



An Empirical Investigation of Audit Fee Determinants in Nigeria

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ABSTRACT

This study examines the effects of audit client characteristics, audit firm characteristics, corporate governance variables on audit fee in Nigeria. Several studies have been conducted in the unraveling the determinants of audit fees in other countries. Nigeria is not comparable with other countries, where the Nigerian audit and business environment, regulatory framework, culture, technology, legal and business sizes differ very significantly across the globe. The study used secondary data obtained from the published annual accounts and reports of one hundred and fifty three (153) companies from eleven (11) sectors of companies quoted on the Nigerian stock exchange from 2007-2012. The variables were analyzed using descriptive and correlation analysis. Thereafter, multiple regression analysis was conducted using pooled ordinary least squares and the panel estimated generalized least squares. Consistent with other prior research, the results for audit client characteristics revealed that audit client size and complexity have a positive and significant impact on audit fee while profitability, fiscal year end and industry have a negative and significant influence on audit fee. For corporate governance variables, board diligence, board expertise, board size, board independence, and audit committee independence, all have a positive and significant impact on audit fee. For audit firm characteristics, audit firm type, and international linkage have a positive and significant impact on audit fee while audit firm tenure has a negative and significant impact on audit fee. It is recommended that auditors should have a better understanding of these factors and their relative importance and how the factors might be built into an audit fee model.

Keywords: Audit client, Audit firm, Corporate Governance, panel data regression.

JEL Codes: M4, M41, M42.

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1.0 INTRODUCTION

Audit fee refers directly to payments made to the auditor that relates directly to the audit function. Generally, the audit fee should cover audit costs and provide a reasonable profit. Therefore, the audit fee can be seen as a combination of two items; audit cost and profit or auditors reward. Since the early

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work on the pricing of audit services by [Simunic \(1980\)](#), substantial progress has been made in understanding and providing country specific empirical evidence on the the factors which are involved in the determination of audit fee. They include the US studies, like the [Taylor and Simon \(1999\)](#); [Callaghan, Parkash and Singhal \(2008\)](#); [Mellett, Peel and Karbhari \(2007\)](#); [Rubin \(1988\)](#); [Pratt and Stice \(1994\)](#) and [Bedard and Johnstone \(2010\)](#). Similarly, the UK studies include [Moizer, \(1997\)](#); [Brinn, Peel and Roberts, \(1994\)](#) and [Pong \(2004\)](#). However, it will be misleading to assume implicitly that findings in the developed countries in respect of audit fee determinants can be taken ipso facto as being exactly the same in the developing economies. This is because of certain peculiarities of the business environments in several developing markets. For example, unlike for developed markets, developing markets have only a few business entities listed on the stock exchanges and most audit firms' sizes can be classified as small and medium and the presence of the big audit firms looms large in certain sectors such as in the financial and petroleum industries. Also, the audit environment, general business environment, regulatory framework, culture, technology, legal and business sizes differ very significantly. For instance, what may be considered as a small company in developed countries may be regarded as large in developing countries. All these factors could in fact impinge or reflect in one way or the other in the determination of the audit fee. This implies that country specific findings will be incrementally relevant in stimulating the discourse of audit fees globally. Again, though for Nigeria some studies exist that have examined the determinants of audit fees such as [Izedonmi and Donwa \(1999\)](#) and [Adeyemi and Uadiale \(2010\)](#) none of the existing studies have attempted a robust combination of audit client, corporate governance and audit firm characteristics in modelling for audit pricing in the Nigerian environment. Consequently, the objective of the study is to examine the effect of audit client, corporate governance and audit firm characteristics on audit fee determination in Nigeria.

The Study is structured as follows: Immediately following the introduction is the review of literature, followed by the methodology, thereafter, the results with the discussions and finally, the concluding remarks and policy implications.

2.0 LITERATURE REVIEW

In determining audit fee, certain factors come into play. For instance, [Simunic \(1980\)](#) sees audit pricing as the interplay of the forces of demand and supply functions. There are factors that come into play from clients that demand for audit services (commonly referred to as audit clients characteristics and corporate governance characteristics) as well as the auditor –related factors (supply side) which are regarded as audit firm characteristics. On the demand side, the factors commonly identified include audit client size, profitability, complexity and industry of operation amongst others. On the supply side, some factors include size of the auditing firm, audit firm tenure and audit firm international link. The corporate governance variables include the board size, board independence, board expertise, board diligence, audit committee independence amongst others. ([Urhoghide and Emeni 2014](#))

2.01 AUDIT CLIENT CHARACTERISTICS AND AUDIT FEE

This subsection examined audit client size, profitability, complexity, fiscal year-end and industry as they affect audit fee. A considerable body of empirical auditing literature has focused on researching the role of auditee size in charging audit fees (e.g., [Joshi & Bastaki, 2000](#); [Gonthier-Besacier & Schatt, 2007](#); [Ahmed & Goyal, 2005](#); [Brinn, et al., 1994](#)). Compared to auditing small-sized clients, auditing large-sized clients makes a need of spending more time and effort as the fees paid to auditors depend on the amount of time to complete the job given, it is expected that larger companies have to pay higher audit fees.

Also, audit client profitability is an important indicator of management performance and its efficiency in allocating available resources. [Joshi & Bastaki \(2000\)](#) explain that companies reporting high levels of profits will be subject to extensive audit testing of their revenues and expenses and this will result in

higher audit fees. Prior researches (Firth, 1985 and Dugar, Ramanan and Simon, 1995) indicate that the amount of audit fees is significantly influenced by the profitability ratio (Sandra & Patrick, 1996).

In addition, auditee complexity has been of interest in researching into determinants of audit fees. Audit fees are dependent on how long auditors have to spend for a particular audit engagement and this may therefore imply that companies with complexity will be charged higher audit fees. Result of Joshi & Bastaki (2000); Gonthier-Besacier & Schatt, 2007; Ahmed & Goyal, 2005 seem to be consistent with the view that auditee complexity has a significant relation with audit fees.

Also, Peters (2011) finds that majority of companies has the same fiscal year-end date of December 31. And time around December 31 is called the busy season for auditors. In this period, auditors, especially auditors of big auditing firms usually have to work overtime. Prior researches seem to point to the direction that auditor behaviors can be affected by a higher demand for audit services during the busy season (Sweeney and Summers 2002; Lopez and Peters, 2011).

Finally, it can be argued that each industry has its own peculiar characteristics and this might dictate the audit style and audit approach which could invariably impinge on the annual fee charge by the auditor. Auditors take different audit procedures for different industries. In this sense, audit fees charged will be different. For instance, Gonthier-Besacier & Schatt (2007) subdivided French listed firms into firms in information technology (IT) sector and others to test the impact of industrial sector on audit fees. The result indicates that audit fees paid by companies in IT sector were much higher than that paid by the others. Consequently, we state the hypothesis as follows:

H1: Audit client characteristics do not exert significant effects on audit fee in Nigeria.

2.02 AUDIT FIRM CHARACTERISTICS AND AUDIT FEE

This subsection examined audit firm type, tenure and international linkage, as they impact on audit fee. Bigger and well-established audit firms such as the Big 6 that charged higher audit prices compared to non-Big 6 firms because of product differentiation and competition. Gul (1999), using Hong Kong market data, provided evidence in support of this. Also, a study on UK companies supported audit size having a positive impact on audit fees (Ezzamel, Gwilliam and Holland, 2002). This result is replicated using a set of New Zealand companies which showed that Big 5 were receiving fee premiums compared to non-Big 5 or obscure audit firms (Johnson, Walker, & Westergaard, 1995). Nevertheless, Belgian data showed that there was no price premiums charged by large auditing firms compared to smaller auditing firms.

Audit firm tenure is the length of time auditors have serviced their clients. It is an important determinant factor of audit fee. Audit time decreases with increase in tenure probably because the auditor is now used to that particular job as he knows where and how to get whatever information is needful for his work. Regulations of audit rotation are to decrease the familiarity threat due to long audit tenure. Bedard and Johnstone (2010) argued that a long tenure means in-depth knowledge of the client and hence creates a more valuable auditor-client relation. Since an auditor client desires such a relation, audit fees will increase. Consequently, we state the hypothesis as follows:

H2: Audit firm characteristics do not impact significantly on audit fee in Nigeria.

2.03 CORPORATE GOVERNANCE VARIABLES AND AUDIT FEE

This subsection examined board size, expertise, independence, diligence and audit committee independence, as they impact on audit fee. Beasley (1996) finds that the larger boards are less effective in monitoring the financial reporting process which invariably results in the external auditor devoting more efforts in assessing the control environment of the company and hence a higher external audit

fees. In contrast, [Yatim, Kent and Clarkson. \(2006\)](#) found that external audit fees are not related with the board size. This is also consistent with [Dillian \(2007\)](#) who also found that board size is not significantly associated with external audit.

According to [Fama and Jensen \(1998\)](#), board independence leads to more effective monitoring and controlling of firm activities in order to reduce any opportunistic behavior of management and misappropriation of firm resources. [Adelopo and Jallow \(2008\)](#) also found that board independence is positively and significantly associated with audit fees paid to auditor.

The expertise of board members is a critical component in assuring that the monitoring role of the board is effectively discharged. Although there is no universal definition of board expertise, a number of studies argue that those directors who sit on multiple boards have made a significant investment in developing reputation capital as decision experts ([Fama 1980; Fama & Jensen 1983](#)). Therefore, we would expect boards where multiple directorships are common to be more supportive of the purchase of a greater amount of external auditing services, resulting in higher audit fees.

The diligence of the board includes components such as the number of board meetings and the behavior of individual board members surrounding such meetings. [Lipton and Lorsch \(1992\)](#) suggest that a major impediment to board effectiveness is a lack of time to complete board duties. In addition, prior studies like ([Conger, Finegold, & Lawler 1998; Pound 1995; Vafeas 1999](#)) suggest that an increase in the number of board meetings can increase board effectiveness. One view is that a board that demonstrates greater diligence in discharging its responsibilities as measured by the number of board meetings will seek an enhanced level of oversight of the financial reporting process. As such, we would expect more diligent boards to support the purchase of a greater amount of external auditing services, resulting in higher audit fees.

[Boo and Sharma \(2008\)](#) observe a negative association between audit committee independence and audit fees indicating that auditors will minimize their effort in the presence of independent audit committee. [Vafeas and Waegelein \(2007\)](#) also, examined the association between audit committee characteristics and audit fees shows that independent audit committee is positively associated with audit fees and further suggest that audit committee serves as a complement to external auditor in monitoring mechanism and financial reporting quality. Consequently, we state the hypothesis as follows:

H3: Corporate governance variables do not exert significant effects on audit fee in Nigeria.

3.0 METHODOLOGY

Panel data design which may be seen as a combination of both cross-sectional and time-series design properties is used for this study. The panel design is a method of studying sample units periodically observed over a defined time frame. The population consists of all companies quoted on the Nigeria Stock Exchange as at December 31, 2012. There were 250 securities listed on the Exchange. The sample size for this study was based on Yamane's formula (1967) in [Guilford & Fruchter \(1973\)](#). Following the formula, the minimum sample size for this study is 132 quoted companies at 5% levels. We therefore choose to use one hundred and fifty three (153) companies. The simple random sampling technique was adopted in the sample size. The companies in this study were sampled from the following sectors: Banking, Insurance, Agriculture, Automobile & Tyre, Breweries, Building Materials, Chemical and Paints. Others are Conglomerates companies, Food/Beverages & Tobacco, Footwear, Healthcare, Industrial/Domestic Products, Packaging, Printing & Publishing, Textiles and petroleum. In this study, secondary data, by way of annual reports and accounts of the sampled companies in Nigeria and some relevant NSE fact books were used to collect data for six years (2007 to 2012).

3.01 MODEL SPECIFICATION

The models for this study adapts those of prior studies Mitra , Hossain and Deis (2007) but in doing so we took into consideration all three dimensions (audit clients, audit firms and corporate governance variables) that we expect to be most relevant in influencing audit fees in the Nigerian environment. These models are specified and discussed as follows:

Model 1: Audit Client (Firm) Characteristics and Audit fees

$$Audfee_{it} = \alpha_0 + \beta_1 Size_{it} + \beta_2 Profit_{it} + \beta_3 Comp_{it} + \beta_4 Fisyr_{it} + \beta_5 Ind_{it} + \varepsilon_{it} \dots\dots\dots (1)$$

Model 2: Audit Firm Characteristics and Audit fees

$$Audfee_{it} = \alpha_4 + \partial_1 Audtype_{it} + \partial_2 Audten_{it} + \partial_3 Audlink_{it} + \mu_{it} \dots\dots\dots (2)$$

Model 3: Corporate Governance and Audit fees

$$Audfee_{it} = \alpha_3 + \eta_1 Bdsiz_{it} + \eta_2 Bdind_{it} + \eta_3 Bdep_{it} + \eta_4 Bdili_{it} + \eta_5 audtcom_{it} + \varepsilon_{it} \dots\dots\dots (3)$$

Table 3.1: Variable definition, measurement and source

Variable	Measurement	Source	Aprori sign
AUDITFEE(Audfee)	The amounts of fees charged by the auditor for an audit service.	Ahmed and Goyal, (2005)	
Firm size(Size)	it is measured in this study as the natural log of total asset	Chan et al. (1993).	+
Profitability	In this study, profitability is measured using profit after tax (PAT).	Brinn et al. (1994)	+
Complexity(comp)	In this study we measured firm complexity by the number of branches a company operates.	Ahmed and Goyal, (2005)	+
Industry (IND)	The variable is treated as a dummy and the value of “1” is assigned to companies that belong to the financial industry and “0” to companies in non-financial industry.	Thinggaard and Kiertzner, (2008)	+
Fiscal year (FISYR)	In this study we measured it as a dichotomous: ‘1’ for each companies ending fiscal year at December 31 and a value 0 if the year-end date is not December 31	Gonthier-Besacier & Schatt (2007) & Pong (2004).	+
Board size (BDSIZE)	Measured as the number of individuals on the board	Thinggaard and Kiertzner (2008).	+
Board independence (BDIND)	It is measured by Ratio of external to internal directors on the board.	Uwuigbe (2011).	-
Board expertise (BDEXP)	It is measured by the number of multiple directorships held by board members.	Cassello et al (2010).	-
Board diligence (BDDILI)	It is measured by the numbers of meetings held by the board.		-
Audit committee independence (AUDCOM)	It is measured by the ratio of non-executive directors to the total number of the board.		-
Audit firm type (Audtype)	In this study a dichotomous value ‘1’ is assigned if a company is audited by a Big4 and ‘0’ otherwise.	Krishnan(2003)	+
Audit tenure (AUDTEN)	Audit tenure shows the length of auditor-client relationship. It is measured as a dummy variable with the value of ‘1’ if AUDTEN >3 yrs+ and ‘0’ if otherwise.	Ahmed (2001)	+
Audit firm international linkage (AUDLINK)	This variable is measured as a dummy and the value of “1” is assigned to audit firms with international branch or affiliation and zero otherwise.	Carslaw & Kaplan (1991) & Oladipupo (2013).	+

Source: Researchers Compilation (2014)

4.0 RESULTS AND DISCUSSIONS

Table 4.1: Descriptive statistics

	Mean	Maximum	Minimum	Std. Dev.	Jarque-Bera	Prob.	Observations
AUDFEE	171.6823	8400	0.24	877.4437	160590.6	0.000	1071
Audit client characteristics							
SIZE	143904.4	21103307	0.3	1026930	4569648	0.000	1069
PROFIT	15495.05	7111318	-234693	233784.8	28761930	0.000	1069
IND	0.340803	1	0	0.474201	187.5866	0.000	1071
FISYR	0.722689	1	0	0.44788	222.2177	0.000	1071
COMP	43.6169	659	0	91.527	8304.784	0.000	1071
Audit firm characteristics							
AUDITTYPE	0.654528	1	0	0.475744	186.4625	0.000	1071
AUDITTEN	0.831776	1	0	0.37424	619.7827	0.000	1070
INTERLINK	0.766573	1	0	0.423209	291.1047	0.000	1071
Corporate governance							
EXEC	2.783178	11	0	1.675694	418.0864	0.000	1070
NEXEC	6.31215	13	1	2.213519	32.91669	0.000	1070
BDSIZE	9.086835	20	0	2.949881	176.8568	0.000	1071
BDIND	0.50893	5	0	0.439436	28030.45	0.000	1070
BDEXP	2.670401	6	0	0.619505	1334.527	0.000	1071
BDDILI	4.674136	24	0	1.850303	17230.69	0.000	1071
ACIND	1.050235	5	0.2	0.271471	133018.4	0.000	1067

Table 4.1 presents the result for the descriptive statistics for the variables. As observed, Log of **AUDFEE** has a mean value of 2.282 with maximum and minimum values stood at 9.0359 and 1.427 respectively. The standard deviation of 1.9375 is low and suggests that the audit fee across the companies exhibits considerable clustering around the average. **SIZE** measured as the log of total assets is observed to have a mean value of 8.9526 with maximum and minimum values of 16.864 and -1.2039 respectively. The standard deviation of 2.2599 that the sizes of the companies cluster around the average firm size for the sample. The mean for **PROFIT** is 15495.05 with maximum and minimum values of 7111318 and -234693 respectively. The standard deviation of 233784.8 suggests considerable dispersion of profit values for the sample from the mean which indicates that there is a big difference in profitability among companies. **FISYR** has a mean value of 0.723 which suggest that about 72% of the firms have companies end their fiscal year at December 31 The mean for **COMP** (Complexity) measured as the number of subsidiaries operated by the company is approximately 44 with maximum and minimum values of 659 and 0 respectively. **IND** (industry) was classified into financial and non-financial. As observed, the mean is 0.34 indicating that 34% of the companies in the sample are in the financial sector while the remaining 66% are in the non-financial sector. **AUDFT** (Audit firm type) has a mean value of 0.655 which suggest that about 65.5% of the firms are audited by the big 4. The mean for **AUDTEN** (Audit tenure) is 0.832 which suggest that over 83.2% of the companies in our sample have had the same audit firm for more than three years. The standard deviation is 0.374 is low as expected and indicates that most companies in the sample have had the same audit firm for more than three years. **INTLINK** (International link) has a mean value of 0.766 which suggest that about 76.6 % of the Audit firms have international linkage. The standard deviation of 0.423 is low as expected and indicates that most of the audit firms examined have international linkage The mean for **BDSIZE** (Board size) is 9.086 which suggest that the average board size for the companies in the sample is approximately 9 with a maximum and minimum of 20 and 5 respectively. The standard deviation is 2.949 which indicate some degree of difference in the board size for companies in the sample. **BDIND** (Board independence) measured as the Ratio of external to internal directors on the board has a mean value of 0.509 which suggest that about half of the total board members for the sample companies are external members. The maximum and minimum values are 5 and 2 respectively. The mean for **BDEXP** (Board Expertise) measured as the number of multiple

directorship held by board members is approximately 3 with maximum and minimum values of 6 and 0 respectively. The mean for **BDDILI** (Board Diligence) measured as the number of meetings held by the board is approximately 5 with maximum and minimum values of 24 and 2 respectively. Finally, the mean for **ACIND** (Audit committee independence) measured as the by the ratio of non-executive directors to the total number of the Audit committee is 1.050 with maximum and minimum values of 5 and 0.2 respectively. The Jacque-Bera statistic for all the variables alongside their p-value indicates that the data satisfies normality.

Table 4.2: Regression result

Variable	Fixed effects	Random effects	Pooled OLS	VIF
Corporate governance				
BDDILI	0.034* (0.000)	0.054** (0.056)	0.023	1.282 (0.373)
BDEXP	0.575* (0.000)	0.587* (0.000)	0.444*	1.182 (0.000)
BDIND	0.099 (0.347)	0.012 (0.92)	-0.102	1.222 (0.415)
BDSIZE	0.109* (0.000)	0.099* (0.000)	0.078*	1.499 (0.000)
ACIND	-0.039 (0.347)	-0.084 (0.000)	0.024	1.024 (0.861)
Audit firm Attributes				
AUDTEN	-0.353* (0.000)	-0.430* (0.000)	-0.443*	1.054 (0.000)
AUDFTYPE	0.456* (0.000)	0.221 (0.179)	0.452*	2.573 (0.010)
INTERLINK	0.741* (0.000)	0.686* (0.000)	-0.656*	2.482 (0.000)
Audit client characteristics				
SIZE	0.006* (0.000)	0.007 (0.110)	0.001**	1.104 (0.054)
PROFIT	0.002* (0.000)	0.003 (0.112)	0.003*	1.093 (0.025)
IND	0.334* (0.000)	0.169 (0.275)	0.365*	2.159 (0.014)
COMP	0.002* (0.000)	-0.003* (0.000)	0.003*	1.456 (0.000)
FISYR	-0.002 (0.963)	-0.086 (0.460)	-0.155	1.168 (0.237)
Industry Dummies				
Overall intercept (base line intercept)	-1.079* (0.000)	-0.689** (0.089)		-0.003 (0.446)
Fin. Serv. dummy (deviation from baseline)	-0.252** (0.077)	-0.430 (0.121)	-0.364	2.466 (0.298)
Health. C dummy (deviation from baseline)	0.427 (0.068)	-0.435 (0.301)	-0.282	1.201 (0.608)
ICT. dummy (deviation from baseline)	0.784 (0.012)	1.344* (0.012)	0.959	1.150 (0.161)
Ind. gds dummy (deviation from baseline)	-1.113* (0.043)	0.023 (0.942)	0.149	1.398 (0.725)
Nat. Res dummy (deviation from baseline)	-1.089 (0.223)	0.471 (0.383)	0.419	1.128 (0.813)
Oil & Gas. dummy (deviation from baseline)	0.908 (0.228)	0.524 (0.204)	0.305	1.195 (0.564)

Serv. dummy (deviation from baseline)	0.160 (0.541)	-0.375 (0.272)	-0.202	1.322 (0.647)
R ²	0.869		0.265	0.610
ADJ R ²	0.846		0.251	0.601
F-Stat	34.182			18.831
P(f-stat)	0.00		0.000	0.00
D.W	1.44		1.0	2.3
Hausman Test	0.043			

Source: Eviews 7.0 * significant at 5% ** significant at 10%.

The regression result in table 2 shows that the R² for the three estimations specifically, the fixed effect is able to explain about 86.9% with an adjusted value of 84.6% while the Pooled estimation explains about 61.0% with an adjusted value of 60.1% and random effect explains about 26.5% with an adjusted value of 25.1%. The F-stat for all three estimations are all significant as their p-values are all less than 0.05 and this indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level for any of the estimations techniques. The D. W statistics for fixed effects (1.4) and pooled OLS (2.3) indicates the presence of serial correlation in the residuals is unlikely but this is not the case for the random effects estimation. Commenting on the performance of the corporate governance variables, we observe that BDDILI has a positive impact on AUDFEE irrespective of the estimation techniques used. However, the impact is only significant at 5% for the fixed effects (0.034, p=0.000) estimates while it appeared not significant when we examine the random effects (0.054, p=0.056) and pooled OLS estimate (0.023, p=0.373). BDEXP is observed to have a positive effect on AUDFEE which is significant for fixed effects (0.575 p=0.000), random effects (0.587, p=0.000) and Pooled OLS (0.440, p=0.000) estimations respectively. BDSIZE also appears to have a positive and significant effect on AUDFEE for fixed effects (0.109, p=0.000), random effects (0.099, p=0.000) and Pooled OLS (0.078, p=0.00) estimations respectively. BDIND is also observed to have a positive effect on AUDFEE for fixed effects (0.099) and random effects (0.012) respectively while the variable was negative for Pooled OLS (-0.102). However, none of the estimates were significant at 5%. Also, ACIND also appears to have a negative and significant effect on AUDFEE for random effects (-0.084, p=0.000), but not significant for fixed effects (-0.039, p=0.347) and Pooled OLS (0.024, p=0.861) estimations respectively. Commenting on the performance of the Audit-Firm variables, we find that AUDTEN remained negative and statistically significant at 5% for all three estimations techniques; fixed effects (-0.353, P=0.00), random effects (-0.430, P=0.00) and Pooled OLS (-0.443, P=0.000) estimations respectively. AUDFTYP is still positive and significant for fixed effects estimation (0.456, P=0.00), and Pooled OLS (0.452, P=0.010) estimations respectively but not significant for random effects (0.221, p=0.179). We also find that INTERLINK still appears positive and significant at 5% with slope coefficients and p-values for fixed effects (0.741, P=0.00), random effects (0.686, P=0.00) and Pooled OLS (0.659, P=0.000) estimations respectively. Commenting on the performance of the Audit-client variables, we observe that SIZE variable is positive and significant for the fixed effects (6.62E-08, p=0.042), positive but not significant at 5% for random effects (7.00E-08, p=0.110) and pooled OLS estimate (6.15E-08, p=0.054) respectively. PROFIT is observed to have a positive effect on AUDFEE which is significant for fixed effects estimation (2.57E-07, p=0.000) and Pooled OLS (3.08E-07 p=0.025) estimations respectively but not significant for random effects (3.03E-07 p=0.112). The IND variable appears also to be positive and statistically significant at 5% for fixed effects (0.334, p=0.000) and pooled OLS (0.365, p=0.014) but not statistically significant at 5% for random effects (0.169, p=0.275) estimations respectively. COMP is also observed to have a positive effect on AUDFEE which appear significant at 5% for fixed effects estimation (0.002, p=0.000), random effects (0.003, p=0.000) and for Pooled OLS (0.003, p=0.000) respectively. Finally, we find that FISYR also remained negative but not statistically significant at 5% for fixed effects (-0.002, p=0.963), for random effects (-0.086, p=0.460) and Pooled OLS (-0.155, p=0.237) estimations respectively.

Based on the identification test i.e. the Hausman's Chi-square statistics, (0.000), the fixed effects result is reliable and actually performs better than the random effects and pooled estimations and the results

explains a significantly higher proportion of systematic variations in AUDFEE. Also, the variance inflation factor (VIF) of the independent variables does not provide any evidence of multicollinearity in the model. Evaluating the fixed effect results, we find that the result clearly provides empirical evidence that establishes the significance of the effect of almost all of the Audit Client Characteristics (Company size, Profit, Industry, and Complexity) on Audit fee and hence **we accept the H1 that Audit client characteristics has a significant impact on Audit fee**. In addition, evaluating the fixed effect results, we also find that Audit Firm attributes (Audit firm type, tenure and International linkage) have a significant effect on Audit fee. **Hence we also fail to reject the H2 that Audit firm characteristics impact significantly on audit fee in Nigeria**. Finally, the fixed effect results from the data shows clearly that Corporate Governance Variables {Board diligence (BDDILI), Board expertise (BDEXP), Board independence (BDIND) Board size (BDSIZE) and Audit committee independence (ACIND)} exert a significant effect on Audit fee and hence we accept **H3 that Corporate governance variables exert significant effects on audit fee in Nigeria**.

5.0 CONCLUSION AND POLICY IMPLICATION

This research verifies the effect of Audit client characteristics, Audit firm characteristics and corporate governance on Audit fee determination in Nigeria. Methodologically, we adapted the ‘traditional’ model of audit fees’ determinants, which has today become the standard, introduced by *Simunic (1980)* and frequently adjusted since then to specific contexts and we did the same to fit the Nigerian corporate environment. We have analyzed descriptive statistics, correlational analysis and we have used panel data econometrical approaches, to verify what influence Audit client characteristics, Audit firm characteristics and corporate governance variables on Audit fees in Nigeria. We find that Audit client characteristics, Audit Firm Characteristics and corporate governance all have a significant impact on the level of Audit fees in Nigeria. The study recommends that the market framework for determining the audit fees may not readily suffice as the auditor faces cost uncertainty, so the return (net income) from an engagement depends upon the fees paid by the client. Secondly, in the market for audit services the fear of losing the clients and revenues generated from the various assurance activities may compromise the auditor’s independence. Consequently, there may be the need to examine how regulation of the audit fee can help minimize the tendencies for declining auditor independence.

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