Journal of Global Accounting
8 (1) April, 2022.
https://journals.unizik.edu.ng/joga

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AUDITOR'S FEES AND AUDIT QUALITY OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT:

The research intensifies effort at determining whether auditor's independence has any impact on the audit quality of Nigerian deposit money banks. The study intends to determine the effect of audit fees on the audit quality of Nigeria deposit money banks. The study used Ex-Post Facto research design. A total of thirteen (13) deposit money banks were sampled. Data were taken from the sampled banks' annual reports and accounts for the years 2010 - 2021. With the help of SPSS version 20.0, simple regression analysis was conducted to test the assumptions. According to the findings, audit fees has a direct but insignificant effect on the audit quality of listed Nigerian deposit money institutions. The researcher therefore recommends that the auditor should be remunerated on the basis of work experience, qualification, duration of the audit assignment, and background profile..

Key words: *Auditor's fees, Audit Quality, Nigerian banks*
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CITE THIS PAPER: Aigienohuwa, O.O. (2022). Auditor's Fees and Audit Quality of Deposit Money Banks in Nigeria, *Journal of Global Accounting*, 8(1), 74 - 81. Available at: https://journals.unizik.edu.ng/joga

1. INTRODUCTION

As businesses sought to confirm adherence to professional accounting standards and principles following an economic slump, public anxiety about auditor independence increased (Austin & Herath, 2014). The Securities Exchange and Commission announced new rules to address the circumstances for non-audit services. In order to notify investors of the various charges, audit firms must now create discrete categories that include all fees collected from the company (Gul, Jaggi & Krishnan 2007). According to research, longer audit tenure is associated with higher quality earnings than shorter audit tenure. Independence is a key concern in the auditing industry. Corporate scandals like the Enron mess have underlined the need of audit credibility. Audit independence is the capacity of the external auditor to act honorably and objectively while performing auditing activities (Akpom & Dimkpah, 2013). As a result, the accounting industry has been considering novel strategies to increase audit credibility. The media, stakeholders, and investors put ongoing pressure on it to control costs (Siriyama & Tori, 2018).

Audit quality is influenced by auditor independence; claim Aren, Elder, Randal, Beasley, and Mark (2014), who assert that the public's view of auditor independence has a major impact on the value of auditing. Based on study findings, Enofe, Nbgame, and Ediae (2013) made the similar claim that the audit's quality rises as the auditor's independence does. The American Securities and Exchange Commission (2003) defined auditor independence as "a mental condition of objectivity and lack of bias." Most businesses that had their financial accounts audited and received unqualified reports fell soon after learning that the financial statements had been materially misstated. Since most

companies whose financial statements were audited and issued unqualified reports fell shortly after audit with the revelation that the financial statements are gravely misstated, it suggests that auditor independence, which is the foundation of audit quality, has been weakened recently (Deirdre, 2010). Auditor independence, which determines audit quality, was one of the main reasons for corporate failures, which in turn caused the collapse of once-powerful companies, the effects of which set off the global economic crisis of the mid-2000s. This led to user apathy and misunderstanding of the role auditors ought to play in safeguarding not only their profession but also in establishing and reestablishing investor trust in order to close the audit expectancy gap that appeared when these organizations failed. Investigations into their downfall revealed that their flaws were unrelated to auditors' inability to prove their independence and professional competence.

The depletion of shareholder capital caused by the demise of these businesses widened the chasm between shareholders and management. Similar to how investors lost out on their compensation for lost investments, creditors and other fund providers also lost money. Furthermore, some research found a favorable correlation while others showed the opposite perspective according to the type of study design, sample size, data collection tools, and analysis techniques used. Additionally, the majority of research on auditor independence and audit quality concentrated on one or two threats and was generally conducted abroad.

1.2 Objectives of the Study

This study intends to ascertain the effect of audit fees on audit quality of quoted deposit money banks. In Nigeria.

1.3 Research Hypothesis

H_{o1}: Audit fees have not significantly affected audit quality of listed Nigerian deposit money banks.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Audit Quality

Prior research suggests that audit quality can be proxied by the auditor's size (Carcello & Nagy, 2004). Larger audit firms, according to DeZoort, Hermanson, Archambeault, and Reed (2002), are more adept at identifying issues than smaller audit firms because they have access to more resources and can hire people with more qualifications. The ability of auditors to find and pinpoint errors in a client's accounting system is referred to as audit quality. The most well-known and generally accepted definition of audit quality is that provided by DeAngelo (1981), who claims that it is determined by the market-estimated combined likelihood that a particular auditor would both find and reveal a flaw in the client's accounting system. According to this concept, the possibility that an auditor will find and reveal a financial statement falsification determines the audit quality. If auditors are not independent, the quality of the audit will decrease. If they are not independent, they will be less likely to report misstatements. As a result, it might be argued that the audit services will be of worse quality the less independent the auditor is.

According to her definition, audit failure, which she defines as a financial statement with errors or omissions, is less likely to happen when audit services are of higher quality. High-quality auditors with a proven track record of identifying and disclosing abnormalities have strong incentives to reduce the likelihood of an audit failure in order to protect their reputation. In the event of litigation, auditors frequently attempt to resolve the matter amicably in order to preserve their good name. She asserts that notwithstanding the rarity of lawsuits against auditors, there is a negative correlation between audit quality and those lawsuits. As a result, auditors who have lower litigation rates provide superior audit services when using the litigation rate as an indicator of audit quality (Palmrose, 2001). He asserts that audit failures take place at the lowest point on the quality spectrum in addition to the definition. According to Francis (2004), there are two ways that an audit might go

wrong: either the auditor does not follow the Generally Accepted Accounting Principles or they do not produce a competent audit report when they should have.

Regardless of the cause of the audit failure, the users of the audited financial statements may be misled in both scenarios. Francis (2004) claims that audit quality can be roughly determined by how closely audits adhere to the strictest legal and professional standards, and that audit quality is inversely related to audit failures.

2.1.2 Audit fee

Because they are more likely to sacrifice their independence in exchange for greater NAS payments, auditors who provide Non-Audit Services (NAS) are a source of concern for many individuals. According to popular belief, auditors will attempt to compromise their independence in order to maintain audit clients from whom they may continue to receive high NASs fees (Law 2008; DeFond, Raghunandan, and Subramanyam, 2002). Non-auditing services include, but are not limited to, appraisal services, actuarial services, bookkeeping, internal audit services, and other types of management consulting, financial information design services, taxation services, and legal aid (Austin & Herath, 2014). Studies have shown that NASs have a detrimental effect on auditor independence. The services that auditors can offer to customers are constrained under the Sarbanes-Oxley Act. Additionally, the SEC mandated that publicly traded corporations disclose the fees paid to auditors in their annual proxy statements as part of their examination into the connection between non-audit services and auditor independence (SEC, 2000). However, some study focused on how NAS use may improve customer knowledge. An audit fee is the cost incurred by a client for particular services rendered by an accountant. Although academics have questioned whether it has an impact on audit quality, the fee may vary based on the size of the organization or the type of service supplied.

2.2 Empirical Review

Abdul, Sutrisno, Rosidi, and Achsin (2014) conducted research on the impact of competence and auditor independence on audit quality in Indonesia using a budget for audit time and a moderation variable for professional commitment. 278 public accountants were chosen at random for the sample size. To analyze the data, partial least square (PLS) was employed. The research's conclusions showed that: First, the competence of the auditor positively affects the audit's quality. Accordingly, the quality of the audit will be higher the more competent the auditor is. Second, the independence of the auditor has a favorable impact on the audit's quality. It implies that the audit quality will be higher the more independent the auditor is.

Ahmed (2014) looked into how Egyptian professional auditors perceived the effect of changing audit firms on audit quality. Using surveys, primary data were gathered and utilized. 83 auditors made up the sample size that was selected using a non-probabilistic selection technique. The data were analyzed using the T-test. According to the research, auditors believe that a long audit tenure has a negative impact on the quality of the audit. Mandatory auditor rotation and client-specific expertise are negatively correlated. Independent auditors and required auditor rotation have a beneficial relationship.

Mahmoud (2015) used empirical data from companies listed on the Egyptian stock exchange to estimate the impact of joint audit on audit quality. A sample of 32 businesses with 160 firm-year observations that were listed on the Egyptian stock exchange between 2009 and 2013 was taken. To examine the data, a multiple regression model was applied. The population from which a sample of thirty two was drawn was not made public per the study's design. According to research, dual auditor audited corporations are more cautious than single auditor audited companies.

Causholli, Chambers, and Payne (2015) looked into how selling non-audit services affected American auditors' independence. The study's methodology, population under study, and sample size were all kept a secret. Strong evidence that the projected future provision of non-audit services does indeed represent a source of impaired independence in the current year was discovered using statistical regressions of aberrant accruals.

Babatolu, Aigienohuwa, and Uniamikogbo (2016) looked at the impact of auditor independence on the audit quality of a few Nigerian deposit money institutions. Seven (7) mentioned deposit money banks were chosen as the sample size from a population of twenty using a purposeful sampling technique (20). The audited annual report of the sampled banks served as the basis for secondary data. The data were analyzed using descriptive statistics, correlation, and ordinary least square (OLS) regression. The results showed a correlation between audit fee, audit firm rotation, and audit quality that is positive. The length of time an audit firm has been in business and audit quality are negatively correlated. Leverage and audit quality had a considerable, unfavorable, and statistically significant link. Strong, favorable, and statistically significant correlations were found between audit quality and company size. In order to ascertain the impact of auditor independence on audit quality,

Zayol and Kukeng (2017) evaluated the relevant literature. It makes use of the ex post facto research design. Secondary sources, such as journals, textbooks, and other online resources, provided the data for this study. Review results indicate a significant correlation between auditor independence and audit quality. The research also identified four risks to auditor independence: the significance of the client, NAS, audit tenure, and client ties to CPA firms.

Siriyama (2018) evaluated the research on independent auditors. This assessment will especially look at whether the size of the audit company, the audit fee amount, the length of the auditor's relationship with the client, competition between other firms, and the provision of non-audit services may jeopardize the independence of the auditor. Design/methodology: In order to evaluate research on topics linked to auditor independence and to identify gaps in the literature where additional study is required, this paper examines empirical investigations. The main factor affecting auditor independence was not clearly identified, however other studies ranked them in order of relevance based on the hypothesis they selected to test.

However, depending to the type of study design used, sample size, data collection tools, and analysis procedures used, some studies found a positive relationship and others showed the opposite. Additionally, the majority of studies on auditor independence and audit quality were focused on one or two risks and were primarily undertaken in other countries, although this is not important for this study.

3. MATERIAL AND METHOD

The study used ex-post facto research design. This is appropriate because the study's goal is to determine the link between two variables without the researcher manipulating the variables involved. Thirteen (13) deposit money banks listed on the Nigerian Exchange Group were used in this study. From 2010 to 2021, the study looked at these companies' annual reports and accounts for twelve years. The following are the banks:

Table 1: Population and Sample Size

Access bank plc
First bank plc
FCMB plc
GTB plc
Zenith bank plc

Sterling bank plc
UBA plc
Fidelity bank plc
Wema bank plc
Unity bank plc
Eco bank plc
Union bank plc
Stanbic IBTC

Data used were extracted from relevant annual reports and the accounts of sampled deposit money banks listed on the Nigerian Exchange Group. Auditing fees, the dependent variable is a dichotomous measure of audit quality using audit reputation. The audit fees are calculated using the natural log of the company's audit fees. A "1" indicated that the relationship between the auditor and the customer lasted longer than three years, and a "0" indicated that it did not. Calculating audit firm reputation uses the dichotomy of the Big Four (1) against Non Big Four (0). The audit quality was set to one (1) if the data obtained from the banks' audited reports demonstrates that it was audited by one of the "big four" audit firms (Price-waterhouse Coopers, Akintola Williams Deloitte, KPMG Professional Service, and Ernst & Young), otherwise zero (0). According to Kane and Velury (2011), major audit companies are thought to offer audit services of a higher caliber than smaller audit firms. This operationalization adopts their methodology.

The hypothesis formulated for this study was tested with the use of logistic regression. This was used to examine the relationship between dependent and independent variables.
The logistic regression for this study takes the form:

$ADQ_{it} = \beta_0 + \beta_1 ADF_{it} + \mu_t$ ……i

Where:

ADF	=	Audit fees
ADQ	=	audit quality, proxied by audit firm reputation
μ_t	=	White-noise Disturbance Error Term
t	=	Time
i	=	Denotes the lag(s) being considered:
β_0-β_1	=	Parameter Coefficients

4. RESULT AND DISCUSSIONS

4.1 Test of Hypothesis

H_{o1}: Audit fees have not significantly affected audit quality of listed Nigerian deposit money banks.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.139[a]	.199	.139	.44537

a. Predictors: (Constant), ADF

The Table 2 above shows that the coefficient of determination is $R^2 = 0.019$ and the Adjusted R^2 is 0.013. Adjusted $R^2 = 0.130$ implies that about 13% of change in effectiveness of the sampled audit fee is influenced by joint interaction of audit quality. It also shows that 1% of the variation in the dependent variable is explained by other factors not captured in the study model.

Table 3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.601	1	.601	3.029	.084[b]
	Residual	30.547	154	.198		
	Total	31.147	155			

a. Dependent Variable: ADQ
b. Predictors: (Constant), ADF

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.690	.041		16.978	.000
	ADF	1.205E-007	.000	.139	1.740	.084

a. Dependent Variable: ADQ

Table 3 shows that the hypothesis is not statistically significant, as indicated by the F-stat (3.039) and p-value (0.084), with t-value = 1.740, and that the p-value is greater than 0.05. The regression coefficient correlation result in Table 4 demonstrates that audit fees are not significant (Sig.= 0.139) when evaluating the audit quality of the explanatory variable (Beta Column). As a result, we reject alternate hypotheses and support the null hypothesis which stated that *audit fees has no significant effect on audit quality of Nigerian deposit money banks.*

CONCLUSION AND RECOMMENDATIONS

The results obtained from the analysis revealed that audit fees has not significantly affected the audit quality of listed Nigerian deposit money banks. This result opposed that of Hoitash, Markelevich, and Barragato (2007) who shows that there is a significant positive relationship between audit fees and audit quality. Ilaboya and Ohiokha (2014) whose study revealed there is a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure and audit quality. Abdul, Sutrisno, Rosidi and Achsin (2014) auditor's independence has a positive effect on audit quality. Babatolu, Aigienohuwa and Uniamikogbo (2016) revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality.

Conclusively, the above findings indicate that there is a probable direct but insignificant connection between auditor fees and audit quality. This is because, auditor's fee has effect on audit quality of the client's company but the effect is not significant. It is worthy to note that when conducting an audit, auditor's fee is considered a crucial issue to take into account, hence; financial reporting is more believable when auditor quality is present. When auditors fail to disclose issues during audits, businesses run the danger of losing their reputation.

The study's conclusions led to the proposal that an auditor be paid in accordance with his or her professional background, credentials, audit time, and experience. The auditor is more likely to finish the assurance engagement assignment to the high degree of standardization necessary if a significant audit fee is paid.

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