CORPORATE CHARACTERISTICS AND AUDIT FEES: EVIDENCE FROM DISTRIBUTIVE FIRMS LISTED ON THE NIGERIAN STOCK EXCHANGE

[1]Onaolapo Adekunle R. [2]*Kolawole Sunday Adeyemi.

Department of Management and Accounting, Faculty of Management Sciences, Ladoke Akintola University of Technology, Ogbomoso, Nigeria

araonaolapo@lautech.edu.ng   kolawolesunday80@gmail..com

Abstract

Around the globe, corporate units are concerned about what informs the fees charged by audit firms for audit services. Many factors have been advanced by extant literatures but limited discussion exist on the relationship between "audit firm and client" characteristics especially in Nigerian corporate sector. The objective of this study is therefore to determine the influence of corporate socio-economic characteristics on audit fees charged by distributive firms listed on the NigerianStock Exchange.

Panel analysis was adopted for this study. Secondary data,been extracts from Annual Reports and Accounts of sampled firms were employed for this work. Audit fee and corporate socio/economic characteristics proxied byfirm size,leverage, firm type, board size, profitability and board independence were analyzed using Panel regression

The study found a positive significant effect of Firm Size (FS), Audit Firm Type (AUDTYPE), Board Independence (BDIND) and Profitability (PROFIT) (β = 17.2545; 7862.6861; 84246.5114, 0.0005, $\rho > 0.0000$) while Leverage (LEV) and Board Size (BDSIZE) had negative effect on Audit Fees (β = -19.5350, -2333.0214, $\rho > 0.0000$). The study recommended that audit clients of distributive firms should focus on the management of the relationship between Asset and Liability i.e. leverage such that the current profitability tempo could be maintained and offset audit fee without any significant negative effect on audit quality.

Keywords: Audit fees; Leverage; Firm Size; Audit Type; Profit; Board Size; Board Independence.

1.0 Background to the study

Subsequent to the forerunner work of Simunic (1980) on the pricing of audit services, significant progress has been made in understanding the factors which are contributory to determining audit fee both at the international and national level. Investors in firms commit their funds in expectation of substantial returns in the form of wealth maximization and will only be motivated to retain their shareholding when guarantee abound that returns will flow-in indefinitely perhaps in a progressive manner. To an average investor, profit/ wealth maximization entails committing little to derive maximum returns and anything capable of defeating this singular motive must be avoided completely. Audit fees paid to the

auditors, as a product of governance prerequisite, constitute an expense to the organization and will reduce eventual profit generated (Rustam, Rashid and Zaman, 2013). However audit fee, being a cost or charge on the fortunes of companies the world over, has been a subject of serious concerns among scholars and other interested stakeholders to the extent that, determining its constituent becomes so imperative that organizations today strive to minimize their cost in order to maximize their benefits for greater potentialities.

Determining what now constitute reasonable economic audit fee has been a source of worries among interested stakeholders. Little wonder that Al-Harshani (2008) stated that audit pricing services have been a central issue that motivates many researchers to examine the determinants of audit fees. The need to also uphold a balance between minimum audit cost, audit quality and standards has also led the foray of academic researches into the world of audit fees determination.

1.2 Statement of the Problem

Pricing of audit services have also occupied the concerns of many researchers to examine determinants of audit fees in corporate set up (Al-Harshani, 2008). Organizations are today concerned about making sure that costs are put at its barest minimum for the purpose of ensuring that fortune continues to increase since it has been established that cost and fortunes i.e. expenses and profit are inversely related. Most firms and other interested participants in Nigerian project have, over the years, been debating on the probable existence of some socio-economic characteristics that influence audit fee within corporate entity

particularly in the distributive sector. Findings in most cases are not yet sure of the exact variables and the severity of their impact. For instance leverage, equity, profitability, and firms' asset base etc. may influence the costing sensibility of external auditors, the extent of their influence has not been comprehensively revealed. However, the question that requires an answer in the present studies is "what corporate social characteristics influenced audit fee in Nigeria distributive firms"? To this end, this study also aims to evaluate those corporate economic characteristics/factors that influence audit fees charged on firms within the distributive sector of Nigeria economy and what relationship exist between these socio-economic characteristics and audit fees charged by the sampled firms in the study area.

1.3 Hypothesis of the Study

H_{01}: Corporate Economic characteristics have no significant impact on audit fees in the Nigerian distributive sector.

H_{02}: Corporate Social characteristics have no significant impact on audit fees in the Nigerian distributive sector.

1.4 Significance of the Study

The study of the determinants of audit fees using different parameters has been seriously researched into by scholars in the past with many broadly investigating such determinants within and outside Nigeria. Chris and Michael (2008) studied internal control and audit fees in the US, Jong (2016) in Korea, Harjinder (2010) in Australia, Ho and Hutchinson (2010) in Hong Kong and so on. Some researchers also studied the impact of corporate governance on audit fees. They include, Griffin, Lont and Sun (2008) in the US, Cindy (2007) in

Australia, Wu (2012); China, Johl, Subramaniam and Zain (2012) in Malaysia and Abdulmalik and Ahmad (2015) in Nigeria. A host of other scholars like Coleman (2007) in Ghana, Obeten and Cohen (2014) in Nigeria also delved into corporate governance and performance. Internal control and firm performance was also researched by Abbes and Irbil (2012) in Pakistan and Dineshkumar and Kogulacumar(2013) in Sri Lanka. Markélevich and Barragato (2007) in the US and Newby (2007) in Australia also studied audit fee and audit quality.

In Nigeria however, authors like Soyemi and Olowookere (2013), Urhoghide and Izedonmi (2015) have broadly emphasised the determinants of audit fee using variables such as audit firm characteristics, audit client characteristics and corporate governance but in other sectors of the economy. To this end and despite the extensive work so far conducted in the area of audit fees determinants, none of these previous studies has its focus on the influence of corporate socio-economic characteristics on audit fees in the listed distributive firms in Nigeria. The current research work is therefore designed to bridge the gap in literature by evaluating the corporate socio-economic characteristics influence on audit feesamong quoted distributive firms in Nigeria.

2.0 Literature Review.

Audit fee has not been clearly defined in any of the International Standards on Auditing (ISAs), the Nigerian Auditing Standards (NSAs), the International Federation of Accountant (IFAC) Code of Ethics for Professional Accountants, the Institute of Chartered Accountants of Nigeria (ICAN) Scale of Professional Fees and other relevant laws. Nevertheless, the aspects regarding audit fees have been extensively analyzed from the point of view of their effects on auditor's independence (Kenny and Johnson, 2013) and quality of accounting information (Sundgren and Svanstrom, 2013).

El-Gammal (2012) defined audit fee as the amounts (wages) charged by the auditor for an audit process performed for the accounts of an enterprise (auditee). According to Urhoghide and Izedonmi (2015), audit fee refers directly to payments made to the auditor that relates directly to the audit function. Generally, the audit fee should cover audit costs and provide a reasonable profitand by implication can be seen as a combination of two items; audit cost and profit or auditor's reward. Audit fee is the cost incurred by the company to pay a public accounting firm in order to audit the financial statements of the company (Rusmanto and Waworuntu, 2015).

Similarly, the ICAN's Scale of Professional fees while indicating that practitioners charge ridiculously inappropriate audit fees yet affirm that a reasonably remunerated firm should deliver first class service for the needs of private and public sectors clients, regulatory authorities and the general public. The question as to why the same volume of work will attract different charges by auditors is what borders so many interested parties. Undoubtedly, fees charged by auditors can be a function of some corporate factors; either social, economic or otherwise i.e. leverage, profitability, audit firm status and firm size.

2.2 Corporate Social / Economic Characteristics and Audit fees.

Series of study have been conducted to establish the relationship between audit fees and corporate socio-economic characteristics within and outside

Nigeria. This study has however chosen to adopt, leverage, profitability, board size, board independence, status of audit firm and size of the firm as variables to proxy for corporate socio/economic characteristics.

Authors like Hay,Knechel and Ling (2006); Francis (1984); Antle, Gordon, Narayanamoorthy and Zhou (2006) and Zaman,Hudaib and Haniffa (2011) found that positive relationship exist between audit fee and firm size. Arrunda (1997); Bedarad and Jonstone (2004); Arshad,Satar, Hassain and Naseem (2011) also found positive relationship between audit fee and leverage. Furthermore, Arshad *et al* (2011); DeAngelo (1981b); Zaman *et al* (2011) found a positive relationship between audit fee and firm size while Urhoghide and Izedonmi (2015); Soyemi and Olowookere (2013) also found positive relationship between audit fees and profitability. The empirical implication of this is simply that an increase in one will lead to a proportionate increase in the other and vice versa. However, this study has tried to establish what kind of relationship exists between audit fees and the probable corporate socio-economic variables as it relates to Nigeria distributive firms.

3.0 Methodology
3.1 Research Design
Panel design was used for this study due to the nature of data employed. Distributive firms identified, as quoted by the Nigerian Stock Exchange (NSE) were 69 out of which 23 were sampled through the use of stratified random sampling technique. The main data source in this study is secondary been an extract from published/audited financial statements of the 23 sampled distributive firms from 2007 and 2017. All data collected are processed using E-view 10. The study dependent variable is Audit Fees whereas independent variable is social and economic factors such as Board Size (BDSIZE), Board Independence (BDIND), Audit Type (AUDTYPE), Firm Size (FS), Leverage (LEV) and Profit (PROFIT).

3.2 Model Specification
The research model is as follow:

$$Audfee_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 LEV_{it} + \beta_4 Profit_{it} + \varepsilon_{it}... \qquad Eq\ (3.1)$$

$$Audfee_{it} = \beta_0 + \beta_1 BDSIZE_{it} + \beta_2 BDIND_{it} + \beta_3 Audtype_{it} + \varepsilon_{it} \qquad Eq\ (3.2)$$

The variables adopted for this study are described and measured thus;

AUDFEE - Audit Fees in relation to audit function.

BDSIZE – Measured as the number of directors on the board

BDIND – Measured as the ratio of executive to non-executive directors on the board.

AUDTYPE – A dichotomous value '1', for firms audited by a Big4 and '0' if otherwise.

FS - Measured as the natural log of Total Asset.

LEV – Measured as Total Assets divided by Total Liabilities.

PROFIT - Measured using Net Profit after tax (PAT).

4.0 Results and Discussion
4.1 Panel Unit Root Test
Testing for the existence of unit roots is a principal concern in the study of time series models. The presence of a unit root implies that the time series under

investigation is non-stationary, while the absence of unit roots shows that the stochastic process is stationary. More often than not, most time series data are not stationary at certain significant levels as some variables may be too small or large to the extent that they never return to their expected mean. This has necessitated the need to carry out unit root test or stationary test whenever dealing with time series data.

However, in an attempt to test for the Stationarity of the panel variables; this study employed Levin, Lin and Chu test and the result is as shown in table 4.1. The decision rule adopted here is that if the probability value of Levin, Lin and Chu test is lesser than 5% critical value, then it is adjudged that the tested variable is non-stationary. If on the other hand, the probability value of the Levin, Lin and Chu test is greater than 5% critical value, then it is adjudged that the tested variable is stationary. Hence, the purpose of the panel unit root test is to know if the variables are I (0), I (1) or I (2). Invariably, the results show that all the variables are stationary (no unit root) at the levels except Board Size (BDSIZE) which is stationary at first difference i.e. integrated of order one I (1).

Table 4.1   Stationarity Result for Levin, Lin & Chu Test of the Study Variables.

Variables	Level	1st Difference	2nd Difference	Order of Integration
AUDFEE	- 2.03811**	-8.47051		I(0)
BDIND	-2.31438***	-10.2714		I(0)
BDSIZE	-0.53490	-9.79751***		I(1)
FS	3.84172***	-15.6799		I(0)
LEV	12.5678***	14.6910		I(0)
PROFIT	3.78160***	13.0561		I(0)

Source: Author's Computation, 2018 (E-views 10)
(***) indicates significance at 1% level and (**) indicates significance at 5% level.

4.2 Relationship between Corporate Social characteristics and Audit Fees in the Nigerian Distributive Firms (FE Model)

In the efforts of determining the fixed and random effects nature of the study's model, Table 4.2 showed that board independence (BDIND) and audit firm type (AUDTYPE) have positive relationship with audit fees while board size (BDSIZE) exhibited negative relationship with audit fees in the model. Coefficient of determination (R^2) 0.685457 showed that the independent variables was responsible for about 69% of total variation in audit fees. This can then be considered to be above average and of good fit. Additionally, the F-stat 9.632398 is the variable that showed joint significance of the model and revealed that it was significant at 1% level of significance with the prob. value of 0.000000. This simply implied that the null hypothesis is rejected while the alternative hypothesis is accepted which is clear indication that all the variables have significant influence on audit fees charged by audit firms in rendering their services to the selected firms. This result presented by the fixed effect model is most appropriate and efficient as suggested by the Haussman test.

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Table 4.2 Relationship between Corporate Social Characteristics and Audit Fees in the Nigerian Distributive Firms (FE Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDSIZE	-2.068548	1.001842	-2.064745	0.0401
BDIND	8.707669	1.307321	6.660698	0.0000
AUDTYPE	7.699917	1.195371	6.441446	0.0000
C	45.07533	8.829490	5.105089	0.0000

Effects Specification

Period fixed (dummy variables)

R-squared	0.685457	Mean dependent var	27049.69
Adjusted R-squared	0.645440	S.D. dependent var	30799.32
S.E. of regression	249.1814	Akaike info criterion	23.14757
Sum squared resid	1.33E+11	Schwarz criterion	23.37180
Log likelihood	-26.46971	Hannan-Quinn criter.	23.23802
F-statistic	9.632398	Durbin-Watson stat	1.949476
Prob(F-statistic)	0.000000		

Source: Author's Computation, 2018 (Eviews, 10)

Table 4.2: Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	4241.882	1160.006	3.656777	0.0003
LEV	-163.2595	167.5658	-0.974301	0.3311
PROFIT	0.000571	7.76E-05	7.352909	0.0000
C	-10828.15	8149.881	-1.328627	0.1855

Effects Specification

Effects Specification	S.D.	Rho
Cross-section random	17243.71	0.8383
Idiosyncratic random	7574.568	0.1617

Weighted Statistics

R-squared	0.652140	Mean dependent var	3721.682
Adjusted R-squared	0.645956	S.D. dependent var	12868.52
S.E. of regression	7656.979	Sum squared resid	1.32E+10
F-statistic	105.4528	Durbin-Watson stat	1.842631
Prob(F-statistic)	0.000000		

Source: Author's Computation (2018)

Cross-section fixed (dummy variables)

R-squared	0.946384	Mean dependent var	27049.69
Adjusted R-squared	0.939517	S.D. dependent var	30799.32
S.E. of regression	7574.568	Akaike info criterion	20.81289
Sum squared resid	1.16E+10	Schwarz criterion	21.21649
Log likelihood	-2366.482	Hannan-Quinn criter.	20.97569
F-statistic	137.8148	Durbin-Watson stat	1.927329
Prob(F-statistic)	0.000000		

Source: Author's Computation, 2018 (Eviews, 10)

4.3: Analysis of the Corporate Economic Characteristics Influencing Audit Fees in the Nigerian Distributive Firms (Random Effect)

In order to determine the Random Effect (RE) nature of the variables used for this study, Table 4.3 presented the result of RE Model in which it was shown that there is positive relationship between Firm Size (FS), Profitability (PROFIT) and Audit Fees while there exists negative relationship between Leverage (LEV) and Audit Fees.

Coefficient of determination (R^2) 0.652140 revealed that the independent variables were responsible for over 65% of total variation in the dependent variable (Audit Fees) leaving the balance to other variable not considered in the model. On this note, it is worthy to say that the model is of good fit even though; it was not a robust one. The F-stat 105.4528 showed the joint significance of the variables used in the model and concluded that they were significant at 1% level of significance. The study concluded that the alternative hypothesis should be accepted which says that the dependent variable significantly influenced audit fees. Above all, the Durbin Watson (DW) with the value 1.842631 indicated that serial correlation was absent from the model making the model a reliable model.

Table 4.3: Corporate Economic Characteristics Influencing on Audit Fees in the Nigeria Distributive Firms (RE Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	48.75648	11.50337	4.238452	0.0000
LEV	-20.88844	18.89508	-1.105496	0.2701
PROFIT	0.000573	6.34E-05	9.041278	0.0000
C	-19.37847	4.935374	-3.926445	0.0001

4.4: Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Haussman Test)

Table 4.4 showed the Haussman test of corporate economic characteristics influence on audit fee in the distributive firms in Nigeria. In accordance with the decision rule to know the model to be adopted between Random Effect (RE) Model and Fixed Effect (FE) Model, this study made use of the Haussman test. According to the decision rule of Haussman test, the judgment is that if the Haussman is significant, the null hypothesis (RE Model) will be rejected. Therefore, the study revealed as shown in the table above, that Haussman test is not significant as the p-value is 1.0000. As a result, the study accepted the null hypothesis (RE Model) as most efficient for the estimate.

Table 4.4 Relationship between Corporate Social Characteristics and Audit Fees in the Nigerian Distributive Firms (Haussman Test)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	94.590212	4	0.0000

Source: Author's Computation, 2018 (Eviews, 10)

Table 4.4: Corporate Economic Characteristics Influencing Audit Fees in the Distributive Firms in Nigeria (Haussman Test)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000

Source: Author's Computation, 2018 (Eviews, 10)

4.4 Corporate Social characteristics and Audit Fees in the Distributive Firms in Nigeria (Haussman Test)

Table 4.4 showed the Haussman test of determining the relationship between corporate governance and audit fee in the Nigeria distributive firms. In accordance with the decision rule to know the model to be adopted between random effect model and fixed effect model, this study made use of the Haussman test. According to the decision rule of Haussman test, the judgment is that if the Haussman is significant, the null hypothesis (Random Effect Model) will be rejected. Therefore, the study revealed as shown in the table above, that Haussman test is significant as the p-value is 0.0000. As a result the study accepted the (Fixed Effect Model) as the most efficient for the estimate.

4.5: An Evaluation of Corporate Economic characteristics influencing Audit Fees in the selected Distributive Firms in Nigeria (Pooled OLS)

For the purpose of analysis, Panel analysis (least square, fixed effect model, random effect model and Hausman Test) were applied to make a robust estimate of the influence of corporate socio-economic characteristics on audit fee in the selected distributive firms in Nigeria. The result of model one in Table 4.5, showed that FS and PROFIT ((β = 17.2545; 0.0005) have positive effect on audit fees (AUDFEE) while there is negative relationship between LEV (β =-19.53504) and audit fees.

This claim is further supported by the t-stat (7.269882; 12.54078; -0.162362) which indicated that the variables were significant and insignificant for FS, PROFIT and LEV respectively. The probability value (ρ= 0.0000; 0.0000; 0.8712) indicated that the variables are significant/ insignificant for FS, PROFIT and LEV at 1% level of significancerespectively. This further shows that FS and PROFIT are determining factors with PROFIT being the best determinant when considering fees to be charged by audit firmson selected distributive firm in Nigeria.

This is in consonance with the previous findings of Griffin and Lont (2008) in the US, AL-Bastaki (2000) in Bahrain, Rusmanto and Waworuntu (2015) in Indonesia and Urhoghide and Izedonmi (2015) in Nigeria.

It is also revealed that leverage may not be considered when determining audit fee. This is in tandem with findings of Sandra and Patrick (2015) in Hong Kong, Lee (2015) in Korea and Urhoghide and Izendomi (2015) in Nigeria.

Finally, the coefficient of determination (R^2) 0.652832 suggested that the independent variables account for over 65% of total variation in the dependent variable. This is an indication that the model is of good fit. The F-stat showed the total significance of the model with the value 105.7751 which is significant at 1% level of significance. The study rejects the null hypothesis and accept alternative hypothesis that corporate economic characteristics significantly influenced audit fees. The Durbin Watson (DW) showed that there is no autocorrelation or serial correlation in the model with the value DW 1.782941.

Table 4.5: Corporate Economic Characteristics Influencing Audit Fees in the Nigerian Distributive Firms (Pooled OLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	17.25447	2.373417	7.269882	0.0000
LEV	-19.53504	12.03169	-0.162363	0.8712
PROFIT	0.000542	4.32E-05	12.54078	0.0000
C	-11.35432	1.708891	-6.644264	0.0000
R-squared	0.652832	Mean dependent var		27049.69
Adjusted R-squared	0.646660	S.D. dependent var		30799.32
S.E. of regression	18307.86	Akaike info criterion		22.48955
Sum squared resid	7.54E+10	Schwarz criterion		22.56429
Log likelihood	-2581.298	Hannan-Quinn criter.		22.51970
F-statistic	105.7751	Durbin-Watson stat		1.782941
Prob(F-statistic)	0.000000			

Source: Author's Computation (2018)

4.5: Relationship between Corporate Social Characteristics and Audit Fees in the selected Nigerian Distributive Firms (Pooled OLS)

In the conduct of Panel Least Square for the determination of the relationship between corporate governance and audit fee, Table 4.5 revealed that there is a positive relationship between BDIND, AUDTYPE (β =84246.51, 7862.686) and audit fees while there was negative relationship (β =-2333.021) between BDSIZE and audit fees in the study. This simply explains that a unit increase in board size may lead to multiple percentage reduction in audit fees.

The reason here is that the larger the board size, the wider the views of board members on the audit firm to be engaged with various suggestions before final decisions are made, these discussions among board members may eventually lead to the selection of the audit firm whose fee is the least, compared to others, which have applied for the job. Despite this impression, the variable came up to be statistically insignificant with the T-stat value of -1.574331 and prob. value 0.1168. This suggested that the variable may not really be a relevant factor to be considered because of its insignificant status. Thus, it cannot be considered a serious determinant of audit fees. It is also noted that BDIND and AUDTYPEexhibited positive relationship with audit fees which meant that the variables possess the potential to improving fees charged by auditors. To buttress the coefficient, the variables came up to be statistically significant at 1% level of significance as indicated by values of its T-stat 5.688204 and prob. 0.0000. This made the variable a potent determinant of audit fee among the selected Nigeria distributive firms.

The reason for this is not far-fetch from the fact that experts believes in excellence, probity, ratings of audit

firms, recognition, association and the principle of best practice which must have been taken into consideration before employing the service previous audit firm. At the end, those firms that merited the contract were selected not minding the audit fees charged. As a result, some of these factors might have influenced why the variable performed the way it has performed in this analysis. The variables turned out to be statistically significant at 1% level of significance making it a dependable variable in the model. In the final analysis, the coefficient of determination (R^2) 0.464951 was low and it revealed that the independent variables in the model could only explain 36% percent of total variation in audit fee with respect to the selected firms leaving the greater part of variation to exogenous variable not used in the model.

Table 4.5: Relationship between Corporate Social Characteristics and Audit Fees in the selected Nigerian Distributive Firms (Pooled OLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDSIZE	-2333.021	1481.913	-1.574331	0.1168
BDIND	84246.51	14810.74	5.688204	0.0000
AUDTYPE	7862.686	1389.759	5.657591	0.0000
C	49273.50	17203.96	2.864079	0.0046
R-squared	0.464951	Mean dependent var		27049.69
Adjusted R-squared	0.450776	S.D. dependent var		30799.32
S.E. of regression	24816.38	Akaike info criterion		23.10214
Sum squared resid	1.38E+11	Schwarz criterion		23.19183
Log likelihood	-2650.746	Hannan-Quinn criter.		23.13831
F-statistic	25.74574	Durbin-Watson stat		2.004337
Prob(F-statistic)	0.000000			

Source: Author's Computation, 2018 (Eviews, 10)

5.0 Conclusion and Recommendations

The study concluded that modeled corporate social and economic characteristic variables (with the exemption of Leverage) have positive significant influence on audit fees charged on quoted firms within the distributive sector of Nigeria economy. Form the foregoing however, it is recommended that serious attention should be paid to those socio-economic characteristics, most particularly leverage, that impact on audit fees within the distributive firms in such a way that its fees reduction potential will not jeopardize audit quality.

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