

# Impact of Audit Fees on Audit Quality of Conglomerates Companies in Nigeria

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## Abstract

Audit failures such as in the case of Enron Corporation, WorldCom Corporation, Global Crossing, ImClone Systems Incorporation and Tyco International have raised concerns on the auditors' ability in discharging their duties. Emergent economies are not exceptional from large corporate failures; for instance the corporate failures in the Nigerian financial sector in the early 1990s brought auditors into sharp focus and caused the public to question the role of accountants and auditors. This study assessed the impact of audit fees on audit quality of listed conglomerates in Nigeria over the periods 2004 to 2015. Data for the study were collected from the annual reports and accounts of the companies. A panel data was employed specifically using, OLS and Random Effect regressions. The paper observed that both audit fees and audit firm size have positive impact on company audit quality. The paper suggested the need for regulatory bodies in line with best practices to look critically into proper modalities for charging audit fees that is commensurate with the audit effort.

## Keywords

Audit Fees, Audit Quality, Audit Tenure, Discretionary Accruals

## 1. Introduction

The fall of high profile giant companies at the dawn of the century in the west (Enron, WorldCom) raised significant criticism on the auditing profession. More so, Audit failures such as in the case of Enron Corporation, WorldCom Corporation, Global Crossing, ImClone Systems Incorporation and Tyco International have raised concerns on the auditors' ability in discharging their duties. Emergent economies are not exceptional from large corporate failures; for instance the corporate failures in the Nigerian financial sector in the early 1990s brought auditors into sharp focus and caused the public to question the role of accountants and auditors. The quality of audits and audit opinions expressed on financial reports are crucial to achieving a sustained investor's confidence. However, a number of accounting and reporting irregularities and frauds in the last one decade have led to intense scrutiny of corporate governance frameworks and drove intense debate about issues such as financial

statement audit, audit approach and audit quality.

The Company and Allied Matters Act (CAMA) of 2004 in Nigeria demands that publicly quoted companies should appoint independent external auditor to carry out the audit of their annual reports and accounts to provide reasonable assurance that the audited financial statements are free of any material misstatements. The importance of the audit of financial statements is to reduce the risk of making decisions by the stakeholders on incorrect financial information or numbers. Remuneration received by an auditor from its client can be in two forms; audit services fee and non-audit services fee. Audit services fee is remuneration for the auditing services, whilst non-audit services fee is remuneration for additional services provided by auditors. Audit services fee has become an issue in auditing due to the possible contradicting effects on audit quality, whereby high audit fees may increase auditor's ability to detect misstatements and on

the other hand, may impair auditor's independence (Iyer & Rama, 2004).

Fees paid to auditors can affect audit quality in two ways: large fees paid to auditors may increase the effort exerted by auditors, hence, increasing audit quality. Alternatively, large fees paid to auditors, particularly those related to non-audit services, make auditors more economically dependent on their clients. The auditing market and its audit fees is a subject studied mainly in developed economies, while the audit services market in emerging economies has been given limited attention (Kimeli, 2016). However, there are few empirical studies in Nigeria on the relationship between audit fees and audit quality. Most common of these studies are the ones conducted by Oladipupo and Monye-Emina (2016) which examined the effect of abnormal audit fees on audit quality in audit market in Nigeria and the one conducted by Olarinoye and Ahmad (2016), which examined whether audit fees impair the independence of auditors in Nigeria and also the effects of corporate governance mechanisms on the quality of financial reporting. Both the two studies appeared to be too general because they are not geared toward a specific industry. Accordingly, the study of Abdul-Rahman, Benjamin and Olayinka (2017) which examined effect of audit fees on audit Quality: evidence from cement manufacturing companies in Nigeria which is almost similar to this study but the present study focused on listed conglomerates in Nigeria. Also, the time frames for the three studies were short (6 years, 7 years and 6 years respectively) while the present study covered a period of twelve years (2004-2015).

From the foregoing, it is clear that there are few empirical studies that examined the relationship between audit fees and audit quality of listed Nigerian conglomerates. It is in recognition of this that it is deemed imperative to specifically examine the relationship between audit fees and audit quality of listed Nigerian conglomerates. This study is structured in to five sections: section one is the introduction, section two takes up the literature review, section three presents the methodology, section four deals with results and discussions and section five concludes the study.

## **2. Literature Review**

### **2.1. The Concept of Audit Fees**

Audit fee is the remuneration received from a client on the discharge of audit service. It is the amount charged by the auditor for the audit assignment of a client. Hoitash et al. (2005) opined that the aggregate of audit fees are the amount of all costs covered for auditor. Lyon and Maher, (2005) pointed that there is variation in the amount of the fee, depending on auditee size and how complex the auditing process is. This is similar to the view of Turley and Willikens (2008) that there are three composite factors which contribute to the establishment of audit fees, which include complexity, Client size and associated risk. Audit fees are the fees paid to the auditors that reflect the cost of the effort conducted by the

public editors and litigation risks (Choi, Kim & Zang, 2010).

### **2.2. The Concept of Audit Quality**

Audit quality is no longer a new concept under the scope of auditing. However, up till now, there is still no universal definition that people can agree upon unanimously. The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both discover a breach in the client's accounting system and report the breach (Hakim & Omri, 2010). Audit quality is also viewed as a component of the quality of accounting information disclosed and higher disclosure quality leads to lower information asymmetry between traders (Clinch, Stokes & Zhu, 2010).

Titman and Trueman (1986) earlier observed that a high-quality audit is an audit that improves the reliability of financial statement information and allows investors to make more precise estimate of the firm's value. A higher quality audit therefore increases the probability that the financial statements more accurately reflect the financial position and results of operations of the entity being audited (Schauer, 2002). DeAngelo (1981) once states earlier that "larger auditors, as captured by membership among the Big N, tend to provide higher quality audits. In later theoretical and empirical researches, it is confirmed that firm size is closely associated with audit quality. In view of these concepts reviewed, it can be observed that the concept of audit quality points down to the reliability of the audit assertion on the assurance given on audited financial statements.

Audit quality can also be inferred from earnings quality, as high quality of audit alleviates the degree of earnings management and enhances the informativeness of financial reports. Recent stream of literature argues that audit quality is the quality of the audited earnings (Francis, Michas & Seavey, 2011). As a result, many research papers have used earnings quality as a substitute definition for audit quality (Chen et al. 2011; Asthana & Boone 2012; Koh, Rajgopal, & Srinivasan, 2013) and this kind of definition conforms to the statement made by Titman and Trueman (1986). It has also been recently found that audit firm tenure can be differentiated by the market perception of audit quality. The research study of Hakim and Omri (2010) has also adopted audit firm tenure as one of the three observable measures to assess audit quality. It mainly examines whether the length of relationships between auditors and clients could impair auditor independence. That is the major argument to call for auditor rotation on a regular basis. According to Hakim and Omri (2010) audit quality improves with tenure because auditors can easily detect errors and frauds of the company based on familiarity of its business operations and reporting issues. In view of these therefore, this study also consider the view that audit quality is a function of earnings quality which was used as proxy for audit quality in the study.

### **2.3. Audit Fees and Audit Quality**

While some studies document a positive relationship between audit fees and audit quality, others report negative

relationship. The conflicting findings provide that investigations into the relationship between audit fees and audit quality are not conclusive. Boeijink (2011) explored the impact of excess auditor remuneration (abnormal audit fees) on audit quality in 13 countries around the world between 2004 and 2008 using a sample of 2767 firms. The study showed no significant positive association between abnormal audit fee and audit quality. More so, Karsemeijer (2012) investigated the relation between audit fees and audit quality using the sample of 2,568 US listed companies with available financial data of fiscal year 2010. Regression model was employed for the analysis and the results from the study showed that there exists a positive and significant association between audit fees and the absolute value of discretionary accruals as well as non-audit fees and the absolute value of discretionary accruals. Similarly, Eshleman and Guo (2013) examined the impact of abnormal audit fees on audit quality of U.S firms from 2000-2011. Audit fee and auditor data are obtained from Audit Analytics, financial statement data are obtained from Compustat, and analyst forecast data are obtained from the I/B/E/S database. Descriptive statistics and regression analysis were used as techniques for data analysis. The study documented that there is a positive relationship between abnormal audit fees and audit quality.

Furthermore, Rahmina and Agoes (2014) determined the effect of auditor independence, audit tenure, and audit fee both partially and simultaneously on the audit quality. The research used primary data collected through the distribution of questionnaire to the audit firms listed in the Capital Market Accountant Forum (FAPM) in Indonesia. The population of the study was senior auditor, supervisors, managers, and partners positions and worked on the audit firm member of FAPM. Among the findings of the study is that audit fee has positive and significant influence on audit quality. Similarly, Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in audit market in Nigeria. The data for the study were collected from the audited annual reports and accounts of 50 companies quoted on the Nigeria Stock Exchange (NSE) for a period of 7 years spanning from 2005 to 2012 financial years giving a total of 350 data firm observations. A probit binary regression technique was employed for the analysis. The study documented that both positive and negative abnormal audit fees had insignificant positive impacts on audit quality. In the same vein, Olarinoye and Ahmad (2016) examined whether audit fees impair the independence of auditors in Nigeria and also the effects of corporate governance mechanisms on the quality of financial reporting. The study employed the Generalized Methods of Moment (GMM) estimation to control the presence of unobserved heterogeneity effects and endogeneity issues in the auditors' independent model. The data was obtained from the annual reports of 89 listed companies on the Nigerian Stock Exchange (NSE) for the years 2008 to 2013. The findings of the study revealed that abnormal audit fees charged by Nigerian auditors do not impair their independence, but rather they might reflect additional efforts undertaken during

the course of the audit. Likewise, the study found that the presence of independent non-executive foreign directors on a board improved the quality of financial reporting and an increased in the percentage of share ownership of foreign institutional shareholders also improved the quality of financial reports. So also the study of Abdul-Rahman, Benjamin and Olayinka (2017) which examined effect of audit fees on audit Quality of listed cement manufacturing companies in Nigeria using secondary data derived from the annual report of the sampled companies for a period of six years (2010-2015). Ordinary least square estimation technique was used to analyse the relationship between the explanatory variable and the dependent variable. Finding from the study show that audit fee, client size, audit tenure and leverage ratio exhibit a joint significant relationship with audit quality and audit fee in particular shows a significant positive impact on audit quality.

On the other hand, Hoitash, Markelevich and Barragato (2007) examined the relation between fees paid to auditors and audit quality in the US during the period of 2000-2003. The data were obtained from Standard & Poor's Audit Fee Database and multiple regressions were used as technique for data analysis. The study documents a statistically significant negative association between total fees and both audit quality proxies over all years. Also, Asthana and Boone (2012) examined the association between abnormal audit fees and audit quality using data taken from the post-Sarbanes-Oxley (SOX) period (i.e. years 2004–2009) and the data from the pre-SOX period (i.e. years 2000–2003). Multiple regressions were used as the technique for data analysis and the result revealed that audit quality declines as actual audit fees depart from normal fee levels. In addition, Afesha (2014) investigated whether abnormally higher audit fees reduce the audit quality. The study used a panel data for eight commercial banks in Ethiopia from the year 2004-2012. The panel fixed effect regression result revealed that audit quality failed to find any significant relationship between the extent of earning management through Loan Loss Provision and abnormal audit fees. This means that auditors do not seem to compromise audit quality for the sake of securing abnormally higher audit fees. Zhang (2014) analysed the relationship between abnormal audit fee and audit quality in a sample of 2126 Chinese listed manufacturing companies from the year 2010 to 2013. The results showed that the positive abnormal audit fee damaged the audit quality as the quality of audit decreased due to the increase of the positive abnormal audit fee. Moreover, Kraub, Pronobis and Zulch (2015) examined abnormal audit fees and audit quality in German audit market between 2004 and 2010 using a sample of 841 firms listed on the Frankfurt Stock Exchange. They observed that positive abnormal audit fees are negatively associated with audit quality whereas negative abnormal audit fees have an insignificant or at best, statistically weak positive effect on audit quality. They opined that audit fees premium can lead the auditor to compromise independence and economic bonding whereas audit fees discount can either impair independence or reduce audit efforts.

## 2.4. Audit Firm Size and Audit Quality

The results of prior audit research suggest that major audit firms (i.e. Big 4 or Big 5 or Big 6) tend to be more conservative in their auditing practices and therefore are in a position to limit the reporting of inappropriate or extreme accruals (Becker, DeFond, Jiambalvo & Subramanyam, 1998; Francis & Krishnan, 1999; Francis, Maydew & Sparks, 1999 and Choi, Kim & Zang, 2010). Large audit firms are assumed to perform more powerful tests. Dopuch and Simunic (1982) argued that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms have more resources with which to conduct tests. As a consequence, larger audit firms are more likely to be associated with more precise information than are smaller audit firms, all else being equal (Beatty, 1989; Titman & Trueman, 1986). More so, prior research has suggested that audit firm size and audit quality are positively related. For example, DeAngelo (1981) proposed that larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Similarly, Moore and Scott (1989) demonstrated that audit firm size and the extent of audit work are positively related. In addition, Krishnan and Schauer (2000) examined the association between auditor size and audit quality for a sample of not-for-profit entities. The audit quality measure was based on the entity's compliance with GAAP reporting requirements. Auditors were divided into three classes: Big Six, large non-Big Six and small non-Big Six. The study found that compliance increased as one moved from the small non-Big Six to large non-Big Six and from the large non-Big six to Big Six. The study also found that there is positive relationship between audit firm size and audit quality. In the same vein, Al-Ajmi (2009) documented the perceptions of credit and financial analysts with regard to the relationships between effectiveness of audit committee, size of the auditing firm and audit quality in the context of Bahrain. A survey was conducted on 300 credit and financial analysts which revealed that analysts considered auditors' opinion useful. Both credit and financial analysts see the credibility of financial statements to be a function of the size of the auditing firm. Both groups assume that the characteristics of Big-Four firms allow them to produce better-quality reports than non-Big firms.

Also, Enofe, Mgbame, Aderin and Ehi-Oshio (2013) analyzed the determinants of audit quality in the Nigerian business environment. The research empirically examined the relationship between audit quality, engagement and firm related characteristics such as audit tenure, audit firm size, board independence and ownership structure. A regression model was used to analyze the data. The study found among others that audit firm size has insignificant positive relationship with audit quality. Similarly, Sawan and Alsaqqa (2013) examined the relation between size of audit firm and audit quality. A questionnaire was used to collect data. To confirm and support the questionnaire findings, semi-

structured interviews were conducted. The data used for this study were collected from two sources: the demand side (Libyan oil companies) and the supply side (audit firms working in Libya). The data for the Libyan oil companies were gathered from three different types of respondents: internal auditors, financial managers and accounts managers. For the audit firms, data were gathered from employees at all levels in the firm: managing partners, audit supervisors and auditors. The result of the study revealed that a clear majority of oil companies and audit firms agreed that Big Four firms are superior to their non-Big Four counterparts in all of the reputation issues presented to them, and that the size of the audit firm is positively associated with audit quality. Further, Ilaboya and Okoye (2015) investigated the relationship between audit firm size, non-audit services and audit quality in Nigeria. The population of the study is the commercial banks listed in the Nigeria Stock Exchange Market from where a sample of 18 banks was scientifically established using purposive random sampling method. Well structured 200 copies of the instrument (questionnaire) were administered on the respondents and the data were estimated using ordinary least squares regression method. The study results revealed that audit firm size has positive and significant impact on audit quality.

On the other hand, Dehkordi and Makarem (2011) investigated the influence of audit firm size (Big auditors vs. non-Big auditors) and auditor type (governmental vs. private auditors) on audit quality. A sample of 224 firms was observed from the Tehran Stock Exchange (TSE) companies during the period 2002-2007. Discretionary accruals (DAC) were employed as representative of audit quality. A modified cross-sectional version of the Jones' model was applied to measure DAC. The study results showed that the size of non-governmental audit firms does not affect their audit quality and changes within private audit firms does not lead to changes in the level of discretionary accruals. James and Izien (2014) examined the impact of audit firms' characteristics on audit quality in Nigeria. Data for the study were sourced from the financial statements of 18 food and beverage companies listed on the Nigerian Stock Exchange market from 2007-2012. Multivariate regression technique with emphasis on Logit and Probit method was used to estimate the model of the study. The choice of this approach was basically influenced by the dichotomous nature of the dependent variable and the fact that the data is both time series and cross-sectional. The findings indicate among others that there is a negative relationship between audit firm size and audit quality.

## 3. Methodology

This study examined the relationship between audit fees and audit quality of listed conglomerate companies in Nigeria for a period of 12 years (2004-2015). There are 6 listed conglomerate companies on the Nigerian Stock Exchange as obtained from the Nigerian Stock Exchange (NSE) as at 31<sup>st</sup> December, 20). Out of the 6 companies, four companies are

studied. The selected companies are those that their annual reports and accounts were obtained for complete 12 years period. The companies include; AG Leventis PLC, Chellarams PLC, John Holt PLC and UAC of Nigeria PLC. This study utilized documentary firm – level data collected from the annual reports and accounts of the sampled firms. Panel data methodology using Pooled OLS, and random effect regression methods were used in analyzing the data using STATA 14.0. This is because the panel data methodology helps in exploring both time series data and cross-sectional data simultaneously (Muhammad, 2011).

#### Model Specification

In this study audit quality is measured by estimating earnings management. It is argued that when a client has the opportunity to manage its earnings, the auditor is likely to be influenced by the client and therefore the quality of the audit will be lower (Becker et al., 1998; Francis et al., 1999). A common proxy for earnings management is the absolute value of discretionary accruals. To estimate to what extent a company was able to manage its earnings, the modified Jones-model can be used. Dechow, Sloan and Sweeney (1995) compared several models to detect earnings management and found that this modified Jones-model has the most power to do so. This study therefore, used modified Jones-Model as proposed by Dechow et al. (1995) and Karsemeijer (2012) to estimate the discretionary accruals. With this method total accruals are calculated from the cash flow statement using the income before extraordinary items and cash flows from operations:

$$TA_{it} = EXBI - CFO \quad (1)$$

Where:

$TA_{it}$  = total accruals in year t

EXBI = income before extraordinary items (in year t)

CFO = cash flows from operations (in year t)

Discretionary accruals are then estimated using the total accruals that are obtained from equation 1 in the following model:

$$TA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta REV_{it} - \Delta REC_{it}) + \beta_3(PPE_{it}) + \varepsilon_{it} \quad (2)$$

Where:

$TA_{it}$  = calculated total accruals (in year t)

$A_{it-1}$  = Assets (in year t-1)

$\Delta REV_{it}$  = change in revenue from year t-1 to year t

$\Delta REC_{it}$  = change in receivables from year t-1 to year t

$PPE_{it}$  = property, plant and equipment (in year t)

The variables  $\Delta REV_{it}$ ,  $\Delta REC_{it}$  and  $PPE_{it}$  are scaled by total assets in year t-1.

After estimating  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  with the model, the discretionary accruals were estimated using the residual value or error term ( $\varepsilon_{it}$ ). Therefore, the discretionary accruals as used in this study is the difference between total accruals and the fitted normal accruals, defined as  $DA_{it} = (TA_{it} / Asset_{it-1}) - NA_{it}$ . The results obtained from model 2 (absolute values) are used as input to investigate if there exists, a relationship between audit fees and audit quality. This association was

tested with the following regression model including the control variables:

$$DAC_{it} = \beta_0 + \beta_1 LAFEE_{it} + \beta_2 ASIZE_{it} + \varepsilon_{it} \quad (3)$$

Where:

1.  $DAC$  = estimated discretionary accruals from the modified Jones model.
2.  $\beta$  = is the individual effect taken to be constant over time and specific to the individual cross-sectional unit  $i$ .
3.  $LAFEE_{it}$  = Audit fees in firm  $i$  at a time  $t$ , measured as the natural logarithm of audit fees paid for auditing annual accounts of parent companies and consolidated accounts. Audit fees do not include fees for auditing annual reports of branches and subsidiaries (Kimeli, 2016).
4.  $ASIZE_{it}$  = Audit firm size in firm  $i$  at a time  $t$ , measured by Dummy variable, if Auditor is big 4 (Deloitte, PWC, Ernst & Young and KPMG) = 1, else 0 (Asthana & Boone, 2012 and Kimeli, 2016).

## 4. Results and Discussion

The robustness test was conducted in order to improve the validity of all statistical inferences for the study. The tests carried out include Shafiro Wilk test on the Residuals, Multicollinearity, Breusch-Pagan test for heteroscedasticity and Hausman specification test. The Shafiro Wilk test carried out on the residuals shows the probability of Chi-Square of 0.10026 which is an indication that the data are normally distributed. Multicollinearity test is carried out to check whether there is a correlation between independent variables which will mislead the result of the study. The results show that the variance inflation factor (VIF) is less than 10, and a VIF of 10.00 can still be a proof of absence of collinearity (Samaila, 2014). Hence, the predictive ability of the explanatory variables is not adversely affected by the relationship. Similarly, Heteroskedasticity Test was conducted to check whether the variability of error terms is constant or not. Test of heteroskedasticity ensures that the regression fits all the values of the independent variables and this is possible only if the residuals do not vary with independent variable and therefore are random in nature. The result of the heteroskedasticity test revealed that there is no presence of heteroskedasticity in the model because the probability of the Chi-square is 0.2162, hence no need for robust test. In addition, the Hausman Specification Test was carried out to decide between fixed or random effect models. An important assumption of the fixed effect model is that those time-invariant characteristics are unique to the individual firms and should not be correlated with other firm's characteristics (Samaila, 2014)). The result of the Hausman test for the model revealed that it is not correlated because of the Chi-square probability of 0.1271 which is not significant and hence random effect was chosen for the interpretation. Therefore, the study used Random Effect for interpretation.

*Table 1. Descriptive Statistics of the Variables.*

Variables	Obs.	Mean	StdDev.	Min	Max
Da	48	.6287985	.036685	.5455217	.7334834
Lafees	48	7.170454	.5324803	6.255272	8.436183
Asize	48	.6875	.4684174	0	1

Source: Generated by the Author from the Annual Report Data of Conglomerates

Table 1 provides the summary statistics of the dependent and independent variables in order to effectively appreciate the nature of the results. It provides a basic insight into the nature of the data upon which analysis is done. The summary statistics include measures of central tendency, such as mean, measures of dispersion (the spread of the distribution) such as the standard deviation, minimum and maximum of both the dependent variable and explanatory variables. From Table 1, discretionary accruals show a mean of .6287985, a standard deviation of .036685 which is an indication that the firms may not differ on the extent to which they manage their earnings over the period. The mean of audit fees is 7.170454 and a standard deviation of about 53%. This also shows that audit fees are widely dispersed.

*Table 2. Correlation Matrix of the Dependant and Independent Variables.*

VARIABLES	Da	Lafees	Asize	VIF
Da	1.0000			
Lafees	0.2567	1.0000		1.13
Asize	0.5975	0.3413	1.0000	1.13

Source: Generated by the Author from the Annual Report Data of Conglomerates

The correlation results presented in Table 2 indicates that all the explanatory variables are positively correlated with discretionary accruals. However, to determine the presence of multicollinearity problem, a Variance Inflation Factor (VIF) test was carried out, the results of which provide evidence of the absence of multicollinearity. This is because the results of the VIF test ranges from a minimum and a maximum of 1.13. A VIF of 10.00 can still be a proof of absence of multicollinearity (Samaila, 2014). Hence, the predictive ability of the independent variables is not adversely affected by the relationship.

*Table 3. Regression Result.*

Random Effect				
Ind var.	Coefficient	Std error	Z	p> z
Constant	.5682086	.0608333	9.34	0.000
Lafees	.0041164	.00874	0.47	.638
Asize	.0451973	.0099354	4.55	0.000
F				
P- Value				
R <sup>2</sup>				
Wald Chi <sup>2</sup>	25.33			
P- Value	0.000			
R Squared:				
Within	0.1088			
Between	0.9609			
Overall	0.3602			

Source: Generated by the Author from the Annual Report Data of Conglomerates

Table 3 shows the results of the Random Effect regression. Further, the Random Effect showed the value of R<sup>2</sup> as 0.3602 which is the multiple coefficient of determination that gives the proportion or percentage of the total variation in the dependent variable explained by the explanatory variables jointly. Hence, it signifies that approximately 36% of total variation in audit quality (discretionary accruals) of listed conglomerates in Nigerian is caused by audit fees and audit firm size.

The regression results as shown in table 3 indicate that audit fees has positive impact on audit quality (discretionary accruals) but the impact is not statistically significant at 5%. This implies that as the audit fees increases, the audit quality improves (discretionary accruals decreases). The findings is consistent with the findings of Boeijink (2011), Karsemeijer (2012), Eshleman and Guo (2013) and Rahima and Agoes (2014) who documented a positive relationship between audit fees and audit quality. However, it contradicts the position of Hoitash et al. (2007), Asthama and Boone (2012), Afesha (2014), Zhang (2014) and Krauch et al. (2015) who documented that audit fees has negative impact on audit quality.

In addition, the result in the Random Effect regressions indicate that audit firm size has a positive and significant impact on audit quality of the companies. This finding concurred with the findings of Krishman and Schauer (2000), Enofe et al. (2013), Sawan and Alsaqqa (2013) and Ilaboya and Okoye (2015) who found out that auditor size has positive relationship with audit quality. However, it contradicts the findings of Dehkordi and Makarem (2011) and James and Izien (2014).

## 5. Conclusion and Recommendations

The debate on how audit fees affect audit quality was after decades of research still not settled. This paper contributes to this debate by providing strong evidence of the impact of audit fees on audit quality of listed conglomerates in Nigeria using panel data methodology covering the period from 2004 to 2015. The paper concludes that audit quality when proxied using discretionary accruals, both the audit fees and audit firm size have positive impact on audit quality. However, that of audit fees is not statistically significant. The research presented here implies that audit fees and audit firm size are important determinants of audit quality and therefore need to be taken into account when proposing any audit engagement. The paper suggested the need for regulatory bodies in line with best practices to look critically into proper modalities for charging audit fees that is commensurate with the audit effort.

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