DETERMINANTS OF AUDIT FEES IN LISTED FOOD AND BEVERAGES FIRMS IN NIGERIA

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A DISSERTATION SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTER OF SCIENCE (M.Sc.) DEGREE IN ACCOUNTING AND FINANCE

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DECLARATION

I declare that the work in this dissertation entitled **"Determinants of Audit Fees of Listed Food and Beverages Firm in Nigeria"** has been performed by me in the Department of Accounting. The information derived from literature has been duly acknowledged in the text and a list of references provided. No part of this dissertation was previously presented for another degree or diploma at this or any other institution.

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CERTIFICATION

This Dessertation titled ***"Determinants of Audit Fees in Listed Food and Beverages Firms in Nigeria"*** by Usman Musa ABUBAKAR meets the regulations governing the award of the degree of Master of Science (M.Sc.) in Accounting and Finance of the Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This research is dedicated to my late father Malam Usman Abubakar who insisted on my enrolment in the programme not minding my hesitance and resistance. He took responsibility financial, morally and never ceased to encourage me throughout time. Though you left before the completion of your dream, I honour you with this work as you continue to rest in perfect peace.

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ABSTRACT

Corporate managements induce auditors through fees to alter the financial performance and position of their entities. These practices led to the studies on the determinants of audit fees in developed and developing economies. This study examined the determinants of audit fees of listed food and beverages firms in Nigeria. Correlational research design was employed on a sample of nine (9) listed food and beverages firms in Nigeria for a period of ten (10) years (2004-2013). Panel regression techniques of estimation were used in the analysis. The study found after controlling for firm profitability a significant positive relationship between audit firm size, auditor tenure, firm size and audit fees of listed food and beverages companies in Nigeria during the period covered by the study. The study in particular found that audit firm size has significant positive impact on audit fees of listed food and beverages firms in Nigeria. The study also found that auditor tenure has significant positive influence on audit fees. Moreover, the study found that client firm size has a significant positive impact on the audit fees of listed food and beverages firms in Nigeria. While firm complexity is found to be positive but statistically insignificant. The study concludes that audit firm size, auditor tenure and client firm size are significant determinants of auditor fees in the Nigerian food and beverages sector. The study, therefore, recommends that the regulators of the food and beverages firms in Nigeria should improve the guidelines for employing the services of external auditors and their remuneration, and consider firm size, auditor size and tenure as well as the firm profitability among the factors in the determination of auditors' fees.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Audit fee determination has become a fundamental area of audit research in recent times; especially following after the classical cases of audit failure experiences in Enron and other corporations. The disturbing dimension resulting from ex-post analysis and discourses of these cases of corporate failure is that often times the client had been given a "clear bill of health" and an unqualified auditor's opinion by the auditor. This therefore suggests that there had been incentives for the maintenance of an ongoing relationship between auditor and client and the auditor independence as well as audit quality had to become the opportunity cost for the survival of the interest of both clients and the auditor.

The search for explanations for the auditor's performance, the level of auditor independence and the audit quality has seen audit fee evolving as a critical factor and this is well documented in the literature (Simunic1980 Gist, 1995). Audit fee is an important issue and has a significant effect on auditor's performance, their independence and more particularly audit failures. Thus, audit fee research may be seen as a subset of the general research areas concerned with issues of audit fee determination, auditor independence and audit quality. Audit fee is concerned with the determination of remuneration for audit services that relates directly and primarily to the audit function. Succinctly put, it deals with the determination of audit remuneration from

the early work on the pricing of audit services to understanding the basic economics of fee determination.

Following the market framework, early studies such as Simunic (1980) explicitly saw the audit pricing as the determination of audit fee and initiated the use of the demand and supply functions to identify the determinants of audit pricing and hence the audit fee. This market theory covers both the demand side and the supply side determination that is determinants representing features from clients that demand audits and from auditors that supply audit services. Following the audit fee literatures, several determinants of audit fee have been identified

Corporate performance is an important concept that relates to the way and manner in which financial material and human resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. There are two determinants of firm's performance; the first is associated with external factors that are beyond the control of the firms. The second refers to factors that are internal and under the direct purview of the firms.

Corporate performance comes with several implications for audit fees. Firstly, companies reporting high levels of profits will be subject to rigorous audit testing in order to relate revenues and expenses and this entails more audit fees (Joshi and Al-Basaki, 2000). Also, some ability to pay largely influences the audit firm choice, it suggests that better performing companies may want to have audit services of the big 4 and this may signal more audit fee expenses. However, there is also the argument that under-performing

companies are more likely to control their overheads and this would result in less audit work (Chan, McDonald & Miller, 2004). In relation to firm complexity, the theoretical expectation generally is that since audit fees are dependent on how much time auditors have to spend for an audit engagement, more complex firms will thus be associated with higher audit fees. Using listed food and beverages firms in Nigeria, the study objective is to provide empirical evidence on the relation between determinants of audit fees and the fees paid to auditors.

1.2 Statement of the Problem

There are several studies conducted on the determinants of audit fees in developed economies such as Butterworth and Houghton (1995), Palm rose, (1986), Taylor and Simon (1999). However, the findings have not been unanimous conclusive across researchers. The evidence from these studies revealed the presence of mixed findings in the literature which suggests that the issues involved on the auditor pricing and the determination of auditor remuneration are far from being settled empirically. Theoretically, the amount of fees for audit services that a client firm pays to it is audit firm reflects the level of audit work the latter has to perform in the auditing process. The definition of this level of work embodies the auditor's assessment of the process's complexity and the desired level of risk. In other words, all other things considered, if an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements, he generally acts on the nature,

extent and timing of audit procedures, which naturally influence the final amount of required fees.

Additionally, increasing audit efforts are determined by the firm's likelihood of incurring future losses due to the engagement with that specific client (e.g Simunic and Stein,1996); Those losses include litigation costs, sanctions from regulatory entities, image and reputation damages. There is empirical evidence that when there is a perception of high levels of liability exposure, audit firms adjust their required fees (Simunic and Stein, 1996); audit fees are influenced by litigation environment (i.e. the regimes of different countries) where the audit firms operate on. In the face of increasing litigation costs, big audit firms have avoided engagements with risky clients. Pratt and Stice (1994) also found evidence of the existence of an additional premium (relative to increasing level of work) to cover litigation costs. An interesting recent finding is that audit fees reflect the client's future performance, because auditors have access to some information that contains forward- looking judgments (e.g. uncollectable receivables, obsolete inventory, pension and warranty costs) (Stanley, 2011). Moreover, the disclosed audit fee is also found to be related with errors in forecasts of earnings made by financial analysts, which could indicate a superlative precision in the predictions of auditors when compared with the predictions of financial analysts. The potential usefulness of this evidence is a sign embed in the disclosed audit fee of the firm's future economic condition. Also empirical tests provide evidence on the negative relationship between firm performance and audit fees. Specifically, increases (decreases) in operating performance are connected with` decreases (increases) in audit fees. However, while

previous studies viewed firm performance in relation to audit fees, there are some factors such as firm size, auditor tenure, firm complexity and audit firm size that could potentially determine the fees paid to auditors. These variables have not been adequately researched, especially in developing economy like Nigeria.

In addition, most of the empirical studies conducted on the determinants of audit fees have been done in developed countries and to the best of my knowledge no single work has been done in the domain of food and beverages firms in Nigeria. This calls for the need for empirical evidence on the issues especially from developing economies and hence the need and relevance of the study.

1.3 Objectives of the Study

The main objective of the study is to examine the determinants of audit fees of listed Food and Beverages firms in Nigeria. The specific objectives include to;

i. Investigate the influence of complexity on audit fees of listed Food and Beverages firms in Nigeria.
ii. Determine whether firm size impacts on audit fees of listed Food and Beverages firms in Nigeria, and
iii. Examine the effect of audit firm size on audit fees of listed Food and Beverages firms in Nigeria.
iv. Investigate the effect of auditor tenure on audit fees of listed Food and Beverages firms in Nigeria.

1.4 Research Questions

For the purpose of this study, the following research questions will be addressed:

i. How does complexity Influence audit fees of listed Food and Beverages firms in Nigeria?
ii. To what extent does firm size impact on audit fees of listed Food and Beverages firms in Nigeria?
iii. What is the effect audit size on audit fees of listed Food and Beverages firms in Nigeria?
iv. How does audit tenure impact on audit fees of listed Food and Beverages firms in Nigeria

1.5 Statement of Hypotheses

In line with the objectives, the following hypotheses are formulated.

H_{01}: Audit firm size has no significant influence on Audit fees of listed Food and Beverages firms in Nigeria.

H_{02}: Auditor tenure has no significant impact on audit fees of listed Food and Beverages firms in Nigeria.

H_{03}: Firm size has no significant effect on Audit fees of listed Food and Beverages firms in Nigeria.

H_{04}: Complexity has no significant impact on Audit fees of listed Food and Beverages firms in Nigeria.

1.6 Significance of the Study

The study is of immense value to the following stakeholders and the outcome of the research will assist the corporate entities of the food and beverages firms in Nigeria to know whether or not determinants of audit fees made impact on Audit fees which will guide them in taking relevant investment decision.

Also the regulatory authorities will benefit from the outcome of the study, which will enable them examine the effectiveness of their monitoring instruments as well as review them as appropriate. Other stakeholders like government, employees and creditors will also benefit from the findings of the study by allowing them make informed decision about policies, employment and ratings respectively.

The findings of the study will also contribute to the existing empirical studies on determinants of audit fees in Nigeria. The study will also be useful to accounting students and researches. In addition, the outcome of the study will serve as an input or motivational factor for further research in the area.

1.7 Scope of the Study

The need to study the determinants of audit fees of listed food and beverages firms in Nigeria cannot be over emphasized as the industry contributed to the overall growth of the economy. The population of the study is all the twenty one Listed Food and Beverages firms quoted on the Nigeria Stock Exchange (NSE) as at 31st December, 2013. The period of ten (10) years is used which covers 2004 to 2013. As there are many changes in the sector which affected the industry before and after the chosen period of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant theoretical and empirical literature relating to determinants of audit fees of a firm and how it affects the auditor remuneration of the listed Food and Beverages firms in Nigeria. The chapter is presented on the various thematic areas; concept of audit and auditors' remuneration, empirical studies on

determinants of audit fees as well as the theoretical framework. Summary of the chapter is also provided.

2.2 Concept of Audit and Auditor Remuneration

Auditing has developed over many years, but it was not until the late nineteenth century (with the formation of joint stock companies, the predecessors to present day Limited Liability Companies) that auditing became widely accepted in the United Kingdom and by extension, in other parts of the world. Individual firms of accountants have refined their approach to auditing from time to time and the professional accountancy bodies in various countries have published guidelines to their members on auditing procedures.

American Accounting Association, (1973) defined auditing as a systematic process of objectively obtaining and evaluating evidence in respect of certain assertions about economic actions and events, to ascertain the degree of correspondence between those assertions and established criteria and reporting the results to interested parties. Auditing usually covers a particular period of time. Auditing may be narrowly defined as a written report on the examination of financial statements for a particular period of time.

Audit fee determination refers to the determination of auditor remuneration. The audit remuneration has in extant literature been divided into two categories; audit fees and non-audit fees. While audit fees refer directly to payments made to the auditor that relates directly to the audit function, non-audit fee is concerned with payments for other non-audit services rendered by the auditor. 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. One of the first theories regarding the determinants of the audit fees was developed by Simunic (1980). He proves that the level of the audit fees depends first on the auditor's effort. The connection between the "price" of the audit and the effort for its accomplishing is a natural one, because any audit mission is carried out according to some compulsory standards and rules established by professional auditing organizations. Simunic (1980) also proved the direct connection between the level of audit fees and the subsequent litigation risk. Referring to this statement, Pratt and Stice (1994) underline that the auditors evaluation in terms of possible losses in future litigations may result in an increase of the audit effort in order to reduce this litigation risk, and consequently, to a rise in the audit fees. In more contemporary literature (Gonthier – Basacler and Schatt, 2007; Ahmad and Goyal 2005; Ho and Hutchinson 2010; Steward and Munro, 2007) several factors have been identified as important considerations in the audit pricing process. Among the factors, (Heyes, Dassen, Schulder and Wallage 2005) mentions the following; the auditee's size and the geographical dispersion, the size of the audit company, financial performance of the client, corporate governance structure, the quality of auditee's internal control system, auditee industry of operation amongst others. Moreover, it has been argued that the impact of these factors on the level of audit fees is quite contradictory (Cobbin, 2002).

2.3 Determinants of Audit Fees

Previous research found that audit fees are dependent on a number of variables concerning the auditor, the auditee, the engagement or other factors. The determinants most commonly used in prior research will be discussed now using the study of Hay, Knecheland, and Wong (2006) which summarizes a large body of audit fee research.

2.3.1 Auditee attributes

These attributes relate solely to the client and consists of the client size, risk, complexity, profitability ownership, leverage, internal control, industry, and governance. This is explain as follows

i. Size

According to previous empirical evidence, the main factor driving audit fees is the size of the auditee or the size of the audit. The amount of variation explained by size is generally in excess of 70 percent. (Hay *et al*., 2006). The relation between fees and size is expected to be positive (Simunic, 1980).

Several authors suggested that this relation is unlikely to be linear. First of all because there may exist economies of scale. Larger audits may cost less, per unit of assets or transactions audited, than do small audits (Pong & Whittington, 1994). Second, internal control procedures are likely to be more sophisticated in larger companies (Karim & Moizer, 1996). These internal control systems reduce the risk of errors and due to this the total time of the audit will decrease. Many studies dealt with this by turning the size variable either into its square root or into a logarithmic function (Karim *et al*., 1996). There are several indicators of a company's size. Most studies used total assets; others

suggested turnover, sales or net profit before tax. Pong *et al*. (1994) argue that it is possible that both total assets and turnover feature in a model of the determination of audit fees. According to them, size may have more than one dimension. An audit may have two broad aspects, an audit of transactions, which is related to turnover, and verification of assets which related to total assets. The use of sales as an indicator of size is criticized because the definition of sales may vary among entities. This will result in comparability problems. Net profit before tax may not be an appropriate measure because the bottom line is the result of many other factors besides size (Low, Tan, and Koh,

1990).

ii. Risk

Risk is assessed by auditors at the beginning of the audit. It helps to plan the extent and scope of audit testing so that an audit failure will be prevented. A risky company will need a higher extent and scope of audit testing. This will automatically result in higher audit fees. The relation between auditee risk and audit fees is thus expected to be positive. Auditee risk is difficult to measure because it reflects multiple aspects. It reflects the nature of the business and also the control environment instituted by the business. It includes subjective judgments to for example the integrity of senior management and the internal control strength (Chan, Ezzamel, & Gwilliam, 1993). A measure commonly used in prior studies looks at the two balance sheet components that are most difficult to audit and are thus of high risk, inventory and receivables (Low *et al*., 1990). According to (Hay *et al*, 2006) inventory and receivables should be combined and then divided by total

assets to obtain the highest results. Gearing and liquidity ratios are also used as a measure of risk, for example by Low *et al* (1990). The ratio's long-term liabilities to total funds and current assets to current liabilities are recommended by Low, Koh and Tsui (1984) for assessing gearing and liquidity respectively because they identified them as the most dominant ratios in their analysis. Karim *et al* (1996) use a profitability factor to determine auditee risk. They argue that companies making accounting losses can be expected to represent a higher risk because of the implied lack of cash flow. In addition to the presence of loss, Low *et al*. (1990) expect that if a company received a 'subject to' qualification in the year of the audit or if contingent liabilities exist in the year of audit, the risk will increase and hence audit fees will also increase. Hay *et al* (2006) found that systematic risk was significant and positive in 3 of 5 studies. Chan, *et al* (1993) state that market based measures of risk is better proxies for clients' operating risk though not necessarily of audit risk.

iii. Complexity

Complexity increases the amount of work and the time needed for the audit. Work and time will result in higher audit fees. The relation between complexity and audit fees is thus expected to be positive. Complexity costs should be a reflection of the nature of the business of the auditee, its location, the quality of its internal control and the proportion of unusual transactions (Karim *et al*., 1996). Pong *et al*. (1994) argue that this variable might interact with size variables, either because it involves more time or more skilled labor per unit of turnover or assets audited. The general concept of complexity has been measured in many different ways. The most typical indicators of complexity include the

number of subsidiaries, the number of foreign subsidiaries, the proportion of foreign assets, the number of Standard Industrial Classification (SIC) codes that make up the client, the number of business segments, the number of audit locations and a subjective rating of complexity provided by the audit team (Hay *et al*., 2006).

Basically, audit fees are dependent on how long auditors have to spend on audit engagement. It means companies with complexity are charged higher audit fees. Complexity of an audited firm is examined in two aspects; complexity of operation and complexity of balance sheet (Statement of financial position) composition. Under the impact of globalization, companies can extend their operation to foreign countries by establishing subsidiaries. Auditors for such companies have to spend more time for evaluating consolidated financial statements. On the other hand, the complexity of operations can lead to complex transaction which requires auditors to invest more time to test. The complexity of balance sheet (statement of financial position) composition can be reflected through the complexity of assets. Generally, companies with higher ratio of liquid assets (inventory, receivables) to total assets are more complex than others like audit size, auditee complexity is of the interest in researching determinants of audit fees (Joshi and Bastake, 2000; Gonther-Basacier and Schatt, 2007; Ahmed and Goyal, 2005). Most of these results are consistent with the view that auditee complexity has a positive relation with audit fees.

iv. Profitability

Profitability of the client is also an important determinant of risk for an auditor. If a company is not making profit and there is no indication that it will be making profit in the future, it is not financially viable anymore. This creates a loss to the auditor who performed services for his client and is not able to collect remuneration for this. That is why the auditor takes into account the profitability of his client when assessing risk. Low profitability brings higher risk and this will result in a higher audit fee. This determinant is for example used by Chan *et al*. (1993), Low *et al*. (1990) and Karim *et al*. (1996). According to Hay *et al*. (2006) two measures are mostly used when determining profitability. The first one is the profitability ratio that can be calculated as total income divided by total assets. This ratio measures the return on assets. Its relation to audit fees is expected to be negative. They found six studies that reported a significant positive result for the profitability ratio and 13 studies that reported a negative association between profitability and audit fees. In eighteen studies this determinant was insignificant. Profitability can also be measured by looking at the existence of a loss. In this case a dummy variable will be used. There will be a positive relation between losses and audit fees. This measure of profitability was found to be significantly positive in 23% of the studies examined by Hay *et al*. (2006).

v. Ownership

Some forms of ownership are considered to increase the auditor's potential exposure to liability and lead to higher audit fees (Hay *et al*., 2006). The agency theory suggests that, in the absence of regulation, the propensity of firms to demand timely independent

audits is a function of the extent of the separation between ownership and control. Chan *et al*. (1993) hypothesize that the extent of audit services demanded will be a function of this ownership control variable. Companies with a diverse ownership structure will require more extensive and higher quality audit over and above that necessary to fulfill the minimum statutory requirements. According to Hay *et al*. (2006) the existence of a dominant shareholder could either indicate higher agency costs or stronger control, with potentially conflicting effects on audit fees. Karim *et al*. (1996) examine the influence of government ownership in their study. They state that companies wholly owned by governments have been criticized for not being audited in depth. As they have no outside shareholders except the government there is little pressure for higher quality audits. They hypothesize that companies with higher percentages of government ownership will pay significantly lower amounts of audit fees than companies owned by the private sector. They did not find significant evidence for this relation. The three most common metrics used to proxy for ownership, according to Hay *et al*. (2006), are dummy variables for public versus private companies, stock versus mutual companies, and the existence of a major shareholder. Eight of the twelve studies examined by them reported a significant positive relationship with fees for the dummy variable public versus private companies. The stock versus mutual companies obtained similar results and the major shareholder variable revealed mixed results.

vi. Leverage

Leverage reflects the relation between debt and equity, or debt and total assets. A highly levered company is seen as a risky company because its probability to fail is high

(Simunic, 1980). This risk of failing brings the risk of losses for the auditor. That is why the relation between audit fees and leverage is also positive. There are a few ways in which leverage can be measured. Hay *et al*. (2006) state that most studies used the leverage ratio, debt to total assets, which is expected to be positively associated with audit fees. Also the quick ratio is commonly used. The expected association to fees is negative. Hay *et al*. (2006) found that half of the prior studies confirmed these expectations.

vii. Internal control

The audit process should be sensitive to differences in the control environment (Knechel, 2001). The Statement on Auditing Standards (SAS) No. 65 permits external auditors to use work completed by internal auditors to reduce the effort required to complete the audit. Logically the external audit fee will reduce when the amount of effort is lower. Internal control of internal audit contribution is expected to be a significant determinant of the external audit fee. Stein, Simunic and O'Keefe (1994) design a model which includes a variable of internal audit contribution that represents the level of internal audit assistance provided on the external audit. Their results show that this variable is not significant. In contrast to this result, Elliott and Korpi (1978) report that the percentage reduction of audit scope due to internal audit contribution is significant in predicting audit fees. A later study by Felix, Gramling and Maletta (2001) also finds evidence that internal audit contribution is a significant determinant of the external audit fee. Hay *et al*. (2006) examine eleven studies that test this determinant and report that results are mixed.

Internal audit or internal control has been measured as internal audit expenditures, internal audit assistance, the ratio of internal audit costs to total assets, internal audit payroll and the number of internal auditors (Hay *et al*., 2006)

viii. Industry

Industry is said to influence the ease of an audit (Simunic 1980). This is mainly the result of balance sheet components that are hard to account and control for and specific industries where these components appear in greater amounts. Hay *et al*. (2006) give the example of financial institutions and utilities that have relatively large assets, but are generally easier to audit than companies with extensive inventory, receivables, or knowledge-based assets. The industry of a client is determined by their SIC code. Hay *et al*. (2006), report that financial institutions and utilities are most frequently excluded in audit fee research. Audit fees are significantly lower in these industries than in others. In contrast, manufacturers are expected to have higher audit fees because they do not have the advantages of financial institutions and the utility industry. The overall result of Hay *et al*. (2006) is positive and significant for the determinant industry.

ix. Governance

Improved corporate governance implies that the control environment is more effective (Hay *et al*., 2006). A more effective control environment will result in reduced risk for the auditor and also lower audit fees. Research on the relationship between corporate governance and audit fees is limited and also leads to conflicting results.

Tsui, Jaggi and Gul (2001) examine the relationship between a firm's internal monitoring mechanism and its impact on audit fees. They test whether firms with independent corporate boards with CEO's and chairmen being separate individuals, provide a more effective internal monitoring mechanism and are thus associated with lower control risk, resulting in lower audit effort and fees. Their results, using 650 observations from Hong Kong companies, show support for this hypothesis. A paper by Carcello, Hermanson, Neal and Riley (2002) also looks at board characteristics and audit fees. They specifically focus on the independence, diligence and expertise of the board and have a different approach to the relation between governance and audit fees. To protect its reputation capital, avoid legal liability and promote shareholder interests, a more independent, diligent and expert board may demand differentially higher audit quality than the Big 6 audit firms normally provide. They hypothesize that this greater assurance demanded will require more audit work and will result in an increased audit fee. The results on this hypothesis are significant positive and thus supportive. The level of corporate governance can be measured by the existence of an audit committee, separation of the duties of the chairman and chief executive officer (Tsui *et al*., 2001), and the number of nonexecutive directors.

2.3.2 Auditor Attributes

These attributes relate only to audit firm and it comprises of; size of the audit firm, auditor tenure, auditor location and are explained below;

i. Size

The influence of auditor size on audit fees is tested by a number of studies. Francis and Yu (2009) predict that larger auditors have higher quality audits due to greater in-house experience in administering such audits. If this is true, one could expect that large auditors charge a premium for this higher quality. Simunic (1980) and Firth (1985) did not find significant price differences between large firms (big 8) and smaller firms (non-big 8). On the other hand, Palmrose (1986), Francis and Stokes (1986) and Francis and Simon (1987) suggested that these price differences only exist when auditees are small. Taffler and Ramalinggam (1982) and Francis (1984) did find the existence of a big premium. According to Hay *et al*. (2006) the results on audit quality strongly support the observation that the Big firms are associated with higher audit fees, with 58 percent of all studies

finding a significant positive result. Pong *et al*. (1994) expect Big 8 variables to interact with auditee size and auditee complexity. According to them, a Big 8 premium would imply a higher overall level of fees but not necessarily ahigher charge for each component of fees. Big firms may be better at handling complexity so that they may be relatively cheap for more complex audits. Equally, Big 8 firms may be relatively well equipped to do large audits. Most studies use a dummy variable to measure auditor size. They use the difference between Big 8/6/5/4 firms and non-big 8/6/5/4 firms to account for large and small audit firms. Karim *et al*. (1996) study audit fees in Bangladesh and where there is no clear identification of a Big 8/6/5/4 firms. They use size and

international link as the surrogate for audit firm size. Firms with four of more chartered accountants and with an international link were classed as big.

ii. Auditor tenure

When a client changes auditors this can have numerous reasons. One important and common reason is to obtain a reduced fee from a new audit firm because this firm intentionally offers services at a discount in order to win new business (Hay *et al*., 2006). This is often referred to as low-billing (Francis & Simon, 1987). The auditor needs to retain the client for several years to recover the initial costs incurred in the setting up of the audit under a low-balling regime (Pong *et al*., 1994). Policy makers believe that this is a threat to auditor independence. Auditor tenure is commonly measured in two ways. The first is a dummy variable that reflects a recent change in auditor. This change in auditor is sometimes defined as auditor tenure of one year or less but also cutoffs of two or three years are used (Hay *et al*., 2006). The second measure is the actual duration of the current auditor tenure. Also this determinant of audit fees shows mixed results. The dummy variable results in the most supportive result for auditor tenure. Eight studies show a significant negative result while report a positive result. In eleven studies this variable is insignificant (Hay *et al*., 2006).

iii. Auditor location

It is said that clients pay higher fees when their audit is performed by an office that is located in a metropolis. The United Kingdom and the Netherlands are examples of countries that have such a metropolitan center. Chan *et al*. (1993), reports that the interviews with the audit partners strongly showed the effect of audit location. They

tested this relation by using a dummy variable representing an audit carried out by a London office as compared to a non-London office. According to Hay *et al*. (2006) there are ten studies that considered this auditor location variable in London. Eight of them found a significant positive result indicating that auditor location could influence audit fees.

2.3.3 Other attributes

There are five other factors reported by Hay *et al*. (2006) that do not relate to the auditor or the auditee but are still expected to influence the audit fee. Hay *et al*. (2006) refer to these as the engagement attributes. The first one is reporting lag, the elapsed time from the balance sheet date to the issuance of the audit report, which is expected to be positively related to audit fees. A larger reporting lag is probably an indicator of problems during the course of the audit, difficulties in resolving issues or more complex financial reports (Knechel and Payne, 2001). Half of the studies that tested this variable reported significant positive results. Another engagement attribute is the busy season that corresponds to the time when most companies have their fiscal year end. The demand for audits is very high in this period. If an audit is performed in this season, the audit staff may have to work overtime which is more costly. Alternatively, clients that have their audit performed outside of the busy season may get a discount. This discount is offered to better distribute the workload over the year. The relationship between busy season and audit fees is expected to be positive but most studies found it to be insignificant (Hay *et al*., 2006). Just like problems during the audit, problems in completing the audit may also increase the effort of an auditor. According to Hay *et al*. (2006) the most common

proxy for completion problems is a dummy variable indicating the issuance of an audit opinion that was either unqualified, or other than unqualified, i.e. qualified of modified. A positive association with audit fees is expected. Most studies also found this variable to be insignificant. Non-audit services are argued to lead to lower fees because of synergies between audit and non-audit services. A contradictory argument could be that such services may lead to extensive changes in an organization that require additional audit effort, or clients are seen as problematic in general when they buy consulting services. Non-audit services had a significant positive relationship in 84 percent of the studies (16 out of 19) that include this variable. Only 1 study was insignificant and 2 were significant but negative (Hay *et al*., 2006).

A last variable mentioned by Hay *et al*. (2006) is reporting complexity. Complicating reporting requirements require more audit work and effort and will result in greater risk to the auditor. The most common variable used to measure reporting complexity is the number of audit reports to be issued. Six studies found a significant positive relation, while two reported insignificant results.

2.4 Review of Empirical Studies

Prior research (Simunic, 1980; Che-Ahmad and Hougton, 1996) documented empirical results indicating that audit fees are significantly influenced by the level of audit client complexity. Hypothetically, we would expect that as the audit client becomes more complex, more time and effort is needed to perform the external audit work. This time and effort is needed to perform the external audit work. This is true because a more

complex audit client means a more diverse organizational structure, and harder to review transactions. This increased audit effort is expected to lead to an increase in the level of audit fees.

Kamran and Goyal (2005) concluded that complexity has a positive although not significant effect on audit fees. In addition, Kamran and Goyal(2005) consider business risk in relation with the financial health of a company. They constructed an index measuring financial based performance on return on assets, solvency and liquidity. The index is positively related with audit fees, but not always significant.

Hassas and Alavi (2000) , study the relationship between resources spent on internal audit and independent auditing expenses. The results shared independent audit fees was related to the complexity of enterprise.

Also business with diversified operations such as subsidiaries, branches and foreign operations are more complex; therefore, audit work is also difficult. This is because according to Sandra and Patrick (1996) group of companies with many subsidiaries branches is associated with extra work in examining a greater number of subordinate financial statements to ensure the accuracy of the consolidated financial statements. When subsidiaries/branches are in another countries they have to comply with reporting requirements in the countries where they operate therefore, variation in financial reporting requirements among countries would results in differences in the levels of materiality between subsidiaries/branches and the parent company Chan et al (1993). Reports from many studies suggest that complexity in terms of scope of operation or in

respect of balance sheets composition has a significant impact on the level of the audit fee. However, Firth (1985) reported in his study that number of subsidiaries and the scope of operations were statistically insignificant to variation in audit fees charged by the auditors.

Whisenent *et al* (2003) found that corporate profitability measured using return on assets and liquidity has a negative and significant relation with audit fees. Whereas solvency has a positive and significant relation, they also found a positive and significant relation between solvency and audit fees.

In Belgium, Willekens and Gaeremynck (2005) found that total assets sales, and added value are positively and highly significantly related to audit fees. Audit fees are also related to being listed and are influenced by the industry. Financial performance variables related to profitability are significant and generally have a negative relation with audit fees. They use the ratio inventory to total assets as a proxy for inherent risk and find a positive but non-significant relation with audit fees.

A study of Joshi and Al-Bastaki, (2000) using Middle Eastern listed companies also found that complexity and profitability of client operations to be significantly associated with audit fees.They concluded that auditor's profitability is another important factor in influencing audit fees and is used in this study.

Attempting to assess the relation between audit fees and complexity of balance sheet (Statement of financial position) composition, many authors (Simunic, 1980; Simon and

Francis, 1988; Gonthier, Basacier and Schatt, 2007) found considerable evidences to suggest a positive association of audit fees and auditee complexity. Ahmed and Goyal (2005) however, do not find such relationship. Tukukava (2011) proposed to investigate whether and to what extent the audit determinants examined in the researches so far influence the audit fees on the Japanese market and examine whether the fees charged by the Japanese audit companies and their cost strategies are significantly different. The study revealed that some determinants, such as; the client size and complexity influence the cost of the audit. A study by Che-Ahmad and Houghton (1996) using a matched pair sampling technique to overcome a serious methodological flaw and found that complexity was significant in influencing audit fees.

The first study on audit fee and banking institution is by Steln and Sewart (1994) who investigated the determinants of audit pricing for 108 financial services companies in the USA, the outcome of their study suggest that audit fee for financial institutions are related to size and operational and reporting complexity as defined by the auditor as well as to the auditors assessment of the client internal control system.

Fields, Donald and Williams (2004) study investigated the pricing of audit services in the financial institutions using 277 banking organization as sample. The bank audit fees model developed by them is based on the assumption that because managers of banks and thrift ultimately are answerable to their primary regulatory authorities. It seems reasonable to suggest that the audit function should be driven by variables and ratios that regulators consider important. Fields *et al*. (2004) proxies for bank risks and

complexity are based primarily on the models of the federal deposit insurance and the Federal Reserve System. The model is structured around financial ratios that measure the capital adequacy of the bank as well its earning, liquidity and loan quality. Consequently, their audit fees model are based on the following dimension of banks risk; liquidity, operating capital or solvency and market risks. They reported that banks with high level transaction account fewer securities as a percentage of total assets, higher efficiency, and higher degrees of credit risk are charged higher fees by the auditors. In addition to these, fields *et al* (2004) also suggested that institutions with higher risk adjusted capital ratios and more intangible assets were also expected to pay higher premium and concluded that no single audit firm truly dominates the USA banking industry. Swanson (2008) sought to establish the link between the characteristics of a corporation and the audit fees. Using data of 37 largest financial service institutions for 2006 accounting year audited by the big four largest public accounting firms in USA he reported that log of asset and log of sales relevance are both statistically significant at the 5 percent level in determining the variation in audit fee chargeable by these firms. However, log of net income and log of employee are not significant variable in determining audit fees.

Also Ellis and Booker (2011) investigated the determinants of audit fees in the community Action Agency (anti-poverty fighting non-federal organizations) and fraud that an external audit fee model is developed using a national sample of 274 Community Action Agencies. Ordinary least square regression was used to test the model. The findings indicate that the mode is highly significant and explains the majority of the cross-sectional variance in audit fees. Consistent with the prior studies, the size and complexity

variables explain the majority of variance fees. Contrary to prior studies, there is weak association between the proxies for risk and fees and there is a low concentration of big audit firms. This segment of the audit market is dominated by Small (non-top 100) audit firms.

Vania, Antonio and Elisio (2012) examined the association between audit fees and corporate performance of US publicly traded non-financial firms. Their results indicate that earnings per share, ROA and ROE have significant positive relation with audit fees, while Tobin's Q is negatively related with audit fees during the period 2002-2008.

Hassan and Nasor (2013) examined factors influencing audit fees paid by non-financial companies listed on Abu Dhabi Stock Exchange Data were collected from the 2011 annual and corporate governance reports, published by the Emirati non-financial companies listed on the stock exchange. Backward regression analysis is employed to assess the association between audit fees and certain company's attributes. The findings show a direct relationship between audit fees and each of corporate size, business complexity and audit report variables. An inverse relationship has been detected between audit fees and each of industry type and audit committee independence. The findings also revealed that audit are not significantly influenced by Company's profitability, risk and status of audit firm. LonelaCorina, Loan Bogdan, Mchai and Marilena (2012) aimed to identify the determinants of the audit fees by testing the existence of a circular causality in the connection between audit fees and the financial performance of a NYSE quoted company. The analysis is based on a sample of the first 100 companies (NYSE) quoted of

the top 500 fortune, except for the companies in the investment funds and insurances field. In the study there were tested and validated the following working hypothesis; the level of the audit fee is mainly influenced by the company's capacity to continue its activity, the prestige of the audited company contributes to the decrease of the audit fees and the reduced fees level, paid by the customer audited by one of the big 4 companies in this exercise contribute to the prestige increase. For data analysis they used linear regression analysis (simple and multiple) and the Analysis Of Variance (ANOVA). Research results indicate the existence of a circular causality, bidirectional, on the level of the relationship between audit fees and financial performance.

Shammari, Yaquot and Hussaini (2008) investigated the audit market in Kuwait. They developed a model for the determinants of audit fees that took into account client size, risk, complexity, profitability, industry and auditor. The findings show that there are similarities in the determining factor for audit fees in Kuwait and other countries previously studied. However, it was also found differences contrary to the findings of most of the other studies there is no free premium in Kuwait for the Big four auditing firms. This study shows that the level of audit fees is positively associated with client size and complexity of client operations. Other variables are not significant.

Auditor tenure is also an important determinant factor of audit fee. A lot of previous Studies[«] results indicated that early tenure audit and financial reporting problems were Induced from a lack of client-specific knowledge and/or due to the auditor's incentive to maintain new client relationships by charging low audit fees on new audit engagements

(e.g., Geiger and Raghunandan, (2002); John-son et al., (2002); Myers et al. (2003),; Mansi et al., (2004); Carcello and Nagy,(2004); Ghosh and Moon,(2005)). See from the previous research (DeAngelo, 1981; Simon and Francis, 1987;Pong and Whittington, 1994), as a consequence of low-balling, newly appointed auditors may be charge lower audit fees from auditee. The reason is that in order to compete for new audits, the audit firm need to cut fees in the initial year. In China's audit market, the competition is very intense and low-balling is a well-known practice in China. Therefore, I expect low-balling to dominate high start up costs and I assume that the longer of the auditor tenure the higher charged of the audit fee. Meanwhile, some previous studies mentioned the impact from the change of the audit firm, so auditor tenure (in natural log form) and the auditor change will include in the regression model as the determination of audit fee.

Hallak and Silva (2012) aimed to identify the factors affecting the auditing and consulting expenditures in Brazilian public companies. The study was motivated by the lack of studies in auditing and consulting expenses in Brazil, whereas this matter has been researched for years in other countries. Data on Brazil are scarce because the disclosure of spending became mandatory in 2009. The disclosure of spending on auditing and consulting services provided by independent auditors only became mandatory in 2009. The disclosure of these data enables the analysis of the drivers of the fees paid by companies for these services. In the study, it was analyzed the expenditures for consultancy services provided b y the same auditing firm; that is they ignored all

spending on other consultants. The results indicated that audit fees are positively related to company size, corporate governances, quality and the Big 4 status of the auditor. In terms of consulting expenses, there is a positive relationship between company size and Big four status, but there is no significant relationship with corporate governance. In addition, Swanson (2008) examined the effect of size and financial position on audit fees using regression analysis.

Furthermore, Akinpelu, Omojola, Ogunseye and Bada (2013) also investigated the determinants of audit fee in commercial banks in Nigeria. Data were collected from a sample of banks mostly quoted on Nigerian Stock Exchange. Consistent with previous studies, the results showed that bank size, degree of bank complexity and transaction and savings account to total deposit ratio are positively related and statistically significant to audit fees charged by the auditors. Even though, non-performing loan is positively related to audit fees. It is statistically insignificant, while the risk weighted capital adequacy ratio is negatively related and statistically insignificant.

El-Gammal (2012), studied the views of external auditors and clients representatives (accountants, financial controllers and internal auditors) about the factors that affect determining audit fees and provides evidence whether these factors are related to audit firm characteristics or the client firm characteristics. A sample of 80 respondents provided the empirical data for the research by answering a self administered questionnaire. To conduct data analysis descriptive statistics, means, standard deviation and Mann-Whitney U test were used. The outcome of the study provides a vital insight

into the determinants of audit fees from a developing country like Lebanon. It was found that all the pre-suggested determinants of audit fees are extremely important or important. Both external auditors and client representatives groups agree that the most important factor affecting determining amount of audit fees is whether the audit firm is one of the big four or not and the least important factor is the size of the audit firm based on the number of its employees. The results also show that the degree of importance of each determinant of audit fees is homogenous among the two groups of respondents.

Bell et al. (1994) studied the effect of client size on audit working hours. The results showed that the size of the company is positively related to working hours of auditors. Large companies tend to take more time to audit the financial statements more than a small company. Thus, this will affect the size of the audit fee. Hackenbrack and Knechel (1997) argue that the proportion of the number of auditors in each activity is different. Financial statement audits for large companies generally cause more substantive audit fee. Mostly the audit job is conducted by staff and senior auditor, audit planning by managers, review and communication with client audit done by the manager. In general, this big job indicates that the number of hours for working and the number of auditors will depend on the size of the client.

2.5 Theoretical Framework

Agency Theory

Agency Theory, which is the theory content of positive accounting theory, it states that, a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). Particularly, as mentioned in agency theory, in a public corporation, top management does not always act to maximize shareholders return on investment, therefore, it becomes the central problem with regard to shareholders interests. In the perspective of corporate executive "agency costs will be generated by the divergence between his interest and those of outside shareholders" (Jensen and Meckling, 1976). The emergence of the audit is to ask managers to pursue their legitimate interests in accordance with the provisions of the contract and inhibit biased motives of managers. Audit presented as a result of the investors needs to control manager's behavior, the nature of the audit is to promote the interests of the principal and agents are maximized.

Audit fees are an important part of monitoring costs; since auditors have a duty to that the managers are behaving according to the owners' interest while they also have a duty to inspect the company's accounts. If the agency problem is greater, the auditors will spent more time and energy to inspect managers' activities. Auditor fees are a function of risk and volume of audit work involved. From the economic bonding hypothesis, the strength of the auditor's monetary dependence on the client or the economic bond consciously or unconsciously reduces the auditor's independence or the willingness to resist client-induced biases in the financial statements (Dang 2004). On the other hand, the psychological belief that auditors are rational wealth maximizers who would be

intentionally biased towards compromising audit quality in order to generate wealth for themselves also link the performance and the fees paid to auditors.

In this context economic bonding hypothesis argued that auditors are more likely to comply to client pressures to alter performance, when the provision of non-audit services or abnormal fees generate economic rents to auditor (Franke, *et al*., 2002). In the same vein, self interest in terms of familiarity or tenure compromises auditor independence where audit partner's income depends on the retention of a specific audit client (Beattie et al., 1998). Hence, auditors compromise for the fear of losing a key client and alter corporate performance. According to Kinney and Libby (2002) economic bonding links auditor with economic benefit derivable from audit, with more insidious effects on the economic bond may result from unexpected non-audit and audit fees that may more accurately be likened to attempted bribes and other unethical act.

Jensen and Meckling (1976) modeled this condition as an agency relationship where the inability of the principal to directly observe the agent's action could lead to moral hazards, thus, increasing agency cost. How does the determination of audit pricing fall within the context of the agency theory? This question is answered when we consider clearly contributions of Jensen and Meckling (1976). According to them, a component of the agency cost is represented by the monitoring costs and supported by shareholders for the monitoring of managers actions. The audit fees are an important component of these cost, as long as shareholder's interest; while also auditors have the required task to inspect the accounts of the company. It may hence be supposed that auditors will spend

more time inspecting the manager's activity if the agency problems are big. Consequently Jensen (1986) suggests that, in the case of the companies whose capital is mainly owned by managers' interest coincide with the shareholders when managers are also majority shareholders. Therefore, the monitoring costs, including the audit fees, will be higher in the case of the companies whose managers own an insignificant part of the capital.

Hence, this study is underpinned by the agency perspectives and economic bonding hypothesis to evaluate the relationships between determinants of audit fees (auditor size and tenure, firm size and complexity) and the fees paid to the auditors in the food and beverages sector of the Nigerian economy.

2.6 Summary

The chapter explained the concept of audit and auditor remuneration, linkage between corporate performance and audit fees; firm complexity and audit fees. The chapter reviewed the previous studies on determinants of audit fees in different part of the world and finally the chapter relates and explains the theory underpinning the study which is agency theory.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study, it comprises of the type of research design that was adopted, the population of study, the selection of sample size and the sampling technique adopted, the technique used in analyzing data and the justification of the technique used.

3.2 Research Design

This study adopted correlation research design to examine the relationship between the determinants of audit fees and audit fees of listed Food and Beverages firms in Nigeria. The choice of correlation research design was informed by its effectiveness in studying the relationship as well as the impact of one variable on another. It was thus, consistent with the objective of the study.

3.3 Population and Sample of the study

The population of the study comprises of all the twenty one (21) Food and Beverages firms listed on the floor of the Nigerian Stock Exchange market as at 31st December, 2013. The study covered a period of ten years (2004-2013).

Based on the following criteria however, a total of twelve firms were filtered out, hence, a new population of nine firms were arrived as the new population of the study and therefore constitute the sample of the study.

i. A firm must have been quoted on the floor of the Nigeria Stock Exchange at least 1 year before 2004.

ii. A firm must be on the NSE listing and its shares constantly traded on the floor of the Exchange for most of the period covered by the study

iii. A firm must have its annual report and accounts accessible for most of the period under study.

Table 1: Sample of the study

S/No	Sample
1	Cadbury Plc
2	Nestle Plc
3	Guinness Plc
4	Nigerian Breweries Plc
5	NASCON Plc
6	Flour Mills of Nigeria PLc
7	Seven Up Nigeria Plc
8	UTC Nigeria Plc
9	Northern Nigeria Flour Mills Plc

3.4 Method of Data Collection

The study employed secondary sources of data collection. The data was obtained from the annual reports and account of the sample listed food and beverages firms and NSE fact book, in order to achieve the objectives of the study. This was due to the fact that corporate annual reports of listed food and beverages firms were readily available and easily accessible.

3.5 Variable Measurement and Model specification

For the purpose of this study, the following are the independent variables used are; audit firm size, auditor tenure, auditee firm size and auditee firm complexity. The dependent variable was Audit fee; the control variables used for this study was firm financial performance.

Table 2: Variable definition and measurement

Variable Name/Description	Variable Acronym	Measurement	Source
Audit Firm Size	ASIZE	Large Global audit firm, measured by dichotomous variable; 1 if a firm is audited by a BIG4 audit firm (Deloitte and Touch, Ernst and Young, KPMG, Pricewaterhousecoopers), and 0 for otherwise.	Palmrose(1986), Firth (1985), Francis and Simon (1987), Hay et al (2006), Francis and Yu (2009)
Auditor Tenure	ATENURE	Tenure is measured by dichotomous variable, 1 if there is no change in audit firm during a year, and 0 for otherwise	Pong et al. (1994), Hay et al (2006).
Firm Size	FSIZE	Measured as the natural logarithm of total assets.	Gonther- Basacier and Schatt(2007), Shammari, Yaquot and Hussain(2008).
Audit Fee	AUDFEE	Measured by the amount of audit fee paid to the auditor.	Swanson (2008), Akinpelu, Omojola, Ogunseye and Bada (2013).S
Complexity	COMP	Measured by number of Branches	Joshi and Basaki (2000)
Return on Assets	ROA	Measured as the ratio of profit	

		before interest and tax to total assets	Hambrick (2007), Mackey (2006)

MODEL SPECIFICATION

The model used to test the hypotheses formulated for this study is presented below, and is mathematically expressed as follows and is in line with prior studies

(Losivan, 2008; Carson, Fargher and Simon, 2005).

AUDFEE = F (ASIZE, ATENURE, FSIZE, COMPLX, ROA)----------I

This can be re-specified in regression as follows;

$AUDFEE_{it} = \alpha + \beta_1 ASIZE_{it} + \beta_2 ATENURE_{it} + \beta_3 FSIZE_{it} + \beta_4 COMPLX_{it} + \beta_5 ROA_{it} + \varepsilon_{it}$----------

----------ii

Where α = the intercept

$AUDFEE_{it}$ = audit fees of firm I in year t,

ROA_{it} = return on assets of firm I in year t,

$ASIZE_{it}$ = audit firm size of firm I in year t

$ATENURE_{it}$ = auditor tenure of firm I in year t

$FSIZE_{it}$ = size of firm I in year t

$COMPLX_{it}$ = complexity of firm I in year t

$£_{it}$ = error term

β_i, β_2, β_3, β_4, β_5 are the coefficients

3.6 Technique of Data Analysis

This study employed panel multiple regression technique of data analysis. Panel regression technique was chosen because of its effectiveness and efficiency in the statistical estimate of the relationship/impact of one variable on another variable. Hence, this was consistent with the objective of this study, which was assessing the impact of determinants of audit fees in the listed food and beverages firms in Nigeria.

However, following the panel nature of the data (cross-sectional and time series) for the study, the study employed different regression models, which included Ordinary Least Squares (OLS) Model, Fixed Effect (FE) Model and Random Effect (RE) Model. Appropriate tests such as Hausman Specification Test and Breusch and Pagan Lagrangian Multiplier Test for Random Effects was also applied to select the most suitable model for the study. The study also conducted robustness tests to ensure the validity and fitness of the results. These included test for heteroskedasticity, autocorrelation and multicolinearity, in an effort to comply with the classical assumption of regression technique and the model of the study in general. In addition, data normality test was applied to the variables in order to ensure that the results produce estimators that are best linear unbiased estimators. The analysis used STATA 11.2 version.

3.7 Justification of Technique

Multiple regressions was used for this study because it determined the relationship between dependent and independent variables and explained the level of changes in

dependent variable for a given level of changed in the independent variable. It was also used in predicting the linear relationship between dependent variable and independent variable.

3.8 Summary

This section highlighted the research methodology adopted for the study. The study adopted correlation research design because of its superiority in findings relationship between variables. Secondary data was collected for the analysis. Twenty one listed food and beverages firms were used for the population out of which nine were used for sample due to data availability and accessibility. The scope of the study was from 2004 to 2013. The multiple regressions were used to analyze the data.

CHAPTER FOUR

RESULTS, ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the analysis and interpretation of the results obtained from the data collected for the study. The descriptive and inferential statistics of the data collected for the study are presented, discussed and interpreted. The chapter begins with the discussion of the descriptive statistics of the data collected, and then the correlation matrix of the variables of the study. The interpretation of the regression results and test of hypotheses of the study are then conducted. The chapter ends with the discussions of the major findings of study and the policy implications of the findings.

4.2 Descriptive Statistics

This sub-section of the chapter presents and discusses the descriptive statistics of the data collected, as presented in Table 4.1;

Table 4.1: Descriptive Statistics

VARIABLES	Mean	SD	Min	Max	Skewness	Kurtosis	N
AUDFEE	16.3038	0.9707	12.4292	18.3019	-1.0893	5.4805	90

ASIZE	0.7444	0.4386	0.0000	1.0000	-1.1209	2.2563	90
ATENURE	0.7111	0.4558	0.0000	1.0000	-0.9316	1.8678	90
FSIZE	17.0802	1.4643	13.325	19.408	-0.4885	2.3831	90
COMPLX	42.5444	26.3768	10.000	92.000	0.2493	1.7643	90
ROA	0.1558	0.1465	-0.2925	0.4552	-0.2953	3.1607	90

Source: STATA OUTPUT

Table 4.1 reveals that the total audit fees (AUDFEE) of the sampled food and beverages firms is 16.3038 with standard deviation of 0.9707, and minimum and maximum values of 12.4292 and 18.3019 respectively. The small value of standard deviation signifies that the deviation from the mean value from both sides is not wide, implying that the data is around the mean. The coefficient of Skewness-1.0893 indicates that the data is negatively skewed, that is, most of the data are on the left side of the normal curve, and the data does not meet the symmetrical distribution criterion. Similarly, the value of kurtosis 5.4805 on the other hand, suggests that the data does not follow the normal curve as indicated by the peakedness of the data.

Table 4.1 also shows that the sampled food and beverages firms have an average audit firm size (ASIZE) of 0.7444 (implying that 74.44% of the sample firms are audited by Big 4 auditors) with standard deviation of 0.4386, and the minimum and maximum value of 0 and 1 respectively. The standard deviation suggests that the data is widely dispersed from the mean because the standard deviation is high compared to the mean value. Moreover, the kurtosis value of 2.2563 shows that the data is non-normal, on the other

hand, the coefficient of Skewness -1.1209 implies that the data is negatively skewed, and thus, the symmetrical distribution assumption is not been met.

The Table shows that on average the auditors' tenure (ATENURE) with the sample firms is about 71.11%, with standard deviation of 0.4558.This implies that the data deviate from the mean from both side by 45.58%, the standard deviation suggests that the data is widely dispersed, because the standard deviation is high compared with the mean value. The minimum and maximum values of are 0 and 1 respectively. The coefficient of Skewness -0.9316 implies that the data is negatively skewed, and therefore does not conform to the symmetrical distribution requirement of normal data. Similarly, the coefficient of Kurtosis 1.8678 also supports that the variable does not meet the Gaussian distribution criterion of the normal data.

The Table also shows that, the average firm size (FSIZE) of the sampled food and beverages firms in Nigeria is 17.0802, with standard deviation of 1.4643. This implies that the data is widely dispersed from the mean value. The minimum and maximum values are 13.3254 and 19.4088; the coefficient of Skewness-0.4885 implies that the data is negatively skewed, and therefore does not conform to the symmetrical distribution requirement of normal data. Similarly, the coefficient of Kurtosis 2.3831 also indicates that the variable does not meet the Gaussian distribution assumption of normal data.

Table 4.1 shows that the average complexity of the sample food and beverages firms in terms of number of branches is 42.5444 with standard deviation of 26.3768, and minimum and maximum values of 10 and 92 respectively. The value of standard

deviation signifies that the deviation from the mean value from both sides is wide, implying that the data is far away from the mean. The coefficient of Skewness 0.2493 indicates that the data is positively skewed, that is, most of the data are on the right side of the normal curve, and the data does not meet the symmetrical distribution criterion. Similarly, the value of kurtosis 1.7643 on the other hand, suggests that the data does not follow the normal curve as indicated by the peakedness of the data.

Lastly, the results from the Table shows that, the average firm performance (ROA) of the sampled food and beverages firms in Nigeria is 15.58%, with standard deviation of 14.65%. This implies that the data is widely dispersed from the mean value. The minimum and maximum values are -29.25% and 45.52%; the coefficient of Skewness -0.2953 implies that the data is negatively skewed, and therefore does not conform to the symmetrical distribution requirement of normal data. Similarly, the coefficient of Kurtosis 3.1606 also indicates that the variable does not meet the Gaussian distribution assumption of normal data.

In view of the descriptive statistics of the data, the study adopts Shapiro Wilk test for normal data to find statistical evidence as to whether the data of the variables of the study follow the normal curve or not. The results of the test are presented in table 4.2 as follows;

Table 4.2: Normal Data Test

VARIABLES	W	V	Z	P-Values	N
AUDFEE	0.9372	4.750	3.436	0.0003	90

ASIZE	0.9697	2.293	1.830	0.0336	90
ATENURE	0.9793	1.568	0.992	0.1605	90
FSIZE	0.9613	2.929	2.370	0.0089	90
COMPLX	0.9258	5.611	3.804	0.0001	90
ROA	0.9886	0.860	-0.332	0.6299	90

Source: STATA OUTPUT

In this study, the Shapiro-WIlk (W) test for normal data which uses the null hypothesis principle is employed, under the principle; null hypothesis that 'the data is normally distributed' is tested. Table 4.2 indicates that data from the variables of the model are not normally distributed because the P-values are significant at 1% level of significance (p-values of 0.0000), except the ATENURE and ROA variable, which are not significant at all levels of significance (p-value of 0.1605 and 0.6299 respectively). Therefore, the null hypothesis (that, the data is normally distributed) is rejected for AUDFEE, ASIZE, FSIZE and COMPLX; and not rejected for the ATENURE and ROA. Parametric tools of analysis usually assumed that the data follows the normal distribution, thus, this may lead to some problems in OLS regression and, hence the need for a more generalized regression models.

Therefore, following analysis of the descriptive statistics and the testing for normality of the data, the inferential statistics of the data collected from which the hypotheses of the study are tested, presented and interpreted in the following section.

4.3 Correlation Results

In this section, the Pearson correlation Coefficients of the variables of the study are presented in Table 4.3 as follows;

Table 4.3: Correlation Matrix

Variables	AUDFEE	ASIZE	ATENURE	FSIZE	COMPLX	ROA
AUDFEE	1.0000					
ASIZE	0.1587	1.0000				
	(0.1351)					
ATENURE	0.3174	0.3572	1.0000			
	(0.0023)	(0.0005)				
FSIZE	0.8146	-0.0823	0.0028	1.0000		
	(0.0000)	(0.4403)	(0.9791)			
COMPLX	0.4136	-0.1054	-0.1382	0.4943	1.0000	
	(0.0001)	(0.3230)	(0.1940)	(0.0000)		
ROA	0.4609	-0.1623	0.1012	0.5287	0.3780	1.0000
	(0.0000)	(0.1264)	(0.3423)	(0.0000)	(0.0002)	

P-Values in Parentheses

Source: STATA OUTPUT

The correlation matrix from Table 4.3 indicates the relationships between the audit fees and the determinants of audit fees of listed food and beverages firms in Nigeria. The table shows a positive association between audit fees (AUDFEE) and the audit firm size (ASIZE), from the correlation coefficient of 0.1587 which is not statistically significant at all levels of significance (p-value of 0.1351). This result implies that the amount of audit

fees increases with the increase in the use of large audit firm (Big 4) in the sampled firms. The table shows that there is a significant statistical positive association between auditor tenure (ATENURE) and the fees paid to the auditors, from the correlation coefficient of 0.3174 which is statistically significant at 1% level of significance (p-value of 0.0023). This result implies that the amount of audit fees increases with the increase in the tenure of the auditor of the sampled food and beverages firms during the period.

Similarly, the table shows a significant statistical positive association between audit fees (AUDFEE) and the size of the client firms (FSIZE), from the correlation coefficient of 0.8146 which is statistically significant at 1% level of significance (p-value of 0.0000). This result implies that the amount of audit fees increases with the increase in the size of the sampled food and beverages firms during the period covered by the study. Moreover, table 4.3 shows a significant statistical positive association between audit fees (AUDFEE) and the complexity of the sample firms (COMPLX), from the correlation coefficient of 0.4138 which is statistically significant at 1% level of significance (p-value of 0.0001). This result implies that the amount of audit fees increases with the increase in the firm complexity in terms of number of branches. Lastly, the table shows that there is a significant statistical positive association between audit fees and firm performance (ROA), from the correlation coefficient of 0.4609 which is statistically significant at 1% level of significance (p-value of 0.0000). This result implies that the amount of audit fees increases with the increase in the financial performance of the sampled food and beverages firms during the period.

Therefore, following the analysis of the relationships among the variables of the study, the regression results are presented, analyze and interpreted in the following sections.

4.4 Regression Results and Hypotheses Testing

This section presents and analyzes the regression results of the models of the study. The section begins with the analysis of model one as presented in table 4.5.

Table 4.4: Regression Results

Variables	Coefficients	t-values	P-Values
ASIZE	0.2284	6.12	0.000
ATENURE	0.5595	16.75	0.000
FSIZE	0.5441	35.96	0.000
COMPLX	0.0009	1.07	0.286
ROA	-0.1402	-1.00	0.317
CONSTANT	6.4562	28.91	0.000
R^2	0.7770		
Wald Chi2	5655.24		0.0000
HETTEST: Chi2	31.03		0.0000
HAUSMAN TEST: Chi2	8.90		0.1130
LM TEST: Chibar2	4.73		0.0148
Mean VIF	1.39		

Source: STATA OUTPUT

In view of the classical assumptions of regression with regard to panel data, which require the model to be fit and unbiased for a valid interpretations and conclusions, this study subjected the model to Fixed and Random Effects test in addition to OLS and the

robustness tests conducted. For instance, the results in table 4.4 shows a presence of Heteroskedasticity in the panel as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 31.03 with p-value of 0.0000. This proved that the assumption of constant variance of the error term (homoscedasticity) is not been met, and as a result OLS estimators will not be best linear unbiased estimators (BLUE).This is corrected in the study using robust (panel heteroskedasticity corrected model, GLS), after the results of random effect test, Breusch and Pagan Lagrangian Multiplier Test for Random Effects indicated that there is statistical significant variance among the units in the panel (Chi2 of 4.73 with p-value of 0.0148), implying that OLS technique is not appropriate for the model (rather random effect regression model). That is, consistent with the Hausman specification test (Chi2 of 8.90 with p-value of 0.1130), which suggest that random effect regression model is the most suitable for the study. The table on the other hand, indicated the absence of the perfect multicolinearity among the explanatory variables, as shown by the mean VIF of 1.39. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity.

Table 4.4 indicates that the independent variables of the study explained around 77.70% of the total variations in the dependent variable (audit fees), from the coefficient of determination (overall R^2 value of 0.7770). The table also shows that the model is fitted from the Wald Chi2 of 5655.24 which is statistically significant at 1% level of significance (as indicated by the P-value of 0.0000). In view of the statistical fitness of the model, the hypotheses of the study are tested and analyzed in the following section.

Hypotheses Testing

Table 4.4indicates that, audit firm size has a significant positive impact on the audit fees of sampled food and beverages firms in Nigeria, from the coefficient of 0.2284 with Z-value of 6.12, which is statistically significant at 1% level of significance (p-value of 0.000). This result suggests that, the more large audit firm are used the higher the audit fees; this is significant at 99% confidence level. Based on this, the study rejects the null hypothesis one (H_{01}) which states that, audit firm size has no significant impact on the audit fees of listed food and beverages firms in Nigeria. The study therefore, infers that auditors' size is a significant determinant of the audit fees in the listed food and beverages firms in Nigeria.

Table 4.4 also indicates that, auditor tenure has a significant positive impact on the audit fees of sampled food and beverages firms in Nigeria, from the coefficient of 0.5595 with Z-value of 16.75, which is statistically significant at 1% level of significance (p-value of 0.000). This result implies that, as tenure of the auditor increases, audit fees increase too; this is significant at 99% confidence level. Based on this, the study rejects the null hypothesis two (H_{02}) which states that, auditor tenure has no significant impact on the audit fees of listed food and beverages firms in Nigeria. The study therefore, infers that auditor tenure is a significant determinant of audit fees in the listed food and beverages firms in Nigeria.

The regression results from Table 4.4 also indicates that, client firm size has a significant positive impact on the audit fees of sampled food and beverages firms in Nigeria, from

the coefficient of 0.544 with Z-value of 35.96, which is statistically significant at 1% level of significance (p-value of 0.000). This result implies that, as the size of firm increase, auditors increases their fees; and is statistically significant at 99% confidence level. Based on this, the study rejects the null hypothesis three (H_{03}) which states that, firm size has no significant impact on the audit fees of listed food and beverages firms in Nigeria. The study therefore, infers that firm size in the listed food and beverages firms in Nigeria is a significant determinants of audit fees.

Moreover, Table 4.4 shows that, client firm complexity size has positive impact on the audit fees of listed food and beverages firms, from the coefficient of 0.0009 with Z-value of 1.07, which is not statistically significant at all levels of significance (p-value of 0.286). Based on this, the study failed to reject the null hypothesis four (H_{04}) which states that, firm complexity has no significant impact on the audit fees of listed food and beverages firms in Nigeria. The study therefore, infers that firm complexity is not a significant determinant of audit fees in the listed food and beverages firms in Nigeria. On the other hand, the result shows that firm performance has a negative impact on the audit fees, from the coefficient of -0.1402 with Z-value of 1.00, which is not statistically significant at all, levels of significance (p-value of 0.317).

4.5 Discussion of Major Findings

Emanating from the tests and analysis of the results from this research, the study found after controlling for firms financial performance a significant positive relationship between audit fees and the determinants of audit fees in listed food and beverages

companies in Nigeria. Evidences from the results show that the determinants of audit fees accounted for about 77% of the total variations in the total audit fees in the listed food and beverages firms in Nigeria. Specifically, the study found that the size of the audit firm has significant statistical positive impact on the audit fees, suggesting that the size of the auditor is a significant determinant of fees paid to auditors. This finding supports those of Vania, Antonio AndElisio (2012), Ahmed and Goyal, (2005), Akinpelu, Omojola and Ogunsaye (2013), Anderson and Zeghal (1994), who revealed that the size of the auditor enhances the audit quality and financial reporting in return. This could be as a result of the expertise and relevant industry experiences, and the use of modern audit facilities in conducting an audit exercise.

The study also found that auditor tenure has significant positive impact on the audit fees during the period under review; suggesting that tenure in the listed food and beverages companies during the period under review determines the fees paid to auditors. This finding is inconsistent with the view of auditor mandatory rotation, and also inconsistent with the findings of Cobin, (2002); who document evidence that, there is a deterioration of audit quality as audit tenure increases, and, the possibility of auditors acquiescing more in later years of the engagement and management using this to meet earnings forecasts. In contrast, the finding is in line with those of Fields, Donald and Williams (2004), and those of Hassas and Alavi (2004); Pong and Whittinghton(1994); Takukava, (2011); who found no evidence of impaired audit quality when auditor tenure is longer.

The study also found that client firm size has significant positive impact on the audit fees during the period under review; implying that size of the auditee firm significantly determined fees paid to auditors. This finding support the view of Waresulkarim and Moizer (1996) who show that audit delay is positive for firms with interim overstatements and declining earnings, and that the audit delay increases with the size of the overstatement of interim earnings.

However, the study found that complexity has positive but insignificant impact on the audit fees in the sampled food and beverages firms during the period. This may be as a result of the effect of firm size, which is also a proxy of complexity.

4.6 Policy Implication of Findings

The findings from this study have implications to the policy makers, management and external auditors. Generally, the findings imply that any fees paid to the auditors that are not part of the determinants of audit fees may tend to be unethical because of the positive association between the determinants examined and fees paid to auditors. That is, managements may engage in shopping the services of the auditors to manipulate accounting information. The findings on the other hand implied that if regulators allow audit exercise takes a sufficient time, it is likely a high quality financial reporting could be achieved. Moreover, the findings suggest the engagement of large audit firm in order to achieve a higher quality financial reporting.

4.7 Summary

This chapter presented the results of the tests conducted on the data collected for the study. It also discussed, analyzed and interpreted the results and tested the hypotheses of the study. The chapter covered the analysis of descriptive statistics and the inferential statistics, which covered the analysis of the correlation and regression results from which the hypotheses of the study are tested. The chapter ended with discussion of major findings and policy implications of the findings.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study examined the determinants of audit fees of selected listed food and beverages firms in Nigeria from 2004 to 2013. The problem of the study emanates from the fact that fees paid to auditors comes with several implications for audit quality and the financial reporting quality in general. In the first instance companies reporting high levels of profits are subjected to rigorous audit testing in order to relate revenues and expenses and this entails more audit fees. On the contrary there is also the argument that underperforming companies are more likely to control their overheads and this would result to less audit work but at the same time attracts more audit fees when compared with the performing firms. To this end, there are some studies conducted in both developed and developing economies that established the possible effect of determinants of audit fees on audit fees of firms in different sectors.

In view of the above problem, the study hypothesized that there is no significant relationship between the determinants and audit fees of selected listed food and beverages firms in Nigeria. A return on assets was used as a control variable for firms' financial performance of the listed food and beverages firms in Nigeria during the period 2004 to 2013. The study used correlational research design in determining whether significant relationship exists between the determinants and audit fees of listed food and beverages firms in Nigeria. Data for the study were secondary in nature and were

sourced from the Nigerian stock exchange (NSE) fact book, and annual reports and accounts of the selected food and beverages firms in Nigeria from 2004 to 2013.

Relevant and related literatures on the determinants of audit fees and their composition were reviewed. The study found after controlling for firms financial performance a significant positive relationship between audit fees and the determinants of audit fees in listed food and beverages companies in Nigeria. The findings indicated that the size of the audit firm has significant statistical positive impact on the audit fees, suggesting that the size of the auditor is a significant determinant of fees paid to auditors. The study also found that auditor tenure has significant positive impact on the audit fees while client firm size has significant positive impact on the audit fees. However, the study found that complexity has positive but insignificant impact on the audit fees in the sampled food and beverages firms during the period.

5.2 Conclusions

The finding from this study revealed that the determinants of audit fees variables explained around 77% of the total variations in the dependent variable (audit fees), from the coefficient of determination for the ten years of the study period from 2004 to 2013.

The study concludes that the size of the audit firm has significant statistical positive impact on the audit fees, suggesting that the size of the auditor is a significant determinant of fees paid to auditors. This finding supports those of Vania, Antonio

AndElisio (2012), Ahmed and Goyal, (2005), Akinpelu, Omojola and Ogunsaye (2013), Anderson and Zeghal (1994), who revealed that the size of the auditor enhances the audit quality and financial reporting in return.

The study also conclude that auditor tenure has significant positive impact on the audit fees during the period under review; suggesting that tenure in the listed food and beverages companies during the period under review determines the fees paid to auditors. This finding is inconsistent with the view of auditor mandatory rotation, and also inconsistent with the findings of Cobin, (2002); who document evidence that, there is a deterioration of audit quality as audit tenure increases, and, the possibility of auditors acquiescing more in later years of the engagement and management using this to meet earnings forecasts. In contrast, the finding is in line with those of Fields, Donald and Williams (2004), and those of Hassas and Alavi (2004); Pong and Whittinghton(1994); Takukava, (2011); who found no evidence of impaired audit quality when auditor tenure is longer.

The study however conclude that client firm size has significant positive impact on the audit fees during the period under review; implying that size of the auditee firm significantly determined fees paid to auditors. This finding support the view of Waresulkarim and Moizer (1996) who show that audit delay is positive for firms with interim overstatements and declining earnings, and that the audit delay increases with the size of the overstatement of interim earnings.

Finally, the study conclude that complexity has positive but insignificant impact on the audit fees in the sampled food and beverages firms during the period. This may be as a result of the effect of firm size, which is also a proxy of complexity.This supports the findings of Waresulkarim and Moizer (1996) Hassan and Nasor (2013), Lonelacorina, Loan Bogdan, Mchai and Marilena (2012), Shammari, Yaquot and Hussaini (2008).

5.3 Recommendations

Based on the findings and conclusions from this research, the study recommends that;

i. The regulators of the food and beverages firms in Nigeria should improve the guidelines for employing the services of external auditors and their remuneration, and consider the size of the firm, auditor size and firm performance among the factors in the determination of auditors' fees.
ii. The study recommends that auditors should be adequately remunerated relative to the complexity of a firm and its growing capacity; this could give them sufficient resources to conduct a thorough audit capable of uncovering material misstatements and errors in the financial statements, hence higher quality reports.
iii. External auditors of listed food and beverages firms should avoid non audit services that are likely to increase total audit fees and decreases the auditors' independence.
iv. Large firms should also be allowed by law to pay more audit fees in order to have a thorough audit with wider coverage. This could make it possible for auditors to

uncover both intentional and unintentional errors and misstatements; and hence a true and fair financial statements.

v. The regulators and other stakeholders should allow a sufficient time for the audit exercise as this appears to be significant in improving financial reporting quality.

5.4 Limitations of the Study

Although the findings and conclusions from this study are robust and reliable, the study has some limitations. For instance, the study focuses on quantitative research method, complimenting the study with qualitative evidence from auditors and managers could have improved the results. Moreover, the study concentrated on food and beverages companies listed in the NSE market, covering more sectors would have shown a wider picture of the relation between auditor fees and the determinants of audit fees.

5.5 Areas for Further Research

Future studies on the determinants of audit fees should adopt both qualitative and quantitative methodologies in their studies. Similarly, more determinants should be used by future empirical works in this area. To substantiate the outstanding theoretical arguments on causality between auditor fees and firm performances, future works should conduct causality test. Moreover, future empirical studies should focus on other sectors of the economy.

In addition, the fear of losing the clients and the revenues generated from the various assurance activities may compromise the auditor's independence, which affects client

financial reporting quality. Hence there may be need to examine how regulation of the audit fees can help minimize the tendencies for declining auditor independence. Also to better understand the association of audit fees determinants and fees paid to auditors, further research on this relationship is needed. For example, disaggregating audit fees on fees paid for audit services and fees paid for consultancy; analysing the unexpected change in audit fees; and/or examining more thoroughly the relationship with past audit fees.

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APPENDIX A: Population of the study

S/No	Population
1	Cadbury Plc
2	Nestle Plc
3	GuinnessPlc
4	Nigerian Breweries Plc
5	NASCON Plc
6	Flour Mills of Nigeria Plc
7	Seven Up Nigeria Plc
8	UTC Nigeria Plc
9	Northern Nigeria Flour Mills Plc
10	Nigerian Breweries Plc
11	International Breweries Plc
12	Premier Breweries Plc
13	Tantalizers Plc
14	Honeywell Plc
15	PS MandridesPlc
16	Multi TrexPlc
17	Dangote Sugar Plc
18	Nigerian Bottling Company Plc
19	Dangote Flour Mills Plc
20	Champion Breweries
21	International Breweries PLC

APPENDIXB: Descriptive, Normality, Correlation and Regression results

```
. xtset id year, yearly
       panel variable:  id (strongly balanced)
        time variable:  year, 2004 to 2013
                delta:  1 year
```

1. DESCRIPTIVE STATISTICS

```
. su audfee asize atenure fsize complx roa, detail
```

audfee

Percentiles		Smallest		
1%	12.42922	12.42922		
5%	14.69098	13.12236		
10%	15.31959	14.50866	Obs	90
25%	15.76142	14.50866	Sum of Wgt.	90
50%	16.46778		Mean	16.30381
		Largest	Std. Dev.	.9706574
75%	17.00029	17.72753		
90%	17.30718	17.84022	Variance	.9421757
95%	17.50439	18.04235	Skewness	-1.089272
99%	18.3019	18.3019	Kurtosis	5.480456

asize

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	90
25%	0	0	Sum of Wgt.	90
50%	1		Mean	.7444444
		Largest	Std. Dev.	.4386166
75%	1	1		
90%	1	1	Variance	.1923845
95%	1	1	Skewness	-1.12086
99%	1	1	Kurtosis	2.256327

atenure

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	90
25%	0	0	Sum of Wgt.	90
50%	1		Mean	.7111111
		Largest	Std. Dev.	.4557854
75%	1	1		
90%	1	1	Variance	.2077403
95%	1	1	Skewness	-.9315516
99%	1	1	Kurtosis	1.867788

fsize

Percentiles		Smallest		
1%	13.32542	13.32542		
5%	14.4984	13.76585		
10%	14.84931	14.1974	Obs	90
25%	16.00089	14.30807	Sum of Wgt.	90
50%	17.30432		Mean	17.0802
		Largest	Std. Dev.	1.464318
75%	18.2736	19.23441		
90%	18.84047	19.23706	Variance	2.144227
95%	19.04052	19.34761	Skewness	-.488528
99%	19.40878	19.40878	Kurtosis	2.383189

complx

Percentiles		Smallest		
1%	10	10		
5%	10	10		
10%	10	10	Obs	90
25%	18	10	Sum of Wgt.	90
50%	45		Mean	42.54444
		Largest	Std. Dev.	26.37677
75%	64	92		
90%	78	92	Variance	695.734
95%	92	92	Skewness	.2492773
99%	92	92	Kurtosis	1.764295

roa

Percentiles		Smallest		
1%	-.2925296	-.2925296		
5%	-.0887158	-.1791367		
10%	-.033946	-.1572602	Obs	90
25%	.0596643	-.1152142	Sum of Wgt.	90
50%	.1429133		Mean	.1557559
		Largest	Std. Dev.	.1465367
75%	.2672119	.4091164		
90%	.3340568	.4335627	Variance	.021473
95%	.394705	.4528354	Skewness	-.295277
99%	.4552493	.4552493	Kurtosis	3.160667

2. NORMAL DATA TEST

```
. swilk audfee asize atenure fsize complx roa
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
audfee	90	0.93720	4.750	3.436	0.00029
asize	90	0.96969	2.293	1.830	0.03360
atenure	90	0.97927	1.568	0.992	0.16048
fsize	90	0.96128	2.929	2.370	0.00889
complx	90	0.92582	5.611	3.804	0.00007
roa	90	0.98863	0.860	-0.332	0.62998

3 CORRELATION MATRIX

```
. pwcorr audfee asize atenure fsize complx roa, star (0.05) sig
```

	audfee	asize	atenure	fsize	complx	roa
audfee	1.0000					
asize	0.1587 0.1351	1.0000				
atenure	0.3174* 0.0023	0.3572* 0.0005	1.0000			
fsize	0.8146* 0.0000	-0.0823 0.4403	0.0028 0.9791	1.0000		
complx	0.4138* 0.0001	-0.1054 0.3230	-0.1382 0.1940	0.4943* 0.0000	1.0000	
roa	0.4609* 0.0000	-0.1623 0.1264	0.1012 0.3423	0.5287* 0.0000	0.3780* 0.0002	1.0000

2 POOLED OLS REGRESSION RESULTS

```
. reg audfee asize atenure fsize complx roa
```

Source	SS	df	MS
Model	65.5950259	5	13.1190052
Residual	18.2586154	84	.21736447
Total	83.8536414	89	.942175746

```
Number of obs =      90
F(  5,    84) =   60.35
Prob > F      =  0.0000
R-squared     =  0.7823
Adj R-squared =  0.7693
Root MSE      =  .46622
```

audfee	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
asize	.2975692	.1235516	2.41	0.018	.0518733	.5432651
atenure	.5882437	.1199886	4.90	0.000	.3496332	.8268542
fsize	.5174157	.0428974	12.06	0.000	.4321094	.6027219
complx	.0027654	.0022205	1.25	0.216	-.0016503	.007181
roa	.0902454	.4148999	0.22	0.828	-.7348286	.9153194
_cons	6.694708	.6846752	9.78	0.000	5.333156	8.05626

3 HETEROSKEDASTICITY TEST

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of audfee

         chi2(1)      =    31.03
         Prob > chi2  =   0.0000
```

6 MULTICOLINEARITY TEST

```
. vif
```

Variable	VIF	1/VIF
fsize	1.62	0.618964
roa	1.51	0.660722
complx	1.40	0.711972
atenure	1.22	0.816578
asize	1.20	0.831633
Mean VIF	1.39	

7 FIXED EFFECTS REGRESSION RESULTS

```
. xtreg audfee asize atenure fsize complx roa, fe

Fixed-effects (within) regression               Number of obs      =        90
Group variable: id                              Number of groups   =         9

R-sq:  within  = 0.5603                         Obs per group: min =        10
       between = 0.8909                                        avg =      10.0
       overall = 0.7611                                        max =        10

                                                F(5,76)            =     19.37
corr(u_i, Xb)  = -0.6255                        Prob > F           =    0.0000
```

audfee	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
asize	.3587905	.1517461	2.36	0.021	.0565619	.6610191
atenure	.6387756	.1406096	4.54	0.000	.3587273	.918824
fsize	.6471598	.1156535	5.60	0.000	.416816	.8775036
complx	-.0031157	.0051043	-0.61	0.543	-.0132819	.0070505
roa	1.117878	.4684344	2.39	0.020	.1849103	2.050846
_cons	4.487289	1.896374	2.37	0.021	.7103328	8.264246
sigma_u	.37126748					
sigma_e	.41866222					
rho	.44021654	(fraction of variance due to u_i)				

```
F test that all u_i=0:     F(8, 76) =     3.52                 Prob > F = 0.0016

. est store fixed
```

8 RANDOM EFFECT REGRESSION RESULTS

```
. xtreg audfee asize atenure fsize complx roa, re

Random-effects GLS regression                   Number of obs      =        90
Group variable: id                              Number of groups   =         9

R-sq:  within  = 0.5498                         Obs per group: min =        10
       between = 0.9130                                        avg =      10.0
       overall = 0.7770                                        max =        10

                                                Wald chi2(5)       =    176.12
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
```

audfee	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
asize	.3288981	.1348503	2.44	0.015	.0645963	.5931998
atenure	.6071195	.1199368	5.06	0.000	.3720477	.8421912
fsize	.5202274	.0597615	8.71	0.000	.4030969	.6373578
complx	.0011955	.0030117	0.40	0.691	-.0047072	.0070983
roa	.6525536	.4344067	1.50	0.133	-.1988679	1.503975
_cons	6.589144	.9623676	6.85	0.000	4.702938	8.475349
sigma_u	.18951632					
sigma_e	.41866222					
rho	.17006332	(fraction of variance due to u_i)				

```
. est store random
```

9 HAUSMAN SPECIFICATION TEST

```
. hausman fixed random
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
asize	.3587905	.3288981	.0298924	.0695865
atenure	.6387756	.6071195	.0316562	.073391
fsize	.6471598	.5202274	.1269324	.0990166
complx	-.0031157	.0011955	-.0043112	.0041212
roa	1.117878	.6525536	.4653246	.1752757

```
                b = consistent under Ho and Ha; obtained from xtreg
     B = inconsistent under Ha, efficient under Ho; obtained from xtreg

  Test:  Ho:  difference in coefficients not systematic

              chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                      =        8.90
            Prob>chi2 =      0.1130
            (V_b-V_B is not positive definite)
```

10 RANDOM EFFECS TEST

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        audfee[id,t] = Xb + u[id] + e[id,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                 ---------+-----------------------------
                   audfee |    .9421757        .9706574
                        e |    .1752781        .4186622
                        u |    .0359164        .1895163

        Test:   Var(u) = 0
                                  chibar2(01) =     4.73
                               Prob > chibar2 =   0.0148
```

11 ROBUST RANDOM EFFECTS REGRESSION RESULTS

```
. xtreg audfee asize atenure fsize complx roa, re robust

Random-effects GLS regression                   Number of obs      =        90
Group variable: id                              Number of groups   =         9

R-sq:  within  = 0.5498                         Obs per group: min =        10
       between = 0.9130                                        avg =      10.0
       overall = 0.7770                                        max =        10

                                                Wald chi2(5)       =    215.29
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

                                    (Std. Err. adjusted for 9 clusters in id)
------------------------------------------------------------------------------
             |               Robust
      audfee |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      asize |    .3288981   .2160611     1.52   0.128    -.0945738      .75237
    atenure |    .6071195   .2059799     2.95   0.003     .2034063    1.010833
      fsize |    .5202274   .0507255    10.26   0.000     .4208072    .6196475
     complx |    .0011955   .0029639     0.40   0.687    -.0046136    .0070047
        roa |    .6525536   1.138601     0.57   0.567    -1.579063    2.884171
      _cons |    6.589144   .7146141     9.22   0.000     5.188526    7.989761
-------------+----------------------------------------------------------------
    sigma_u |   .18951632
    sigma_e |   .41866222
        rho |   .17006332   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

12 HETEROSKEDASTIC CORRECTED PANEL REGRESSION RESULTS

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. xtgls audfee asize atenure fsize complx roa, p(c)

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        heteroskedastic with cross-sectional correlation
Correlation:   no autocorrelation

Estimated covariances      =        45          Number of obs      =        90
Estimated autocorrelations =         0          Number of groups   =         9
Estimated coefficients     =         6          Time periods       =        10
                                                Wald chi2(5)       =   5655.24
                                                Prob > chi2        =    0.0000
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audfee	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
asize	.2284181	.0372995	6.12	0.000	.1553123	.3015239
atenure	.5595185	.0334108	16.75	0.000	.4940346	.6250024
fsize	.5441125	.0151292	35.96	0.000	.5144598	.5737651
complx	.0008569	.0008038	1.07	0.286	-.0007185	.0024323
roa	-.1402315	.1400624	-1.00	0.317	-.4147488	.1342858
_cons	6.456214	.2233322	28.91	0.000	6.018491	6.893937