* in its capacity as an audit committee) is responsible for "verifying and monitoring the independence of the statutory auditors or statutory auditing companies, ... in particular with regard to the adequacy of the provision of non-audit services to the entity subject to statutory audit" (art. 19, sec. 1(e), Legislative Decree 39/2010). Overall, the audit committee should approve, verify and monitor the provision of NASs. For this reason, it is possible that some companies may adopt specific internal procedures for assigning NASs to the auditor and to the entities in the auditor network. Based on the previous debate, we formulate the second and third hypotheses (in alternate form):

H2: The performance of the audit committee in overseeing the extent of NAS improves significantly between the initial years and more recent years of the postreform period investigated.

H3: A significant and negative association exists between the internal procedure (stated in the audit committee report) used to monitor the NAS purchase decision and the magnitude of the same NAS.

3. Research Design and Sample Selection

This empirical analysis is conducted on major Italian industrial listed companies included in the FTSE MIB stock index (made up of the 40 companies with the greatest market capitalization) at the end of 2020; 14 financial firms are excluded due to their industry regulation and characteristics, and 6 foreign companies or those headquartered in another country are excluded. The remaining 20 sampled firms represent 49.8% of total domestic market capitalization, and they are all audited by one of the Big Four firms in the years we analyzed (2017–2023). The reason for selecting these firms is, first, their economic relevance. Additionally, because these firms are exposed to public attention, they should adopt best practices in corporate governance. Moreover, the first calculation of the fee cap refers to the 2020 accounting period based on the average audit fees from 2017 to 2019 for the accounting period beginning on January 1st. In general, the fee cap is calculated over four years: NASs (for year t) to the average of audit fees (for years $t-3$ to $t-1$) ([Assirevi, 2021](#); [FEE, 2014](#)). Alternatively, the fee cap could have been calculated over three years, using the average of audit fees for the years $t-2$ to t .

We selected data from companies' annual reports and audit committee reports for the years 2017–2023 available on companies' websites. The data consist of 20 companies over the sample period of seven years, totaling 138 firm-year observations. Audit and NAS fee data are extracted manually from consolidated annual reports. On this point, it is relevant to note that we used the classification as reported in the notes to the financial statements. This classification is based on *Consob* (Italian stock exchange authority) regulations (art. 149-*duodecies* of Regulation No. 11971), which require the distinction of audit, additional services devoted to obtaining an "attestation" ("certification"), and other services (categorized by type). Information regarding the audit committee is extracted from those reports. This period was selected because it is after the recent reforms, and in general, the year 2020 should be the first year of calculating the cap on NAS fees based on the average audit fees of the three consecutive previous years (2017–2019) with the same auditor for the period 2017–2020. However, not all companies have the same auditor during this period; thus, when we extend the observation to the year 2023, we are able to show the first-year calculation at least once for each company (20 firm-year observations). Moreover, in this way, we also have usable data for the first non-audit fee cap test in 47 firm-year observations (20 unique companies).

In the post-audit reform environment characterized by a stricter list of prohibited NASs and a cap on the amount of fees for NASs at 70% of the audit fee, there may be unknown and unintentional consequences in terms of business strategies and the prices of professional services provided by audit firms. There may be an effect on the pricing and classification of services, as they are disclosed, which may tend to increase audit fees while reducing NAS revenues. We intend to explore this impact by testing the difference (t test for differences of means) in the annual level of NASs in relation to the annual current audit fees in two subperiods: 2017–2019 vs. 2020–2023 and 2017–2020 vs. 2021–2023. We consider the initial period as preparatory, while in the second period, the NAS fee cap test is actually implemented. We are aware that a confounding factor may be found in the stricter regulation banning some NASs already in force during the initial period.

In terms of corporate governance, using the annual audit committee report, we observe the following: (a) the occurrence of a statement including the word "approval" (or "preapproval") of NASs; (b) the occurrence of a statement including the reference to the NAS fee cap; and (c) the occurrence of a statement including a reference to an "internal procedure" devoted to monitoring NASs. Additionally, in this case, we use two subsamples for the periods 2017–2019 vs. 2020–2023 and 2017–2020 vs. 2021–2023 to show differences in the performance of the audit committee. After this analysis, we test whether the explicit mention of an internal procedure in the audit committee report is associated with a lower level of NASs.

4. Results

Table 1 shows descriptive statistics for the total firm-year observations (N=138). The average fee is € 4.50 million (SD = 5.3), calculated as the sum of the average fees for each of the three categories of services. The average ratio of NASs to total fees is approximately 17%, and the middle half of the companies has a ratio from 8% to 24%. Previous research (Ianniello, 2012) shows a higher mean value (24%) of this ratio in 2007; we can state that historical legal limitation, together with previous audit reforms, has in some way restricted the provision of NAS. Expressing this evidence in different terms, the ratio of NASs to audit fees is, on average, 25%, and the middle half of the firms have a ratio ranging from 8% to 31%. These values are largely lower than the threshold of 70%; however, they may compensate for lower recent values with higher initial figures.

Table 1 - Descriptive statistics of audit and NAS fees in the years 2017–2023 (firm-year observations = 138)

	Mean	SD	Q1	Q2	Q3
AF (€/000)	3,860	5.346	797	1,508	4,544
AS (€/000)	392	873	39	125	322
OS (€/000)	304	594	0	97	254
TF (€/000)	4,556	6,207	1,065	1,744	5,223
NAS/AF	0.2514	0.2975	0.0794	0.1769	0.3120
NAS/TF	0.1724	0.1275	0.0736	0.1503	0.2378

Note: AF = audit fees; AS = attestation services; OS = other services, as reported in companies' consolidated annual reports; TF = total fees (AF+AS+OS); NAS = non-audit services (AS + OS).

For the twenty companies in our sample, we compute the first available NAS fee cap ratio using the following three calculation methods: the first, at an audit firm level, excludes the NAS and audit fees of the network; the second keeps the same numerator (NAS fees at an audit firm level) but changes the denominator using audit fees paid to the audit firms and its network; and the third, at a network level, uses total NAS fees paid to audit firms and its network and the symmetric value of audit fees paid to audit firms and its network at the denominator.

As shown in Table 2, for the first ratio (at an audit firm level) between the years 2020 and 2023, the NAS fee cap is, on average, 0.4266 (median = 0.2773). For two companies, the value is greater than 0.70, and for one company, it is zero. The second calculation method (mixed) results in an average NAS fee cap ratio of 0.3062 (median = 0.1704); in this case, only one firm has a value higher than 0.70. This calculation method reduces the ratio, particularly for companies with relevant international subsidiaries. With respect to the third ratio, at the network level, the average non-audit fee cap test is 0.4083 (median = 0.2242), with two companies showing a value higher than 0.70 and no company showing a zero value.

Table 2 - First calculation of the NAS fee cap test for the years 2020–2023 (N = 20; N = 47)

N = 20	Mean	Q1	Q2	Q3
NAS_a/AF_a	0.4266	0.0747	0.2773	0.4445
NAS_a/AF_t	0.3062	0.0426	0.1704	0.2921
NAS_t/AF_t	0.4083	0.0739	0.2242	0.3778
N = 47				
NAS_a/AF_a	0.3362	0.0498	0.2248	0.4576
NAS_a/AF_t	0.2365	0.0405	0.0870	0.2775
NAS_t/AF_t	0.3268	0.0686	0.2012	0.3695

Note: NAS_a = NAS provided by the audit firm; NAS_t = NAS provided by the audit firm and its network; AF_a = average of the audit fees paid to the audit firm in the three years prior to the NAS fee cap test; AF_t = average of the audit fees paid to the audit firm and its network in the three years prior to the NAS fee cap test.

Since some companies have more than one available fee cap measurement, we also consider the total firm-year observations usable (N=47). With these data, the average NAS fee cap ratio at the audit firm level is 0.3362 (median = 0.2248), while the total NAS fee cap ratio at the network level is 0.3268 (median = 0.2012). The mixed approach (NAS fees at the audit firm level and the audit fee at the network level) has a lower value: 0.2365 (median = 0.0870). Considering more observations, instead of the initial twenty, the NAS fee cap ratio seems to decrease on average. Nevertheless, compared with the other two metrics, the mixed approach tends to underestimate the outcome of the NAS fee cap test by approximately 11 points. Overall, the different figures shown in Table 2 highlight the importance of disclosing how the 70% NAS fee cap test is applied, in addition to the classification used for such NASs. In fact, the NAS fee cap requirement is central, as it is designed to protect the independence of the auditor. A clear disclosure of these metrics would help external readers of financial statements better understand auditor–client relationships.

In addition to the previous descriptive analysis, to test H1, we explored the same NAS fee ratio over the entire period of time (2017–2023) using the annual current audit fee instead of the previous three year average as the denominator. This ratio does not meet the legal definition of the fee cap; however, it can convey information about the relationship between an audited entity and its auditor. In this way, we have 138 firm-year observations, and using a classical t test for differences of means, we can detect different behaviors between the initial years and the recent years investigated. We tested two subperiods: 2017–2019 vs. 2020–2021 and 2017–2020 vs. 2021–2023. We consider the initial period as preparatory, while in the second, the NAS fee cap test is actually implemented. As shown in Table 3, the NAS fee ratio at an audit firm level is, on average, approximately 30% and significantly decreases by approximately 12 percentage points between the two periods of time investigated, from an initial value of 37%–36% to a recent value of 26%–23%; this means that implementing the NAS fee cap somehow reduced the provision of NASs as a percentage of the audit fee at the level of the audit firm. This reduction is less relevant when the NAS fee ratio is measured in the mixed approach. As already shown above, the ratio is, on average, lower (0.1851), and the declining trend is moderately significant between the period 2017–2020 vs. 2020–2023, from 22%

to 15%. Turning to the NAS fee ratio at the network level, the average value is 0.2514, and in this case, we have a moderately significant decreasing trend from the initial 29% (years 2017–2020) to 20% (years 2021–2023).

Table 3 - Comparison of the initial (2017-2020) and recent (2020-2023) NAS fee ratios

	Years	N	Mean	diff	t-stat	p
NAS _a /AF _a						
	2017-23	138	0.3039			
	2017-19	58	0.3694			
	2020-23	80	0.2564	-0.1130	-1.8677	0.0320
	2017-20	78	0.3589			
	2021-23	60	0.2325	-0.1263	-2.1046	0.0186
NAS _a /AF _t						
	2017-23	138	0.1851			
	2017-19	58	0.2159			
	2020-23	80	0.1628	-0.0531	-1.2256	0.1112
	2017-20	78	0.2155			
	2021-23	60	0.1456	-0.0699	-1.6261	0.0531
NAS _t /AF _t						
	2017-23	138	0.2514			
	2017-19	58	0.2838			
	2020-23	80	0.2279	-0.0558	-1.0893	0.1390
	2017-20	78	0.2875			
	2021-23	60	0.2044	-0.0831	-1.6378	0.0519

Note: NAS_a = NAS provided by the audit firm; NAS_t = NAS provided by the audit firm and its network; AF_a = annual audit fees paid to the audit firm; AF_t = annual audit fees paid to the audit firm and its network; t-stat is computed using a one-tailed t test for differences of means in the two subperiods.

Expressing these data at the network level in different terms, during the entire period (2017–2023), NASs are about 17% of the total fees (NAS/TF), and we observe a reduction from approximately 19% (years 2017–2020) to 15% (years 2021–2023) ($t = -1.4296$; $p = 0.0776$, one tale). This trend is in line with [Audit Analytics \(2020\)](#), which shows, considering Big Four audit firms, a declining NAS fee ratio from 32% in 2014 to 21% in 2019 in European countries; similar evidence is reported in [IFAC \(2022: p. 24\)](#) for 2013–2020. Drawing on a large sample of U.S. firms with NAS fee data from Audit Analytics, [Shi et al. \(2023\)](#) reported that NAS fees remain important, averaging approximately 17% of total fees from 2010 to 2016. As already stated, these values are generally lower than the threshold of 41.2% (i.e., NAS/AF = 70%).

With respect to the role of the audit committee in overseeing the extent of NAS, Table 4 shows that approximately 60% of the reports include a statement explicitly mentioning the “approval” of NASs. Moreover, the segmentation in the two subperiods does not significantly change; this may be because, while the effective NAS fee cap test was applied initially in the years 2020–2021, the monitoring role in terms of approving the NASs was already effective in the initial period following the audit regulation reform. Moreover, the audit committee format tends to maintain the same structure over the years, and it is possible that NASs were approved but not stated in the report or simply that they were indirectly considered with a general statement regarding compliance with the rules.

Table 4 - Audit committee monitoring role

	Years	N	Mean	diff	t-stat	p
APPR_nas						
	2017-23	138	0.6014			
	2017-19	58	0.5862			
	2020-23	80	0.6125	0.0262	0.3092	0.6212
	2017-20	78	0.6025			
	2021-23	60	0.6000	-0.0025	-0.0303	0.5121
DISCL_fee cap						
	2017-23	138	0.1739			
	2017-19	58	0.1206			
	2020-23	80	0.2125	0.0918	1.4044	0.0812
	2017-20	78	0.1538			
	2021-23	60	0.2000	0.0461	0.7052	0.2409
IP_s						
	2017-23	138	0.2463			
	2017-19	58	0.1724			
	2020-23	80	0.3000	0.1275	1.7229	0.0436
	2017-20	78	0.1794			
	2021-23	60	0.3333	0.1538	2.0972	0.0189

Note: APPR_nas = approval or preapproval of NAS stated in the audit committee report; DISCL_fee cap = NAS fee cap stated in the audit committee report; IP_s = internal procedure stated in the audit committee report to monitor NAS; t-stat is computed using a one-tailed t test for differences of means in the two subperiods.

The explicit mention in the audit committee report of the non-audit fee cap is only approximately 17%. In this case, a moderately significant increase from 12% to 21% is observed from the period 2017–2019 to 2020–2023. The audit committee does not emphasize this metric or its calculation, which could be useful for annual report readers, as shown in the previous analysis about alternative measurement approaches, in addition to classification problems. However, with the effective application of the 70% fee cap test, attention to this matter grew. In this respect, the [EC \(2024\)](#) reported that only approximately one-third of the surveyed audit committees reviewed the calculation made by the company in relation to the permitted NAS fee cap of 70% and that the calculation methods vary across the audit committees.

Considering the audit reforms in terms of approval of NASs and the fee cap on these services, some companies may introduce internal procedures (or modify existing procedures) to monitor these aspects of the relationship with their auditors. On this matter, we have observed a significant increase in the number of cases that explicitly mention a procedure for approving and monitoring NAS to protect auditor independence. In particular, the frequency percentage soars from approximately 17% to 33%. Therefore, approximately one-third of our observations employ an internal procedure (stated in the audit committee report), and a significant increase in this corporate governance choice occurred after 2020 in connection with the effective application of the 70% fee cap test. However, it is possible that an internal procedure is adopted but not stated in the audit committee report. A nontabulated result is that there is no substantial mention of instances where approval of NAS was denied. However, it is not possible to infer whether this occurred. In this respect, the [EC \(2024\)](#) shows that the audit committee withheld approval in 2% of the cases; however, the reasons for these decisions were not identified in the fee cap.

Overall, this analysis shows a tendency to establish an internal procedure to monitor the decision to purchase NASs from the incumbent auditor. However, the disclosure of the NAS fee cap in terms of service classification and calculation methods is minimal; thus, H2 is only partially confirmed.

Regarding H3, Table 5 shows that when a corporate internal procedure is adopted to monitor NASs and stated in the audit report, the level of additional services purchased from the incumbent auditor is significantly lower using the three versions of NAS ratios (on average, 10–12 percentage points less). It appears that the audit committee's monitoring role can lead to a reduction in the level of NASs when an internal procedure is implemented and stated in the audit committee report. In theory, this result may be the direct or indirect effect of an audit committee monitoring the NAS purchase decision. Under the indirect impact scenario, management can preempt the concerns of an active and independent audit committee by voluntarily seeking lower NAS purchases from the incumbent auditor (Abbott et al. 2003, p. 222).

Table 5 - NAS fee ratio and internal procedure stated in the audit committee report to monitor NAS over the years 2017–2023 (firm-year observations = 138)

		N	Mean	diff	t-stat	p
NAS _a /AF _a	IP _{ns}	104	0.3290			
	IP _s	34	0.2272	0.1018	1.4615	0.0731
NAS _a /AF _t	IP _{ns}	104	0.2095			
	IP _s	34	0.1104	0.0990	2.0127	0.0231
NAS _t /AF _t	IP _{ns}	104	0.2807			
	IP _s	34	0.1617	0.1189	2.0472	0.0213

Note: NAS_a = NAS provided by the audit firm; NAS_t = NAS provided by the audit firm and its network; AF_a = annual audit fees paid to the audit firm; AF_t = annual audit fees paid to the audit firm and its network; IP_{ns} = internal procedure not stated in the audit committee report to monitor NAS; IP_s = internal procedure stated in the audit committee report to monitor NAS; t-stat is computed using a one-tailed t test for differences of means in the two groups.

5. Conclusion

The new regulatory framework for the provision of NASs to the same PIE audit clients shows, on the one hand, difficulties of interpretation/classification and, on the other hand, the legislative attempts to find new compromise solutions to strengthen auditor independence and, consequently, to increase the public's confidence in the published financial statements. The European and Italian rules have somewhat expanded the typology of NASs prohibited to the same audit client; they also set a limit of 70% of NASs permitted with respect to the average audit fees over the last three consecutive financial years.

The empirical analysis from 2017 to 2023 provides evidence concerning NASs after the regulatory changes in Europe. A detailed examination of the first 70% fee cap test in major Italian industrial listed companies reveals several results. While the magnitude of the fee cap test appears on average largely below 0.70, there is a lack of disclosure about a calculus method that clarifies how the 70% fee cap test is applied. Using different calculative approaches may significantly affect the outcome of the non-audit 70% fee cap test. For example, a Big Four firm was found by the Financial Reporting Council (UK) to have breached the NAS fee cap (Foy, 2024).

With reference to H1, our findings show that the percentage of NAS fees received from PIE audit clients has been declining in the time period observed. Therefore, the new regulation (additional NAS prohibition and the NAS fee cap) has somehow affected the choice of buying (selling) additional services in the relationship between audit clients and the incumbent auditor. In particular, we detect a significant reduction in the annual NAS fee ratio at the audit firm level from approximately 36% in the initial years (2017–2020) to approximately 23% in the most recent years investigated (2021–2023).

The evidence regarding H2 highlights some corporate governance issues: the audit committee in its annual report does not emphasize the calculation or disclose the 70% non-audit fee test; however, we observed a significant increase in explicit mentions of a corporate internal procedure devoted to the approval of the decision to purchase NASs, from approximately 18% to 33% in recent years (2021–2023). Additionally, evidence relative to H3 shows that companies implementing these internal procedures, and stating them in the audit committee report, have a significantly lower NAS fee ratio, particularly when the ratio is calculated at the audit firm level. In theory, this result

may be the direct or indirect effect of an audit committee monitoring the NAS purchase decision. Under the indirect impact scenario, management can preempt the concerns of an active and independent audit committee by voluntarily seeking lower NAS purchases from the incumbent auditor (Abbott et al. 2003, p. 222).

The exact nature of prohibited NASs leads to unclear issues. It appears that, from the initial principle-based approach, recent changes provide more specific facts and circumstances to restrain the technical discretionary interpretation of the general rules. For this reason, a policy implication of our study may involve regulators, financial reporting and audit committee disclosure about a clear quantification of NASs provided by external auditors and how the 70% NAS fee cap test is applied, in addition to the classification used for such NASs. In fact, the NAS fee cap requirement is central, as it is designed to protect the independence of the auditor. A clear disclosure of these metrics would help external readers of financial statements better understand auditor–client relationships.

Among the limitations of our study is the number of observations; however, this allowed us to focus on major Italian industrial listed companies (representing about 50% of total domestic market capitalization). Future research may extend the analysis by increasing the sampled firms and examining the impact on auditor independence and audit quality.

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