IMPACT OF OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE MECHANISMS ON AUDIT PRICING IN NIGERIA

By

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ABSTRACT

This study investigated the impact of ownership structure and corporate governance mechanism on audit pricing in the samples from 73 public listed companies in Nigeria over a two-year period. Many studies have been carried out in developed countries and some emerging countries on audit pricing. However, very little attention has been paid to countries in the sub-Saharan Africa. This study extended prior audit fees model by investigating the impact of board ethnic diversity, foreign directors and the two board sub-committees (i.e. risk management committee and corporate governance committee), introduced in the 2011 Nigerian code of corporate governance, on audit pricing. Data for this study was gathered through secondary source in the form of annual reports (observation= 124) from 23 sectors of Nigeria economy. The hypotheses were tested with panel data regression analysis. The results revealed that foreign directors, risk management committee and corporate governance committee positively and significantly influence audit pricing. However board ethnic diversity does not have significant relationship with audit pricing. This findings support both the agency and resource dependency theories. The policy implication of this finding is that weak corporate governance mechanisms and ownership structure influence audit pricing. Therefore, the quality of audit is affected as well. This necessitates the need for policy makers to promulgate policies that will monitor audit pricing in the country.

Keywords: Audit pricing, corporate governance mechanisms, ownership structure.

ABSTRAK

Kajian ini mengkaji kesan struktur pemilikan dan mekanisme tadbir urus korporat pada harga audit bagi sampel 73 syarikat awam tersenarai di Nigeria bagi tempoh dua tahun. Banyak kajian berkenaan yuran audit telah dijalankan di negara-negara maju dan beberapa negara-negara membangun. Walau bagaimanapun, perhatian yang sangat sedikit telah diberikan kepada negara-negara di Afrika sub-Sahara. Kajian ini memperluaskan model yuran audit dengan menyiasat kesan kepelbagaian etnik ahli lembaga pengarah, pengarah asing dan dua jawatankuasa kecil (iaitu Jawatankuasa-jawatankuaas Pengurusan Risiko dan korporat) yang diperkenalkan pada tahun 2011 dalam kod tadbir urus korporat di Nigeria pada harga audit. Data untuk kajian ini dikumpul melalui sumber sekunder di dalam bentuk laporan tahunan (pemerhatian = 124) daripada 23 sektor ekonomi Nigeria. Hipotesis yang telah diuji menggunakan analisis data panel. Hasilnya menunjukkan bahawa pengarah asing, jawatankuasa pengurusan risiko dan jawatankuasa tadbir urus korporat mempunyai kesan positif dan signifikan dengan harga audit. Walau bagaimanapun kepelbagaian etnik ahli lembaga pengarah adalah tidak signifikan. Penemuan menyokong kedua-dua teori agensi dan teori sumber pergantungan. Implikasi dasar penemuan ini adalah bahawasanya kelemahan mekanisma urus tadbir korporat dan pemilikan struktur juga mempengaruhi harga audit. Oleh itu, kualiti audit terjejas. Ini memerlukan keperluan untuk pembuat dasar kepada dasar-dasar yang diumumkan yang akan diuruskan untuk mengaudit harga di negara ini.

Keywords: Harga audit, mekanisme tadbir urus korporat, struktur pemilikan.

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DEDICATION

This work is dedicated to all those striving hard towards the course of Allah (entire Muslim Umah).

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The divorce of ownership from management highlights the need for a high quality[1] audit. Since managers are bound to behave in way contrary to equity holder's interest (i.e. agency problem) stemming from information asymmetry between management and the stakeholders (Jesen & Meckling, 1976).The nature of the agency problem faced by individual firm is closely linked with its ownership structure (Sullivan, 2000). For instance, in the USA and UK ownership is disperse, though with strong investor's protection, the manager tends to behave in an opportunistic manner that put the shareholders at risk of losing return on their investment and in extreme cases the whole investment (La Porta, Lopezae-De-Silanes & Shleifer, 1999). However in concentrated ownership structure (predominant in developing countries), the problem created is that of wealth expropriation between the majority shareholders and the minority shareholders exacerbated by weak investors' protection (La Porta et al. 1999).

Accordingly, to mitigate the agency problem ensuing from ownership structure, researchers, for example Agrawal and Knoeber (1996), posit that managerial ownership, concentrated ownership by both institutional and blockholder serves as an effective monitoring mechanisms that improve firm's performance. In addition, the role of the various internal and external corporate governance mechanism cannot be disregarded, because it reconcile, the conflicting interest of stakeholders (Charsen, Robu, Carp &

[1] Using market based approach Deangelo (1981), as the possibility that an auditor discover and disclose a breach in the client accounting system.

Mironriuc, 2012; O' Sullivan, 2000). The board of directors is an importance component in corporate governance that reconciles the interest of all stakeholders (Ben Othman, 2012). The Board of Directors set the company strategic direction and ensure compliance with laws and regulations (Abott, Parker, Petters & Raghunanadan, 2003). Further still, the board of director is required through its various monitoring committee[2] to safeguard the independence of the external auditor[3] and ensure that audit service provided to entity is done with professional scepticism and ethical consideration. Consequently, the independent role of external auditor in curbing the excesses of manager is as well indispensable as past studies noted a positive relationship between audit quality and reporting and disclosure practises (Mitra, Hossain & Deis, 2007).

Lo and behold, the sporadic case of corporate malfeasance in global business arena and the indictment of accounting firms cast doubt in public mind regarding the ability of both the board of directors and the external auditor to discharge their statutory roles (Okike, 2004; Kilgore, Radich & Harrison, 2011). Statutorily, both are supposed to protect investors' interest by ensuring adequate reporting and disclosure practice. Example of such reported case include Enron, Tyco international, WorldCom and Parmalat in the US and Italy respectively. These scandals as reported around the World is linked to unethical business practices on the part of both the board of directors and the company external auditors (Report of the Corporate Governance National Technical Working Group, 2009). In the case of Enron scandal, huge credit and losses incurred by special purpose entities were concealed by the

[2] For example, audit committee, risk management committee and corporate governance. The last two are recent requirement by the Nigeria Securities and Exchange Commission.
[3] The external auditor is expected to ascertain the truthfulness in all the various assertion made by the management as contained in the annual report. This is by verifying underlying documents after which an audit report is issued thereby adding credibility to stewardship account rendered by the management (Stringer & Adamidis, 2010; Lin & Hwang, 2009).

management while Arthur Andersen the accounting firm that audit Enron account was alleged to have received excessive fees which actually impaired its independence (Petra & Loukatos, 2009).

Owing to this spate of corporate scandals and heightened demand for effective corporate governance, significant regulatory actions were taken in Western developed countries such as USA and the UK (Okike, 2004; Kilgore, Radich & Harrison, 2011; Bozec & Dia, 2012). Prominent among such regulations is the corporate and Auditing Accountability, Responsibility and Transparency Act of 2002 (otherwise called Sarbanes Oxley legislation) signed into law in the USA that provides mind-blowing reforms and initiative to enhance corporate governance practice (Okike, 2004). For example section 404 and 202 of the legislation saddled the external auditor and company board of directors with more responsibilities. Both sections aimed at improving the quality of financial reporting and auditing process (Ghosh & Pawlewicz, 2009). In the UK, the Cadbury report of 1992 emphasised on management-auditor relationship; whereby non-executive is required to dominate membership of the board of directors as well as formation of an audit committee which is saddled with the responsibility of mediating between external auditor and management in case of conflict (Sullivan, 2000). While corporate governance is being governed by legislation in the USA, which is mandatory for all listed company, the Cadbury report is voluntary but explanation needs to be given for non-compliance (Zaman, Hudaib & Haniffa, 2011; Report of the Vision 2020 National Technical Working Group, 2009).

In a similar manner, emerging countries in Africa embark on remarkable transformation initiative to address the issue of corporate failure. This transformation initiative includes issuing new guidelines, regulatory enactment and legislative reforms on corporate governance code in these countries (Chan, Lau & Ng, 2011). For example in South Africa, King report of 2002; Ghana's, Manual on corporate governance in Ghana, 2000; Malawi's, Corporate Governance task force, 2001; Mauritius, Report on corporate governance for Mauritius, 2003 (Ogechie, Koufopoulos & Argyropoulou, 2009). Corporate governance as a distinct concept is of recent origin in most developing countries like Nigeria (Ofo, 2013). Hence, the corporate codes development was in recourse to those developed in the Western developed economies (Ogbechi et al, 2009). These statutory responses in Western developed nations and emerging countries in Africa are directed towards restoring public confidence and improving corporate governance practice[4]. Generally, across the globe, the various legislations and stock exchange requirement call for adequate representation of non-executive directors on board and the independence of audit committee members. All these reforms are aimed at limiting sharp corporate business practices as well as ensuring adequate monitoring by the board and its respective committee.

Specifically, in Nigeria, corporate governance reforms were provoked due to its own share of corporate failure. Nigeria Corporate governance practice is modelled after Anglo Saxon system of governance and pre-date to the 1990 Companies and Allied Matter Act shorten for CAMA 1990 (Okike, 2007). Before the issuance of 2003 Nigeria Security Exchange Commission Corporate Governance code, CAMA 1990 made provision for company's formation and its governance henceforth SEC Code (Okike, 2007). So far in Nigeria, both the Companies and Allied Matter Act 2004 as amended and the 2003 SEC code as reviewed in 2011 along with other sector related

[4] Corporate governance entails the way a company is managed (Sullivan, 2000).

codes (i.e. 2006 Central Bank of Nigeria codes , 2008 National Insurance Commission code and Pension Commission, 2009) regulates companies governance in Nigeria (Adekoya, 2011; Okike, 2007). Both the 2004 and 2011 World Bank Report on codes and standard observance (ROSC) in Nigeria noted that weakness and inadequacy of all these corporate governance codes, as well as, inability of the regulatory bodies to properly monitor contributed to the catalogue of un-ethical practise by board members in most Nigeria companies.

Interestingly the indictment of Chief Executive Officers (CEO) of Intercontinental bank, Oceanic bank, Union Bank among others in the CBN bank annual report re-examination added weight to the report of ROSC. The CEOs of these banks siphoned depositors funds through non-performing loans given to individuals or companies where top executives of these banks have interest (Alawiye, 2012). Unfortunately, the external auditors of these banks were not absolved of blame. Otunsanya and Lawuwo (2010) alleged the external auditors' compromise their independence by collecting excessive audit fees, thus the audit report issued by them fails to report the true and fair view situation of the banks. Also the indictment of Akintola Williams and Adekanonla chartered accountancy firms in the 2012 fuel subsidy probe are all recent development that raise question about effectives of corporate governance mechanism in ensuring quality audit report in Nigeria (Otunsanya & Lauwo, 2010; Alawiye, 2012). Other reported cases of corporate malpractices include Cadbury Nigeria accounting Scandal 2007, Halliburton scandal in Nigeria 2008 and the Siemens bribery scandal 2009 (Adegbite & Nakajima, 2011). The reported cases involving multinational companies however put into question the ability of foreign owned companies to foster good governance practice and accountability.

Remarkably, the long due 2003 SEC code has now been reviewed and replaced with 2011 SEC code (Adekoya, 2011). As noted by Ofo (2013), the new SEC code contains far-reaching provisions such as separation of the post of the CEO from Chairman and the need for a financial expertise as member of audit committee. In addition, the code calls for the establishment of risk governance committee and corporate governance committee respectively. Beyond the 2003 provisions, the new SEC code is enforced to promote the highest standard of transparency, accountability and good corporate governance practice by public listed companies (SEC code, 2011). Similarly the federal reporting council of Nigeria has just been established under the financial Reporting Council of Nigeria Act No.6 of 2011 and the body is charged with the sole responsibility of ensuring transparency and appropriate disclosure practise in the whole financial reporting process. In lieu of this, the body is set to harmonize all existing corporate governance code in the country in the year 2013 (Vanguard news, 2011). Expectedly these reforms are to enhance financial reporting and audit quality (Zaman, et al. 2010).

Motivated by this recent development in corporate governance in Nigeria as enumerated above, this paper investigate the quality of audit in Nigeria using audit fees as proxy to seek whether ownership structure as well as corporate governance mechanisms influence the extent of audit quality and consequently audit fees. In line with extant studies, this paper argues that an effective corporate governance mechanism has the propensity to mitigate against all risk associated with external audit which by implication reduce external audit fees and improve audit quality when viewed from the auditor's perspective (Robinson & Owen-Jackson, 2009). On the contrary, viewing it from the demand side, due to reputational risk, an effective audit committee and likewise an effective board of director's call, for more auditors' effort in order to reduce agency cost and enhance the quality of audit report (Zaman, et al. 2011; Robinson & Owen-Jackson, 2009; Mitra et al. 2007).

1.2 Problem statement

Undoubtedly, reliable financial information and high quality audit are the oil that lubricates the engine of growth of any nation's capital market as investors only invest in market where their interests are safeguarded. Kilgore, Radich and Harrison, (2011) argued that, the quality of audit report affects capital market operation, since audited financial statement is supposed to give true and fair information of the company affairs which then guides investor's decision in the market. In ensuring this, a well-established and effective corporate governance mechanism is of crucial significance. Lin and Hwang (2010) asserted that, the presence of this (i.e. efficient corporate governance) enables proper management of company's resources behind the owners and also ensures that reported financial result reflects the true economic state of the company. Therefore, external auditor and the board of directors through its committees are important monitoring mechanisms that assure the quality of financial reporting and corporate accountability (Charsen, et al. 2012; Lin & Hwang, 2010; O' Sullivan, 2000).

In Nigeria, CAMA 1990 requires all public listed companies in Nigeria to appoint an external auditor to cross-examine the financial account as reported by management and report back to the shareholder on its true and fair view. CAMA 1990 provides further that the board of directors through its audit committee should perform an oversight function over statutory audit by ensuring the independence of the external auditors and verifying financial statements of companies to the shareholder. The provision of CAMA 1990 influenced further development of code of corporate governance that is sector specific such as the SEC code, CBN code; PENSION code and INSURANCE code. These codes supplement what is available in CAMA 1990 (Adekoya, 2011).

While this study acknowledges the available argument in favour of effective corporate governance in preserving auditor's independence and ensuring audit quality, the incessant financial irregularities around the World despite the presence of the board of directors along with external auditor raised question about their effectiveness in ensuring the quality of financial reporting and auditing process (Okike, 2004). For instance, Management and members of the board of directors abused their offices to milk the shareholders dry of their wealth (Adegite & Nakajima, 2010).

Indeed the 2007 accounting scandal in Cadbury Nigeria, where the independent investigator- Price waterhouse Coppers found that Cadbury Nigeria financial report doctored over a number of years evidenced the role played by top executive officers (Amao & Amaeshi, 2008). The most recent case is that of CEO's of eight banks in Nigeria sacked by the Central Bank of Nigeria over abuse of office (Adegite & Nakajima, 2011; Otunsanya & Lauwo, 2010). Investigation into the years of corrupt practice of these bank CEOs reveals that shareholders' fund were mismanaged through unsecure and non-performing loans that were given to business associate (Adegite & Nakajima, 2011).

Meanwhile auditors have been alleged that, despite available evidences of going concern problem in these banks, it was reported that they still proceed to issue an unqualified audit opinion and after few months, the business entity collapse (Otunsanya & Lauwo, 2010). The recent audit exercise embarked upon by the Central Bank of Nigeria (CBN) seems to justify the assertion that auditors' report are been compromised. Industrial spectators posited that the various financial mess uncovered during the re-examination audit exercise by the CBN on banks should have been uncovered by the banks' auditor, if indeed they discharged their statutory obligations diligently (Otunsanya & Lauwo, 2010).

Consequent to the above, available evidences show that billions of Naira[5] of banks depositors fund in the country as well as investors' fund has perished with distressed banks and other business entities due to the claimed un-ethical behaviour of the board of directors (Otunsanya & Lauwo, 2010). Statistics shows that between 1994 and 2006 a total number of 49, bank failure were recorded affecting about 3,165,979 depositors with 215.19 Billion Naira depositors fund trapped (Adeleke, 2011).

Hence, the occurrence of these events is blame on two factors: the first factor is the excessive fee received by external auditors from client that tends to threaten the audit firm's financial position when clients stop patronizing the firm, though still an offshoot of weak governance practise (Otunsanya & Lauwo, 2010; Hoitash, Markelevich & Barragato, 2007). The second is the inadequacy of corporate governance codes, which has led to information asymmetry-information gap between reporting organisation and stakeholder due to inadequate disclosure and lack of transparency (Carcello, Hermanson & Riley, 2002; Adeyemi, Okpala & Dabor, 2012).

Based on the foregoing regarding corporate collapse and its perceived link with quality of audit report, regulatory response across the globe reflect stakeholders displeasure on the ineffectiveness of corporate governance and the roles of external auditors in ensuring quality audit report (Kilgore, et al. 2011). In essence, these

[5] Unit of monetary measurement in Nigeria

events have led to challenges that both the government and academic researchers aim to resolve as it negatively influence the efficiency of the capital market and the cost of transaction (Kilgore, et al. 2011). The perceived quality of audit report influence investors' confidence on financial report, which is a major source of information in the capital market (Stringer & Adamidis, 2010). Hence poor quality audit report erode investor's confidence in the quality of financial report and audit process and in extreme case collapse of business entity (Adeyemi, Okpala & Dabor, 2012, Nigeria Vision 2020 program).

One of the efforts to increase the quality of corporate governance practise and decrease the associated challenges that come with weak governance is exemplified by the provisions of the Sarbanes Oxley Act in the US, Cadbury Report in the UK and 2003 smith report in the UK (Zaman, et al. 2011). In addition, the recent 2011 code of corporate governance issued in Nigeria and the establishment of the financial reporting council (Adekoya, 2011) are developments aimed at enhancing corporate governance practise. Most of the corporate governance codes lay emphasis on: the board of director independence; demand for the separation of the post of the CEO and the executive director; representation of independent non-executive director on board. Also included is the enhancement of audit committee effectiveness by requesting for financial literacy of at least one member and request for higher percentage of independent non-executive director. Finally external auditor's independence is required through non-rendering of some non-audit services by incumbent external auditors and stringent penalty imposed on any auditor culpable of any financial related offence (Gosh & Pawlewic, 2009; Mcabe & Nowak, 2008).

Extant studies on audit pricing starting from the seminal work of Simunic (1980) pointed some client related factors such as auditee size, auditee complexity and auditee riskiness as important variables that influence audit fees in different regulatory and institutional contexts. The findings from most of these studies have been consistent (Rao & Macdonald, 2011). For instance: USA (Simunic, 1980; Palmrose, 1986; Rubin, 1988; Williams, Felix, Audrey, Gramling & Mario, 2001; Kevin, 2008), Netherlands (Langendijk, 1997), UK (Lennox, 1999; Mathwes & Peels, 2003), France (Grorithier & Schatt, 2007). Further confirmations come from Canada (Chung & Lindsay, 1988), Australia (Craswell, Francis & Tylor, 1995; Jenny & Pamela, 2006; Wong, 2009), Norway (Firth, 1997), Japan (Fukukawa, 2011) Bangladesh (Waresul Karim & Moizer, 1996; Ahmed & Goyal, 2005), Kuwait (Al Yaqout, Al hussain & Ahmad, 2008) China (Liu, 2007), Jordan (Matarneh, 2012). However, with the growing importance of corporate governance and heightened demand for quality financial reporting and audit service, studies on relationships between corporate governance mechanisms and other aspect of audit area have been an area of interest (Carcello et al, 2002). Several studies in different countries investigated the relationship between auditee committee characteristics and audit fees. These studies are in Tunisia (Makni, Kolsi & Affes, 2012), US (Abott, Parker, Petters & Raghunandan, 2003; Carcello & Neal, 2002; Boo & Sharma, 2008), Isreal (Lifschutz, Jacobi, Feldshtein, 2010), UK (Zanman, Hudaib, Haniffa, 2011; Vafeas & Waegelein, 2007), Australia (Stewart & Munro, 2007; Goodwin-stewart & Kent, 2006). Other studies focus on board of directors' characteristics and audit fees are as evidenced in the USA (Carcello, Hermanson, Neal & Riley, 2001; Boo & Sharma, 2008), Malaysia (Johl, Subranmaniam & Zain, 2012; Zanman, et al. 2011; Yatim, Kent & Clarkson, 2006), Australia (Bliss, 2011), Tunisia (Kolsi, Ikbel & Affes, 2012), UK (Peel & Clathworthy, 2001).These studies provide evidence on the growing significance of corporate governance in relation to audit fees.

Disappointedly among the above studies it could be seen that studies from developed countries dominate investigation in these area while very few empirical evidences are available from developing countries and to the knowledge of this researcher none from Nigeria. Studies on corporate governance in Nigeria have mostly focused on firm performance. Precisely, in relation to corporate governance mechanisms as evidence in studies like: Sanda, Gaeba & Mikalu (2011) examined board independence and firm financial performance; Tsegba & Ezi-Herbert (2011), examine the relationship between ownership structure and firm performance and Sunday (2008); Ehikioya (2009), studied the relationship between corporate governance mechanisms and firm performance. Though issues revolving round corporate governance are similar, approach of solving these issues is peculiar to each country's regulatory context. Accordingly, researchers like Zanman, et al. (2011) suggest that studies in this area should be extended to other regulatory settings.

Notably again, despite global effort to enhance corporate governance and financial reporting and auditing process (Kilgore, et al. 2011), empirical result from studies above have been inconsistent (Stewart & Munro, 2007; Zaman, et al. 2011). The reason for this according to Zaman, et al. (2011), is due to corporate governance practises that reflect the country socio-economic environment. Goodwin-Stewart& Kent (2006) and Vafeas & Waegelein (2007), use data from Australian and USA respectively. Both studies document a positive relationship between audit fees and the existence of audit committee, suggesting that an effective audit committee will demand a higher level of assurance from the auditor. These are in contrast to findings of Felix, Grambling & Maletta (2001) that observed a negative association between the two variables. Based on the above identified practical issues (i.e. the unethical conduct of both external audit and Board of directors) and the existing practical and theoretical gaps, this empirical study investigates the impact of effective corporate governance mechanisms on audit pricing.

1.4 Research Objectives

In view of the above research question, the main objective of this study is to investigate the impact of ownership structure and corporate governance mechanisms on audit pricing in Nigeria.

The specific objectives formulated are:

1. To determine the influence of ownership structure on audit pricing in Nigeria.
2. To determine the influence of board of director's characteristics on pricing of audit service in Nigeria.
3. To determine the influence of audit committee characteristics on audit pricing in Nigeria.

1.3 Research Questions

Based on preceding discussion, issue arises as to what determine audit price in Nigeria. The research questions for this study are:

1. What is the influence of ownership structure on audit pricing in Nigeria?
2. What is the influence of board of director's characteristics on pricing of audit service in Nigeria?
3. What is the influence of audit committee characteristic on pricing of audit service in Nigeria?

1.5 Scope of the study

The focus of this study is to investigate the impact of corporate governance mechanisms on audit pricing in Nigeria. This research is limited to audit fees and the various proxies for ownership structure and corporate governance mechanisms present in the 2010 and 2011 annual report of public listed companies in the Nigeria Stock Exchange excluding banks and other financial institutions.

1.6 Significance of the study

Specifically, this paper investigates ownership structure from the perspective of foreign owned companies. Also the study expands audit fees model by investigating the impact of ethnic diversity, foreign directors, presence of risk management committee and corporate governance committee on audit pricing.

Accounting literature on the impact of ownership structure, governance mechanism and audit pricing have witnessed significant growth across the globe in the last few decades. However, studies from countries like the UK, and US dominate this body of knowledge with very few studies emerging from developing countries. Zaman, et al. (2011), noted that corporate governance practise differs between countries around the globe. Moreover, it is argued that the reporting environment of a country is greatly influenced by its historical antecedent, legal environment, economic and political ties (Adelopo, 2011). Unlike the developed nations, Nigeria capital market is characterised with absent of strict enforcement and compliance mechanisms coupled with poor judicial system (Okike, 2007; Ahunwa, 2002).The absence of these institutional factors renders the market for corporate control ineffective to discipline erring management and board of directors. This consequently influences the behaviour of managers as well as the board of directors on how they administered (Yatim et. al, 2006).

Therefore, past research findings might not be generalizable beyond the regulatory and institutional context covered by those studies. Even though corporate governance challenges is a global phenomenon, how it affects each country and the approach of resolving this issue depend on individual country's regulatory settings. Adegite and Nakaijima, (2011); Zaman, Hudaib & Haniffa, (2011) suggested that studies in this area be extended to various regulatory and institutional settings. Following the paucity of research findings in this area in sub Saharan African (Ben Othman, 2012, Adegbite & Nakajima, 2011), this study introduces data from the most populous black nation in African.

Nigeria remains one of the most focal points of reference in sub Saharan African financial market (Adegite & Nakajima, 2011) and it offers some uniqueness in term of its ownership structure (Ahunwa, 2002). According to Ahunwa, (2002), ownership structure in Nigeria over the years has taken different and complex dimensions. Based on empirical fact, Adegite & Nakajima (2011) observed that company ownership and control pattern in Nigeria is concentrated either in the hand of foreigners or local investors. The 1962 Foreign Exchange Control Act, 1972 indigenization policy and 1988 privatization and commercial policy adopted by government at various point in time (Ahunwa 2002), influenced ownership structure in the country. Ownership structure, based on Ahunwa, (2002) in Nigeria is grouped into four categories: Group 'A' are those wholly owned by both the Federal government and the state government. Group ‘B’ consist of joint venture arrangement between Federal government and foreign crude oil producing corporations; Group ‘C’ include public listed companies in Nigeria with both foreign and local investors in the industrial and commercial sector; Group ‘C’ are privately owned companies that are not listed on the Nigeria stock exchange.

Companies under group C form the sample of this study. Evidenced from the above, Nigeria operated different ownership structure at different point in time owing to the changing and conflicting policies [6] of Nigeria government regarding ownership structure. The Nigeria enterprise promotion Act of 1972 and 1977 restrict foreign equity ownership to 60% or 40% depending on the sector. Readily observed, agency challenges emerging from ownership structure in Nigeria compared with other English speaking countries tends towards minority interest expropriation (Adegbite & Nakajima, 2011). In most developed counties it focuses more on principal-agent relationship. Secondly concentrated share ownership structure as being practised in Nigeria is held in the hand of majority foreigners or indigenous investors (Ahunwa, 2002). This in contrast with the German and Japanese system where concentrated ownership structure is marked with institutional shareholders that are mainly banks. Hence, organisation culture and governance objective is a pedigree of each ownership type as observed in various countries around the world.

Similarly, Nigeria is an ethnic diverse country with three prominent ethnic groups namely: Hausa, Yoruba and Igbos. However, unlike other countries around the world e.g. Malaysia with three prominent ethnic groups, the three prominent ethnic groups is sons of the soil. The presence of these three ethnic groups on board offers some

[6] Foreign Exchange Control Act of 1962, Nigeria Enterprise Promotion Decree, No 4 of 1978….see Ahunwan (2002).

kind of uniqueness with different resource contribution, with respect to experience, wealth and networking. Thus the study expects ethnic diversity to improve board of directors' prowess.

However in terms of practical contribution, by employing variables that reflects the firms characteristics like audit committee and board composition to investigate the determinants of audit fees of listed companies on the Nigeria stock exchange, empirical findings help policy makers and regulatory authorities in Nigeria to evaluate the need for regulation in this area. From this study, corporations will know how its corporate structure and operating result affect audit fees. Therefore, the study extends and contributes to the body of knowledge in corporate governance by using data from a less regulated environment.

1.7 Organisation of the study

This research work is structure into five chapters. Chapter 1 introduces and covers the statement of the problems, research objectives, research questions, expected contribution of the study. The rest of the study is as follows: Chapter 2 review the prior literature relating to the research, underpinnings theories, theoretical framework of the study and hypotheses developed. Chapter 3 outlines the research methodology employed. Chapter 4 discusses the data analysis procedure and findings. Chapter 5 present the summary, conclusion, contribution and the limitation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Ownership structure

The extent of separation between ownership and control as suggest in extant studies provoke agency problem and its associated cost. Since the pioneering work of Jensen and Meckling (1976), researchers established that the interests of managers are not always consistent with that of the shareholders. In most cases, shareholders are more concern with the value of their investment. Whereas managers are predisposed to make decisions that are likely to divert unjustly shareholders wealth to maximize their own interest (Jensen & Meckling, 1976).

Accordingly, to mitigate the agency problem ensuing from ownership structure, researchers for example Agrawal and Knoeber (1996), posit that managerial ownership, concentrated ownership by both institutional and blockholder are effective mechanism for monitoring hence improve firm performance. Manager participation in company equity ownership is an ownership structure employed to converge the divergent interest of managers and the shareholder (Jensen & Meckling, (1976); see also Mustapha and Ahmed, (2011). Principal-Agent problem arises due to consumption of excessive managerial benefits; entering into suboptimal investment. Thus, researchers argued in literatures that managerial share ownership reduce manager's incentive to produce value relevant information in the annual report (Mustapha & Ahmed, 2011).

As explained in the agency theory, the extent of ownership dispersion from control, the higher will be the agency cost (Jensen & Meckling, 1976). Mustapha and Ahmad

(2011) reported a negative but significance relationship between managerial ownership and firms monitoring cost. It is claimed that the cost of firms monitoring reduces as managers participate more in firm's equity ownership. Sullivan (2000); Mak and Li (2001) stretch forth that both the proportion of equity held by non-executive and executive directors are important variable that explain variation in audit fees. Drawing conclusion base on the annual report of the UK industrial quoted company, Peel and Clatworthy (2001) stated that high inside shareholding is significantly associated with lower audit fees. Using data from the USA, Mitra et al. (2007) as well reported a negative relationship between managerial ownership and audit fees.

Contrary to prior literatures, this study argues that in highly diffused ownership structure, shareholders are constrained to monitor the managers (Sullivan, 2000). This is because of their insignificance shareholding, which makes the cost of obtaining information regarding management activities to be relatively high when compare with the ensuing benefit (Zeckhauser & Pound, 1990). Consequently information asymmetry between both parties increases, such that attestation service provide by a third party remain an important medium through which shareholders monitors the manager (Sullivan, 2000; Adelopo, Jallow & Scott, 2012). This type of ownership structure features most in developed common law countries with strong minority investor's protection (Laporta, 1999).

Likewise, large and sophisticated block ownership structures are empirically proven to influence the demand for audit service. Mitra, Hussain and Deis (2007) stressed that the incentive to window dress annual report for self- serving purpose is constrained in large and sophisticated ownership structure. Large and sophisticated shareholders are on guard to checkmate management by ensuring that proper accounting policy and reporting procedures are consistently followed (Mitra et al. 2007). In this kind of ownership structure Adelopo (2012), remarked further that due to competitive active trading engaged in by large shareholders, they are privy to some information, which is factor into their investment decision. For instance, controlling shareholders (1.e. block shareholder) are willing to reduce or liquidate their interest in the company when management are not maximizing their investment value (Ahunwa, 2002). Accordingly, where manager's compensation attach to performance, shareholders' investment decision reflects the firm's value, which in turn signals management compensation. Ahunwa (2002) also reported that capital market discipline managers through threat of hostile take-over, the consequence of which management lose their office. Hence, in order to prevent such occurrence managers get incentives not to abuse their office and always take decision that maximize the value block shareholders. If this is the case block share ownership enhanced management monitoring, this could influence positively on the internal control processes. For auditee client like this, the perceived inherent audit risk base on auditor risk assessment is low, thus the supposed monitoring role of auditor is expect to reduce, hence reduction in audit fees (Ahunwa, 2002; Mitra et al. 2007; Adelopo, 2012). Sullivan (2000) however noted in contrast that audit is an important mechanisms through which block shareholder monitor the activities of the management. According to him, block equity Shareholders are more willing and ready to pay high fees for an extensive audit owning to their large equity stake and the cost of management misbehaviour to them. Meaon and Williams (1994) in their study tested the insurance hypothesis. They provide evidence that auditors suffer litigation risk from investors whom have suffered investment loss due to auditor's negligence. In as much as block ownership increase risk that auditors are expose to due to their reliance on auditor's report, auditors are obliged to be more thorough in their audit procedure. Resultantly auditors will price their product to cover all possible cost attached to the audit assignment (Simunic, 1980; chan et al. 1993). Added to this management on their part can as well demand for high quality audit to reduce their bonding cost (Mitra et al. 2007).

Chan et al (1993), examine the factors that determine the audit fees for UK quoted companies. In addition, the study investigates the relationship between ownership structure and audit fees. Chan et al. found that ownership structure is an important variable that determine audit fees. According to them in highly diffused ownership structure as measured by beneficial and non-beneficial shareholding, ownership structure is significantly and negatively associated with audit fees. Meaning that, shareholders in highly diffused ownership structure will demand a wider audit scope. However, the shortcoming of chan et al findings is that the study fails to separate both directors and outside shareholdings in their empirical analysis (Peel & Clatworthy, 2001). Thus they argued that the separate impact of this ownership proxies on audit fees is cannot be conceived, leading to wrong conclusion been drawn (Peel & Clatworthy, 2001). Sullivan (2000) documented the same finding similar to Chan et al (2003) in his study. He argued that in diffused ownership structure, equity holders place more reliance on audit, therefore audit fees rise. Contrary to the above two findings Peel and Clatworthy (2001), observed that the extent of outside ownership reveals an insignificant negative relationship with audit fees.

Mitra et al. (2007), examines the empirical relationship between ownership characteristic and audit fees. Ownership structure in their study, proxied by percentage of institutional ownership negatively and significantly affects audit fees in institutional block ownership. Whereas diffused institutional stock ownership significantly and positively influence audit fees. In another study, Adelopo et al (2012) examine the effect of multiple large ownership structure, audit committee on audit pricing among UK listed companies, and find that the degree of multiple share ownership significantly and negatively affect audit pricing. They stressed further that audit fees in highly diffused owned company is high when likened to concentrated ownership structure. This is attributable to differential in shareholder monitoring intensity in the sampled companies.

Another prominent ownership structure is the presence of foreign investor in equity ownership in Nigeria (Ahunwan, 2002). In addition, by virtue of geographical barrier between owners and managers, foreign equity ownership will induce high quality audit. This is because agency cost tends to be high. To achieve this managers of foreign owned companies are likely to employ the service of one of the big four or the service of a prominent auditor in the country of residence (Ahmad, Houghton & Yusof, 2006). Be as it may, high quality is linked with more audit effort and service of Big 4 (Francis & Stokes, 1986; Simunic, 1980).

2.2 Board of Directors Characteristics

The Agency theory as postulated by Jensen and Meckling (1976), established the weakness in the principal-agent relationship as exemplified in the current corporate governance structure, whereby the capital provider is different from those who manage the affairs of the business. Hence, Jensen and Meckling, (1976) postulates that the interest of both parties (i.e. the capital provider and management) might not necessarily aligned (In order to mitigate this agency problem, the board of director remain an important internal mechanism among other available mechanisms that provides a link between the shareholder and the management (Kamardin & Haron, 2011). Vested with an oversight function over the management, the board of director ensures that company affairs are manage in accordance with established law. The Nigeria code of corporate governance 2011, identify the function of the board, which this paper summarized to fall into management oversight, strategic planning and promoting ethical conduct within the organisation. In conformance with these established roles and through it various committees, the board of director influence audit process, which invariably affect audit fees paid to auditors (Kester, Georgakopoulos, Kalantonis & Boufounou, 2013).

Prior literature established relationship between the effectiveness of the board and company performance while some examine it from the perspective of board effectiveness and audit quality proxied by audit fees. Academic researchers such as Bonazzi and Islam (2007); Sanda, Garba and Mikailu (2011) and Kamardin and Haron, (2011) have closely linked firm performance with board doggedness in discharging afore mentioned statutory role. Klein (2002), study the relationship between abnormal accrual (i.e. earnings management) and board characteristics, findings emerging from the study shows a significant negative relationship between abnormal accruals and the ratio of independent directors on the board. The implication of this finding is that financial statement quality affects the independence of the board of directors. A duly composed board of directors monitors and evaluate management and ensures that proper they give rendition of account (Klein, 2002). Bliss (2011), embarked on a study to investigate the association between CEO duality, board size and audit pricing, using data obtained from the 2003 annual report of 799 public listed firms. Empirical findings from Bliss study show a positive relationship between independence board and audit fees, though the extent of independence is limited to firms where CEO duality is absent. In addition, the study documents a positive relationship between board size and audit pricing. The findings of the study is supported by the provision of the Cadbury Committee Report (1992), that discourage CEO duality on the ground that it result in conflict of interest which impair the independence of the board. Deductively weak governance structure arising from poor board performance affects the quality of financial report, which poses a risk on the auditor. An effective and efficient board of director can be identify by its independence, size; expertise and diligence are painstaking in ensuring that the external auditor conducts the highest quality of audit.

As discussed in previous section, this can be either through appointing a reputable audit firm or by expanding the scope of the external audit for incumbent auditor audit fees (Sullivan, 2000). Carcello et al (2002) established a positive relationship between audit fees and effective board characterise measured by independence, diligence and expertise. The finding of the study based on survey studies in the US observe that firms with high audit fees are more likely to have an efficient board structure. This is in accordance with the postulation that board either increase audit coverage or demand for reputable audit firms. However the findings of Carcello et al (2002) contrast with Peel and Clathworthy (2001) study. Peel and Clathworthy conducted their study in the UK. And investigate the relationship between Audit pricing and internal governance structures operationalized by board composition and ownership concentration in periods after Cadbury implementation. Empirical evidence from the study suggest that board composition were insignificantly related to audit fees charged by the auditor i.e. audit pricing is not influenced by internal corporate governance structure. In addition Peel and Clathworthy findings on both directorship and outside shareholding ownership structure, documents that large director shareholding reduce audit fees and that outside shareholding is negatively related with audit fees. As an explanation, while agency problem in outside shareholdings is high, it is argued that managerial share ownership reduce agency problem since mangers interest is aligned together with that of the owners through shares held by them which make them run the company as it was theirs.

Using a less regulated environment, Yatim, kent and Clarkson (2006), studied the association between external audit fees, board characteristic and audit committee by sampling 736 non-financial companies listed on the Bursa Malaysia in the year 2003. Conclusion draw from the study using multiple regression analysis reveals that board characteristics explained by board characteristics, board size, board diligence, presence of risk management committee and management positively influence audit fees. Abdulwahab, Zain and James (2011) found effective corporate governance mechanize to be positively significance at 1.759 t- Test, this presume that higher audit is demanded which ultimately increase audit fees.

To strengthen further corporate governance practise among Nigeria public listed companies, 2011 SEC code provides that the position of the chairman and that of the CEO should be disintegrate. It is argued that merging of the responsibility of the two positions (i.e. CEO duality) leads to conflict of interest, as CEO duality reduce board oversight function over the management (Dey, Engel & Liu, 2009). Accordingly the independence of the board of directors is safeguarded when the two roles is spited. Since it discourage the concentration of both decisions management and control into one hand, hence dominance of the board activities by certain individual(s) (Bliss, 2011). Most literatures on corporate governance linked CEO duality with weak corporate governance practise. MaK and LI (2001), found the characteristic of firms likely to have dual CEO to be higher blockholder ownership, unregulated firms, and firms with long CEO tenure.

For example Bliss, (2011), study 950 public listed firms in Australia using 2003 financial year end. Empirical analysis of the study found that the independence of the board is compromise with the duality of CEO and Chairman Position hence resulting in higher audit fees. Bliss study is consistent with that of Abdullah, (2004). Using a sample of Malaysian listed firms, Abdullah found that board independence is negatively associated with firm leadership structure. Suggesting that CEO duality negatively impact good corporate governance practise in companies. Elsewhere, Gana and Lajimi, (2011) found no significant relationship between external audit fees and CEO duality due to non-homogeneity of results. Peel and Clatworthy (2001) submitted that the absence of CEO-duality increase the perceived auditor's detection risk, as chances are there that unethical business being perpetrated and concealed. Deductively, it can be contended that audit scope will need to be expended resulting in higher audit fees been pad in companies where CEO-duality is absent. However, while literatures have predominantly argued against CEO duality, some studies advocate for CEO on the premise of enhanced command leadership and reduced information cost (Blis, 2011). Dey et al (2009), posit that the leadership structure adopt by a firm is choice between available alternative structures considering the expected cost and benefit. In addition, evidence emerging from the study shows that firm with CEO duality outperforms those without CEO duality.

2.3 Audit committee characteristic

Audit committee is an important mechanism established to enhance corporate disclosure and transparency by safeguarding the independence of external auditor and by virtue of this has received considerable attention (Stewart & Munro, 2007). The various financial reporting scandals reported in the late '80's and early 90's have been attributed to the perceived lack of auditor's independence due to pressure received from management regarding performance of audit and amount received for such work (Smerdon, 2004). Accordingly, setting up of audit committee becomes more imperative than ever in public listed companies and its efficiency in delivering its various statutory responsibilities ensured (Smardon, 2004). The realization of the fact that the presence of audit committee alone does not promise its efficiency made intellectuals (i.e. policymaker and researchers) lay emphasis on those factors that guarantee audit committee efficiency. In developed countries like the USA and UK through their various regulatory authorities in the late 1990's, modify their listing requirement by placing more responsibility on the shoulder of the company's audit committee as a vehicle through which the integrity of financial reporting can be protected (Carcello, Hollingsworth, Klein & Neal, 2008).

In Nigeria section 359 (3) & (4) of the Companies and Allied Matter Act 1990, requires that public limited liability company should establish an audit committee consisting of maximum of six members and duly represented by the shareholders, management and board member (CAMA, 1990). The Nigeria code of corporate governance further recommends that the audit committee be made up of strong and independent minded individuals should be establish. In its definition of independent, the code recommends that the committee should consist of only one executive director and at least a member of the audit committee should be financially literate to read and understand the annual report and external auditors report. In addition to this, non-executive directors serving on the committee should be independent of the company in respect of business and management. Relationship that might impair personal judgement be avoided and the committee should be headed by a non-executive director. The audit committee is majorly pre occupy with strengthening the quality of financial statement and internal control (Godwin-stewart & Munro, 2007). In order to achieve this, a check and balance function between management and the external auditors is required through participation in contract negotiation with auditors and setting terms of reference for audit work (Johl, Subramaniam & Zain, 2012; Vefas & Waegelan, 2007) with this fees cutting and low balling during negotiation stage are prevented.

The institution of audit committee by companies as posited by Goddard and Masters (2000), adds to audit procedures by external auditor. An increase audit fees that improves audit quality compensate this added audit effort. In their study Abott, Parker, Peters and Raghunandan, (2003) identified ways in which this could happen, according to them audit committee can influence auditor's fees by taking actions that increases the scope of external audit function of incumbent auditor since statutorily they are meant to review auditor's report. Besides this, through moral suasion the audit committee can demand that a reputable audit firm probably one of the big 4 be appointed as auditor in order to protect their reputation capital. Finally through its intermediary function between the management and external auditor, unnecessary pressure and threat of removal, fees pressure and poor working relationship between external auditor and client management emanating from issue such as issuing a going concern report can be forestall by the audit committee by strengthening its position during dispute (Abott et al, 2003; Carcello & Neal, 2002). In essence, an independent audit committee is likely to demand high quality audit, which invariable reflects on the audit fees. Since the audit commit perform an oversight body over internal control function in an organisation, it is believe that this oversight function enhanced the quality of internal control. Consequently, the improved internal control system reduces the number of hours spent on audit testing and the cost to be incurred on audit process.

A number of studies document positive relationship between audit fees and effective audit committee. Among early studies includes Abott et al (2003), this study addresses the association between key identified audit committee characteristic (i.e. Independence, Expertise and Frequency of committee meeting). Using 492 non-regulated, big audit firm that filed their proxy statement within 17-month period, the study establish that audit committee with some degree of independence and financial expertise is associated with high audit fees. However meeting frequency does not have a significant relationship with audit fees when controlled with board characteristics. The finding of theirs is inconsistent with Klein (2002), which uses 692 publicly traded firms in the US. Klein investigate the quality of financial report in relation to audit committee independence; Klein observed that earning management practise is more peculiar with firms whose audit committee is dominated by executive directors, thus the study reported a negative relationship between abnormal accruals and the percentage of non-executive director standing on audit committee. By implication, the study established independent audit committee is necessary tool that drives the quality of financial statement in a company. In a similar study Goddard and Masters (2002) documents a negative relationship between audit committee dominated by non-executive director and abnormal accruals, this explains the observed reduction in audit fees between the periods 1992-1995 due to improved internal control after the implementation Cadbury report aimed at improving corporate governance practise. In a prior study conducted by Felix et al, (2001) a negative relationship was found between internal audit contribution and audit fees i.e. internal audit functions complement the work of an external auditor. As explained earlier on the strength of internal audit lies in the effective of audit committee. It is assumed that increase coordination of internal audit function by audit committee reduce the scope of external audit as external audit place reliance on the internal audit function.

In contrast to the findings of Goddard and Masters (2002) and Felix et al (2001), Goodwin-Stewart and Kent (2006) investigated the effect of an effective audit committee and internal audit on audit pricing in Australia. They document a positive relationship between audit committee and audit fees, while it also found that firms with high audit fees tends to have audit committee with reliance on internal control. The variation in the finding of both studies is due to differences in regulatory environment as well as the period of study. Going further, audit committee effectiveness as proxied by frequency of meeting, audit committee expertise and committee independence, Goodwin-Stewart and Kent prove that positive relationship exists between audit fees and frequency of meeting. However, audit fees and the other two variables (Expertise and Independence) shows an insignificant relationship, though the regression result when the three variables were regressed together shows a positive relationship between audit fees and expertise when frequency of meeting and independence is low. Vafeas and Waegelein, (2007), conducted trend analysis for individual firm to establish variation between audit fees.

Base on this the study establishes a relationship exists between audit committee effectiveness and the audit fees. Both financial and non-financial data of 500 fortune companies for 3 years periods starting 2001 was analysed using ordinary least square regression. The study posits that an effective audit committee proxied by committee independence, committee size, and committee expertise and committee activity is associated with high audit fees. In the same period Godwin-stewart and Munro, (2007) reported in their findings that the existence of an audit committee with the presence of the external auditors in their meeting reduced auditor's perceived risk thereby reducing the overall audit fees though the result look at from the supplier perspective. Zaman, Hudaib and Haniffa investigate the relationship between governance quality and auditor remuneration among listed companies in the UK. Controlling for board characteristics and other firm related variables, the finding of their study shows that audit committee effectiveness has a positive and significant relationship with audit fees. However, the study does not provide for the causation nor examine the precise audit committee characteristics that influence audit fees.

Literatures from emerging economy report findings similar to those documented in developed economy with slight variation in some cases. For instance, Mat Zain, Subramaniyam and Goodwin (2004) carried out their studies in Malaysia; they investigate the impact of audit committee on internal auditor performance in relation to external audit, and examine the relationship between the extents of internal auditor performance in relation to external audit and audit fees. Consistent with previous studies in developed economy Mat Zain, Subramaniyam and Goodwin reported a positive relationship between the quality of an audit and the contribution of internal auditor, this suggest that the audit committee role is a contributing factor to the performance and quality of both the internal audit effort and that of external audit.

Nevertheless, the study observed that as internal audit contribution increases so also does the audit fees increase indicating a positive relationship. Conclusively the authors submitted that an effective audit committee can influenced the extent of external audit procedures. These results of their finding is consistent with the fact that an effective audit committee will demand for a high quality audit either by increasing external auditor scope of work or by demanding the service of a highly reputable audit firm, which increases the amount paid as audit fees.

2.4 Audit Fees

Following the separation of ownership from management, the managers explain to the shareholders how they managed the fund put in their trust by giving a stewardship account. Owned to this fact, the external auditors play a significant role in the monitoring the activities of the management. Statutorily appointed by the shareholders the external performs an independent examination of the stewardship report issued by the management to verify truthfulness in the various assertions made by the management thereof issuing a statement to support or go against the claim of the management. However, this service is render for a consideration in form of a fee, otherwise called auditors remuneration or audit fees. Audit fee is the economic incentives received or receivable by financial auditors for audit services rendered to the auditee. This is influence by the perceived risk associated with an audit and the extent of audit procedure often refers to as the monitoring cost (Mitra, et al. 2007; Peel & Clathworty, 2001).

The hallmark of the profession is the independence and objectivity of the external auditor both in fact and in mind. A as result the international standards on Auditing (IAS), requires audit fees be arrived at in an objective manner, since audit fees have the potential of eroding the external auditor’s independent (Charsen, Robu, Carp & Mironriuc, 2012). Nevertheless recent financial scandals that rocked the business environment to its root resulting in Millions dollar lost cast doubt in the public mind concerning the auditor’s independence and objectivity. Hence, in response to public outcry concerning transparency of financial reporting, the US security exchange commission (SEC) in 2002 mandated public companies to disclose in their proxy statement the audit and non-audit fee paid to external auditors by disintegrating the fees into: audit related fee; non audit fee and tax fee. In addition, some non-audit services were prohibited. The wisdom behind such disclosure is to reduce information asymmetry in the audit market and enhance transparency in financial reporting and disclosure thus restores public confidence in the accountancy profession (Francis & Wang, 2005). Byrnes (2011), observed that audit fees disclosure contains some information element based on which a rational investors can based there decision. By virtue of their interaction with management, auditors are privileged to some private information that ordinary will not be disclosed by management. Accordingly, auditors factor this into their audit fees charges when they are probable to litigation risk. For instance, an increment in audit fees might suggest fraud and restatement, steep stock, credit rating drop as noted by Byrnes (2011).

The literature on determinants of audit fees has grown significantly over the last decades, buoyed mainly by studies from developed countries and to so extent some developing countries by using various regulatory and judicial settings in explaining factors supposed to influence the pricing of external audit. Although majority of the studies comes from developed counties with limited studies on developing nations. The main objective of these studies has been to identify those factors that affect amount payable as audit fees. These studies includes: USA (Simunic, 1980; Palmrose, 1986; Rubin, 1988; Williams, Felix, Audrey, Gramling & Mario, 2001; Kevin, 2008), Netherlands (Langendijk, 1997). Also UK (Lennox, 1999; Mathews & peels ,2003), France (Grorithier & Schatt, 2007), Canada (Chung & Lindsay, 1988), Australia (Craswell, Francis & Tylor, 1995; Jenny & Pamela, 2006; Wong, 2009), Norwegian (Firth,1997), Japan (Fukukawa, 2011) Bangladesh (Waresul Karim & Moizer,1996; Ahmed & Goyal, 2005), Kuwait (Al Yaqout, Al hussain & Ahmad , 2008) China (Liu, 2007), Jordan (Matarneh, 2012). Evidence From past literatures reviewed suggests that client size is a major explanatory variable in the studies of audit fees determinants. Most of these studies hypothesis a positive relationship between audit client size and audit fees charged by auditors. Auditee with large volumes of sales and assets will be charge higher by the auditor compare to a small client. This is because the transactions tests and audit compliance requirements of large audit clients are more complex and requires longer hours consequently the auditor in resolving the agency problem incurs more cost.

Swanson (2008) used data gathered from the annual financial statement of 37 financial service institutions in the United States to investigate the relationship between audit fees and size proxy i.e. total assets, sales revenue and the number of employees. Employing ordinary least square as method of data analysis the study concluded that there is a significant relationship between measures of size and audit fees. The LOG of assets and sales revenue, which were statistically significant at 5 per cent level, explained this relationship. However, net income and the number of client employee are insignificant though both variables affect the pricing of audit among financial institutions in the USA.

Schatt and Gontheir-Besacier (2007), studied the determinants of audit fees for quoted companies in France. Based on 127 sampled the authors identified client size, risk associated with client company traditional variables while distribution of fees between auditors and presence of the Big fours in the joint audit team were specific to the auditing environment in France. The control variables used for the study are reporting year end of the client and the non-audit fees. Supporting previous findings on the pricing of audit services the study documents that auditee size and risk are significant factor in determining audit fees in France. In addition, the study document that the amount paid as audit fees is higher when big four-audit firm is demand.

Similarly, a recent study carry out on the Japanese audit market seek an understanding of those factors that affect audit pricing and the cost strategy of individual audit firm. The uniqueness of these study compare to previous studies lies in the fact that it jointly examine the determinants of audit fees and audit cost. In addition, the study investigated the difference among audit pricing and the cost strategies of the 3 top leading accountancy firms. Adopting Simunic (1980) audit fees model, the relationship between audit fees as a function of size, complexity, risk and other client and auditor related factors were tested employing data gathered from 2006 annual financial report of listed companies in Japan. Conclusively the empirical finding from the study finds client size, complexity, the past performance, status, client bargaining power and market share of the firm affect both audit fees and audit cost linearly. However, the reporting period and the client location have affected either audit fees or audit cost or both in an inverse direction.

Goodwin-Stewart and Kent (2006) investigated the effect of an effective audit committee and internal audit on audit pricing in a regulatory environment where audit committee presence is not compulsory. The study use ordinary least squares regression model to examine the relationship between the independent variable and independent variables. The variable of interest is audit committee proxy by its existence, the independence of the committee and expertise, frequency of meetings and the use of internal audit. The independence of audit committee define by the percentage of independent directors on the committee are not supposed to have contractual obligation in the company's business.

Expertise measured by the field of expertise of those that made up the committee. Meeting frequency as measure by the number of meeting held in a year. Research finding on the effect of audit committee on audit fees are mixed. While some research findings reflect positive relationship, others reveal a negative relationship. However Goodwin-Stewart and Kent (2006) findings explain that audit committee existence, use of internal audit and frequency of meetings have significant positive association with audit fees. In addition, their finding shows a positive interaction between audit committee expertise, meeting frequency and audit committee independence. This suggest that has audit committee expertise is only significance when both meeting frequency and independence are low.

2.5 Control variables

The study control for other specific firm related attribute that are empirically proven to affect audit fees and these were explained below.

2.5.1 Auditee size

The auditee size is a major explanatory variable when investigating determinants of audit fees (Gothier-Besacier & Schatt, 2007; Pong & Wittington, 1994). Auditee size can be measure by total assets (Lengendijk, 1997; Ahmed & Goyal, 2005, Fukukawa, 2011), inventories (Lengendijk, 1997), numbers of employees (Swanson, 2008) and sales revenue (Swanson, 2008; Firth, 1997). The choice of measures as documented by Pong and Wittington (1994) is determine by the nature of the audit. In their study, two aspect of audit i.e. audit of transactions and verification of assets comes to mind. The former deals with turnover while the latter, deals with total assets. Evidence from previous studies suggests a positive relationship between audit client size and audit fees charged by auditors. It is assume that more audit procedures are required as the client size increases to ensure sufficient amount of compliance and substantive test (Firth, 1997). For example, an audit client, i.e. auditee with large volumes of sales and assets will tend to be price higher by the auditor compare to a small client. This is because the transactions and requirements of large audit clients are more complex and requires longer hours; consequently, more cost is incur in resolving the agency problem due to increase audit monitoring and control (Ahmed and Goyal, 2005; Fukukawa, 2011; Basecier & Schatt, 2007; Rubin, 1988). Fukukawa (2011) posited that the above presumption is applicable to all audit firms irrespective of the audit pricing or cost strategies adopted.

2.5.2 Auditee risk

Audit risk is another important factor of audit fees and it’s explain the loss an external auditor is expose to which arises from inherent risk associated with the performance of the financial statement audit. An auditor is liable when he fails to detect material misstatement and then issued an unqualified opinion. It is in lieu of this auditors adjust audit fees to cover expected loss in the event of litigation or reputational loss, since it is impossible after the loss occurrence (Simunic & Stein, 1995). The influence of auditee risk on audit pricing have been investigated in prior studies and it was consistently hypothesised that there is a positive relationship between audit price and auditee risk (for example Simunic, 1980; Firth, 1997; Basecier & Schatt, 2007; Swanson, 2008). According to Waresul Karim & Moizer (1996), this is on the ground that audit risk determines the degree of audit procedures and consequently influences the amount to pay for audit service. Using profitability, gearing ratios, existence of qualified audit report and history of reported loss in financial statement as proxy for audit risk, Firth (1997) argued that the existence of these factors signals that extra audit work should be undertaken therefore increasing the audit cost on client that are likely to have financial difficulties. Matthews and Peel (2003) noted unprofitable firms pose more risk of audit failure. Hence, the associated risk in audit client is anticipate to increase audit fees due to increase audit procedures to mitigate the risk of litigation, or as a premium to commensurate the auditor risk expectance (Simunic.1980; Firth, 1997). The auditor expected risk includes litigation loss or loss arising from loss of reputational goodwill in respect of bad publicity that may arise from audit failure, or both (Simunic.1980; Firth, 1997; Matthews & Peel, 2003; Clatworthy & Peel, 2007).

In contrast Ahmed and Goyal (2005) in their comparative study using data from Bangladesh, India and Pakistan, hypothesised that financial condition of a firm explains the risk associated with an audit. Hence, firms that exhibit poor financial condition are risky and auditors have to spend more time to reduce their risk. However the result of their findings shows that the financial condition is not a significant determinant in any of the country under study. Likewise Matthews and

Peel (2003) in their study using a sample of UK quoted companies in 1900 observed that audit risk proxies are not significant determinants of audit fees.

2.5.3 Auditee complexity

The number of hours spent on an audit assignment determines the audit fees. Conclusively arguably, firms that are complex are charge more by auditors. The proxy for complexity is measure through the nature of auditee operation and the balance sheets composition. The nature of auditee operation includes the number of subsidiaries. Hence, auditor requires more hours to evaluate the consolidated financial statement. Similarly, where the composition of the balance sheet is such that the ratio of liquid assets (i.e. inventory and receivables) to total assets is high, detail work is required to test each transaction (Simunic, 1980).

Auditee complexity is one of the major factors in audit fees research as most researchers incorporate it in their studies (Rubin, 1988; Karim & Moizer, 1996; Matthews & Peels, 2003; Ahmed & Goyal, 2005; Firth, 2007; Clatworty & Peel, 2007; Fukukawa, 2011). Finding of most of this researchers consistently suggest that a positive relationship exist between audit fees and auditee complexity except for Ahmed and Goyal (2005) and Matthews & Peels (2003) that document in their findings that audit complexity is not a significant determinant. Karim and Moizer, (1996), Ji-hong (2007) used balance sheet composition to measure complexity document that positive association exist with the proportion of assets i.e. inventory and receivables and audit fees. Similarly using account receivables and number of subsidiaries as proxy Simunic, (1980), Firth, (1997) also reveals that there is correlation between audit fees and the proxy used for auditee complexity. Thus, the results of these prior studies are mixed but it supports a positive relationship between audit fees and auditee complexity.

The present study differs from the literatures as well as the model adopted in this model. In measuring corporate governance mechanism, the study introduces additional measures that reflect the regulatory environment of Nigeria. Board ethnic grouping which reflect the ethnic diversity within the context of Nigeria and explain with the resource dependency theory expand the adopted model. Similarly presence of foreign directors on board was introduce into the model, even though Che Ahmad & Houghton (2001) tested this in his model, the measure adopted in this model differs. In this study, presence of foreign director was tested for both indigenous and foreign company. Two variables included in the model that was not use by prior model is the risk management committee and corporate governance introduce in the revised code of corporate governance. All these variables are expected to influence audit fees within the scope of this study. In summary to differentiate between this study research model and the adopted models, the table 2.5 below present the ownership structure, corporate governance mechanisms and control variables with the sample size of the adopted models.

Table 2.1

Adopted model and variables

Author and year	**Variables and measurement**	**Sample size**
Chan et al, (1993)	Auditee Size measure by turnover and total asset. Auditee Complexity measure by inventory to total asset, debtor to total asset. Auditee risk gearing ratio, liquidity ratio. Auditee profitability measure by return on shareholder equity. Auditor location Auditor size. Ownership control measure by beneficial and non-beneficial director's shareholding	1987 data of 280 UK quoted companies.
Boo and Sharma, (2008)	Board/committee independence Board/audit committee multiple directorship Board/audit committee size Control variable: Client Size measure by the natural logarithms of total asset. Complexity measured by number of subsidiaries, number of business segment and proportion of foreign subsidiaries	496 US listed companies with assets not greater than $US1 billion for the fiscal year 2001.

	Risk return on assets and loss recorded in the past three years.

2.6 International Regulatory Frameworks Shaping Corporate Governance Practise in Nigeria

Before the promulgation of Sarbanes Oxley Act (SOX) in 2002 many countries like the USA allowed the provision of non-audit services and do not require its disclosure, in contrast the UK as well as the Australia mandated the disclosure of non-audit services (Lennox, 1999; Firth, 1997). However, following the birth of the Sarbanes Oxley act arising from financial scandals in the early 21st century, the joint provision of certain non-audit services was ban totally. Moreover, non- audit service services as well as audit services are disclose compulsorily in the annual report as require by the US SEC.

Apart from this, section 404 of the Sarbanes Oxley Act demands that those charge with the company's management should document and test their internal control system and issue a statement thereof confirming the assessment of the effectiveness of the internal control structure over financial reporting (Institute of Internal Auditor, 2008). Similarly, the company's statutory auditor must issue an attestation report on management assessment on the effectiveness of the internal control system over financial reporting (Institute of Internal Auditor, 2008). Likewise, section 203 demands that the auditor should improve their level of communication with the audit committee (Gosh & Pawlewic, 2009). The congress observed that excessive fees receive by auditors for non- audit services impaired their independence and the resultant effect was the various financial scandals such as Enron and the indictment of Arthur Anderson in the early 21st century as noted above. Hence, the intention of promulgating the Sarbanes Oxley act was to encourage companies to enhance their internal control, which will consequently result to a more reliable financial statement (Nagy, 2010).

Interestingly the advent of Sarbanes Oxley Act in 2002 has generated mixed feelings among accounting practitioners and intellectuals. It is widely argued that the act imposed stringent responsibility on the auditor and the company's management. It is believe that such imposition will drive the overall audit cost due to increase audit effort and associated risk (Nagy, 2010; Gosh & Pawlewic, 2009). In 2009, Gosh and Pawlewic studied the effect of SOX on audit fees using a sample size of 23,237 firms drawn from Audit Analytical database for the period 2000 and 2005. Empirical evidence shows that the overall audit fees for the observed companies increased in post SOX implementation with a sharp decline in non-audit fees. The reason for the increase fees is explain by increase audit effort and increase legal liability exposed to by the auditor. According to Gosh and Pawlewic (2009) and as explained above by the various stringent requirements, SOX impose stiff requirement that need to be comply with by auditors. For instance in addition to the above mentioned requirements, audit working papers are to be retained for a minimum of 7 years and all audit procedures are to be approved by the audit committee before the commencement of an audit work (Institute of Internal Auditors, 2008). Similarly Cosgrove and Niderjohn (2008), observed the extent of increase of audit fees in the first year of implementation. At the same time examines the effect on the different segment of the audit market in the USA, result of their findings document that the overall audit fees increases across the audit market with little variation among the big audit firms and the small ones. The increased audit effort resulting from enhanced reporting requirements imposed by SOX will enhance the quality of financial statements.

Consequent to the increased audit effort, it is assume that the various risks such as material misstatement risk, audit failure and legal cost associated with an audit will decline (Gosh and Pawlewic, 2009). Nevertheless, it is observe that the legal liability the auditor face increase in the post SOX period. Argue on the ground that penalties for fraudulent financial misstatement on the part of the management has been is now stiffen. For example, the provisions of SOX add to the enforcement power of the Securities and Exchange Commission through the freedom to impose civil penalties in its enforcement actions (Heffes, 2005 as cited by Gosh and Pawlewic, 2009).

2.7 Corporate Governance Scene in Nigeria

The concept of corporate governance practise in Nigeria dates back to many decades ago when the country gain its independence (Ahunwa, 2002). It has evolved from the company Act of 1968 that had its antecedent from the United Kingdom Company Act 1948 being its former colony (Okike, 2007). The 1968 Act, subsequently reviewed and enforced under military Decree No. 1 of 1990, and now Companies and Allied Matter Act, Cap C20 of the federation of Nigeria 2004 in the democracy setting contains major provisions regarding company governance (Adegbite, 2012, Adekoya, 2011). CAMA 1990, as a pioneering law on company matters, regulate company registration through company affairs commission (CAC) and made general provision on: the daily management of companies in Nigeria guided by the article and memorandum of association; Director's statutory responsibility; disclosure requirement; Alms length transaction; minority protection and executive remuneration (Adegbite, 2012; Idigbe, 2007). The enforcement of these provisions lies in the hand of the Corporate Affairs Commission (CAC) that oversees and regulates the formation and winding up of companies in Nigeria (Adegbite, 20112). Shareholders have utmost protection (i.e. legal right) under CAMA similar to those of the Anglo-Saxon countries. Though the weakness in the country judicial system and obsolesce of CAMA provisions, dampen the enforcement of the shareholders legal right (Adegbite, 2012). Despite being an imposed law since its fails to follow normal legislative process, CAMA still fare well in regulating company's affairs (Adekoya, 2011).

The global inclination towards a more responsive corporate governance practise and the zeal to checkmate unethical business practises following the events in the early millennium incite the emergence of corporate governance as a "distinct concept" in Nigeria (Ofo, 2013, Adegite, 2011). A 17 member committee headed by Atedo Peterside was inaugurated by the Nigeria securities and exchange commission in collaboration with corporate affairs commission on 15th June 2000 to identify the weaknesses in Nigeria corporate governance practises and come forth with possible changes the will strengthen corporate governance practise in Nigeria. The outcome of the committee report was the 2003 code of best practises in Nigeria, which is applicable to all listed companies and brought many changes to corporate reporting in Nigeria. Compared to the companies and allied matter act provisions, the 2003 SEC code carved out corporate governance practise making it a distinct concept (Ofo, 2013). Included in the innovative provision of the code is the provision for both board and its committee responsibility, shareholder right, privilege, and the role of audit committee that is clearly stated.

Nevertheless, given the rapid and dynamic developments in the economic sphere, the 2003 SEC code could not meet the reality on ground (due to its inadequate provisions). For instance, the 2003 SEC code lacks behind in respect of provision for independent directors; board committees; appointment, remuneration, tenure and evaluation of members of the board; safeguarding external auditor independence; necessary procedures for whistle blowing; sustainability issues and disclosure and transparency matters (Ofo, 2013).

Interestingly, the Security and Exchange commission in the year 2008 inaugurated a National committee headed by Mr M.B. Mahmoud with a term of reference that it should suggest and advice on ways of enhancing corporate governance practises in Nigeria listed companies in line with international best practises and identify constraint to quality corporate governance practise. After almost three years of the committee deliberations, precisely 1st of April 2011 the Nigerian SEC issued a new set of corporate governance codes (i.e. 2011 SEC code) which commentators hailed to be more comprehensive in term of its provisions, though not without some limitations (OFO,2011). Accordingly, the provisions of the new SEC code are to be enforceable to promote the highest standard of transparency, accountability and good corporate governance (SEC code, 2011).

In the spirit of promoting good governance practise and to complement existing regulations, sector specific code of corporate governance issue (Adekoya, 2012). The codes are 2006 central bank code, 2008 National Pension Commission code and the 2009 National Insurance commission code. Compliance with these codes is compulsory for companies operating in these sectors. Evidenced based on the above, listed companies operate under a complex and fallible corporate governance environment due to myriad of corporate governance codes which in most cases have overlapping provisions (i.e. 2003 SEC codes, 2006 CBN codes , NACOM code, 2008 and PENCOM,2009) that needs to be adhered hence, conflicting in some instance (Report on observance of codes ROSC, 2011).

In the same vain, with respect to the recommendation of 2004 World Bank report on observance of standard and codes, the financial reporting council (FRC) was established. The enabling act is the financial reporting Act, 2011 and by virtue of this statute establishing it, the body is solely responsible for the development of code of corporate governance in Nigeria (Section 119 (c) of the financial Reporting Council of Nigeria Act No.6 of 2011). By virtue of Section 119 (c) of its establishing Act, FRC inaugurated a committee saddled with the responsibility of designing a unified code of corporate governance that would be applicable to all companies both private and public in the country by year 2013 (Vanguard news, 2013). Unsurprising corporate governance environment in Nigeria is set to witness a new dawn, as this effort is drive at ensuring highest standards of corporate governance principles and practises and safeguard the interest of all stakeholders.

2.8 Agency Theory and Stakeholder Theory

As noted in previous section diffusion of ownership and management has consequential effect of shareholder of public listed companies not having "legal right" to control the firm (Bonnazzi & Islam, 2007). In this situation the shareholders, delegate the decision- making authority to the agent. Hence top management are agent of the shareholder whom interest they are meant to protect. However in the absence of well-developed market control as characterised by information asymmetry, incomplete contract market failures, adverse selection and non- existence of moral hazard as noted by Bonnazzi and Islam (2007) agents may not always act in manner consistent with principal objective. This is because both parties are utility maximisers thus there is no reason to believe the agent will act in the interest of the shareholder. The cost of this opportunistic behaviour is the principal-agent cost called monitoring cost (Bonnazzi and Islam, 2007). The principal incur monitoring cost to limit and control the agent opportunistic behaviour (Godfrey et al, 2010). On the other hand the agent might spend resources aimed at reinforcing the trust that they will behave in a manner consistent with the shareholder objective or assuring the principal of compensation when they act in a contrary manner otherwise called bonding cost. The sum of all the monitoring cost, the bonding cost and residual loss arising from agent still performing less than expectation despite the bonding and monitoring cost is call the agency cost. Agency cost can be borne either by the principal or by the shareholder depending on how efficient the market is. For instance where the shareholder and managerial information market is strong, the market provide information about the opportunistic manner the agents are likely to behave. Hence, the information consider when determining remuneration package of the managers to reflect his behaviour. In this case, the principal is price protected and has the incentive to bond the interest of the agent to that of the principal (Godfrey et al, 2010).

Stakeholder theory extend the view of agency theory by including other groups like the employee of the firm, creditors, government and others that have “legitimate claim” or stake in the companies “performance” (Hill & Jones, 1992). All the above mentioned stakeholder contribute in term of intellectual resources, infrastructures, capital, revenues etc. therefore it is expected that the firm should reciprocate by taking decisions and deploying resources in the interest of all stakeholder group

(Hills & Jones, 1992). Markedly the agent is face problem on how best to satisfy the conflicting needs of all these stakeholders.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter is a discourse of the overall procedure for data collection and analysis. It describes the method to be used for data collection, selection of respondents as research subjects, and details the research design that places the research within a recognized and acceptable framework. This chapter consists of five sections. The first section deals with hypothesis development. The second section discusses the research population and the sample size. The third section explains the research instrument, while the fourth outlines data collection procedures. The fifth section highlights method of data analysis utilized and the research hypothesis.

3.1 Theoretical framework

Ownership structure and corporate governance mechanism

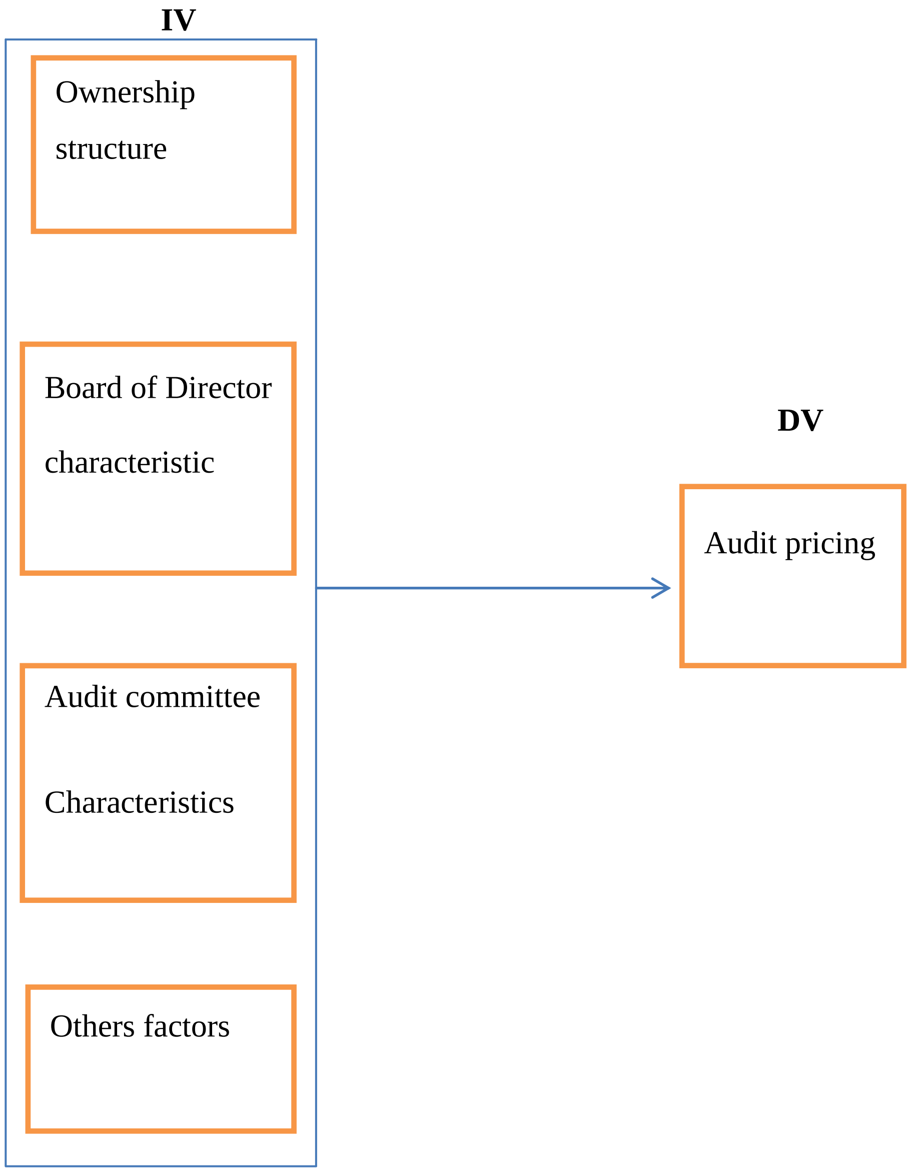

Figure 3.1 Research model

IV= independent variable

DV= dependent variable

3.2 Hypothesis development

3.2.1 Managerial ownership

Agency theory suggests that the farthest the owners from control the higher will be the agency problem to be experienced (Mak & Li, 2001). Arguably, the extent of audit service is as well influence by firm's ownership structure with widely held firm's requiring more detail audit. Owing to this, the roles of ownership structures on audit fees have attracted researcher's interest over the years. A line of research in this area has been to examine the empirical relationship between managerial ownership on audit fees. For example, Chan et al. (1993) examine the relationship between director beneficial ownership and non-beneficial shareholding and find that managerial ownership negatively influence audit fees. In a more recent study and using another regulatory setting Wahab et al. (2009) as well found a negative relationship between managerial ownership structure and audit fees. This negative finding between managerial ownership structure and audit fees is as well consistent with Mitra et al. (2007). Based on these results, the current study put up hypothesis 1 as follows:

H1; There is a negative relationship between managerial ownership structure and audit fees

3.2.2 Block share ownership

In another vain, researchers have studied the relationship between multiple large shareholdings and audit fees. It is argued that block shareholders have the economic means to monitor the activities of the managers when compare to individuals with insignificant shareholdings (Mitra et al., 2007). Findings emerging from Mitra et al, (2007) reveal a negative relationship between large percentage shareholdings and audit fees. Similarly Adelopo et al, (2012) found a negative relationship between the number of multiple large shareholding and audit fees. This implies that block shareholding assist shareholders in monitoring the management, which could possibly offset the additional cost to be incurred by statutory auditor. However argued from the demand perspective, it is argued that block shareholders favour more extensive audit procedure to safeguard their investment (Sullivan, 2000). Mitra (2007) noted further that managers on their part could as well call for extensive audit. This is with the intention to add credibility to the financial report and attracts more institutional investors. In light of the negative relationship between audit fees and managerial ownership reported, this study hypothesis as follows:

H2: There is a negative relationship between block share ownership and audit fees

3.2.3 Foreign Ownership

Prominent among ownership structure available in Nigeria is foreign institutional ownership. This structure emerges out of the myriad of reforms embarked upon by the Federal government of Nigeria. This includes the Nigeria enterprise promotion Act of 1972 and 1977 which restrict foreign equity ownership to 60% and 40% respectively depending on the sector of the economy. Consequently, the coming into force of these polices has significant effect on ownership structure in Nigeria (Ahunwa, 2002).

Hence, it is expected that in foreign owned companies, ownership and control tend to be highly separated. This will however necessitates the demand for extensive audit procedures as foreign investors are geographical constrained to monitor their investment. Thus certification of annual report by a third party remain a more feasible option to monitoring which impacts on the overall audit fees paid by foreign owned firms. To that extent, this study hypothesis the following:

H3: Foreign owned companies pay high audit fees compare to indigenous companies.

3.2.2 Board of Directors characteristics

As noted earlier in previous section, the board of director serves as reconciliation mechanism that reconciles the conflicting interest of management and shareholders. The board of directors protects the shareholders interest in an organisation against unscrupulous practise of the management. Some of the board characteristics as measure in previous studies include board size, board independence and board diligent. Using different measures of board characteristic, extant studies show that a relationship exists between both though empirical findings have not been consistent. For instance, Carcello et al. (2006); documented that a significant relationship exists between audit fees and board of directors characteristics. In contrast, Peel and Clathworty (2011) observed an insignificant relationship between the two variables.

3.2.2.1 Board independence

Board independence is defined by its composition and structure. In line with the requirement of 2011 SEC code, the board should comprise a right mix of executive and non-executive director with the presence of at least one independent non-executive director. By implication, a well-represented board (i.e. dominated by non-executive) mitigate against opportunistic behaviour of managers (Carcello & Neal, 2002). Kamardin and Haron (2011) express that non-executive directors are more concerned in protecting their reputational capital and the interest of the shareholders and so they effectively checkmate excessiveness of both the management and the executive directors.

A number of literatures exist that empirically expound the relationship between audit fees and board of director's independence. These studies provide evidence that shows a positive relationship between external audit fees and board independence (Bliss, 2011; Yatim, Kent & Clarkson, 2006). Sullivan (2000) and Yatim et al. (2006) provide evidence that board dominated by non-executive director's demands high quality audit and is ready to pay for the associated cost. Consistent with the findings of Sullivan and Yatim et.al, (2006), Gana and Lajmi (2011) found that board of director's independence significantly and positively influences audit fees. Hence this study proposes as follows:

H4: There is a positive relationship between boards of director's independence and audit fees.

3.2.2.2 Diligence of the board of director

In line with past literatures, board diligence proxied by the frequency of board meeting and individual member participation is another indicator for of board effectiveness (Gana & Lajmi, 2011; Bliss, 2011; Carcello, et al., 2002)**.** The authors pointed out that board effectiveness in discharging it oversight and monitoring function hinge on the number of times its meet and the conduct of individual board members (Carcello et.al. 2002). The rationale behind this claim is that board meetings offer board members the opportunity to better understand management actions and take decisive actions when the need be (Gana & Lajmi, 2011). Based on the recommendation of 2011 SEC code, board members are to meet at least once every quarters and individual board member should attend at least two-third of the board meeting.

Existing evidence has yielded conflicting result regarding the association between audit fees and board diligence (Gana & Lajmi, 2011). While Carcello et al. (2002) posit that board diligent is associated with higher audit fees; Yatim et al. (2006) and Gana & Lajmi (2011) report that board diligence is not significantly associated with audit fees. Based on the conflicting result reported by these previous studies, the current study hypothesises as follows:

H5: Board diligence significantly affects audit fees

3.2.2.4 Board size

Another proxy of measuring board effectiveness that has received academic researchers' and policy maker's attention is the board size. Despite its perceived importance in enhancing board performance, empirical evidence available shows conflicting results concerning the appropriate board size that enhances board efficiency (Gana & Lajina, 2009). In some quarters, it is argued that as the board size increases, so also is the CEO dominance of board activities which tends to impede board independence (Bliss, 2011). The reason for this is unconnected with the increase agency cost (arising from coordination cost and free rider problem) associated with large board (Bliss, 2011; Mashayekhi & Bazaz, 2008). However, proponent of large board member argued in its favour noting the variety of expertise appointed on board contributes to board decision making (Mashayekhi & Bazaz, 2008).

Yatim et.al (2006) and Krishnan and Visvanathan (2009) using different regulatory settings observe an insignificant relation between audit fees and board size. Nevertheless, in a more recent study Gana and Lajimi (2011) document a positive relationship between board size and audit quality proxy by audit fees. Thus the current study hypothesises the following:

H6: Board size significantly and positively affects audit fees

3.2.2.5 Board ethnicity

Findings on the impact of group ethnic diversity (herein board ethnic diversity) on performance have been inconsistent over the years. Watson, Kumar and Michaelsen, (1993) argued that culturally diverse group should be an asset that could allow diverse group to excel well in group process and problem solving. Examining it from the perspective of information and decision making theory, Bar, Niessen and Ruenzi, (2007) argued further that diverse team members are part of a different network and as such the information set available at the disposal of the group is diverse. With heterogeneous sources of information, the group performance is improved upon. This information diversity comes inform of different knowledge base and skills or perspective of team member (Bar et al., 2007). However using the social diversity theory, ethnic diversity among team member could lead to relationship related conflict, arising from communication gap, lower satisfaction and low commitment among members (Bar et al., 2007).

Arguing from the perspective of audit fees literature, board diversity can either enhance or mar the monitoring role of the board. Where monitoring role is enhanced, it can be said that auditor perceived risk is reduced, which reduces the overall audit fees to be paid. Otherwise, the audit fees charge by auditor will be high. This is because of the relationship related conflict that might arise from board diversity. In consideration of the foregoing argument, the following hypothesis is put forward.

H7: Board diversity negatively affects audit fees.

3.2.2.6 Foreign Director

Resource dependency theory posits that the success of any firm does not only hinge on its ability to manage resources but rather and more importantly its ability to secure crucial resources from the environment (Ruigrok, Peck and Tackeva, 2007). Moreover, the responsibility of which rest on the shoulder of the board of directors. Hence, foreigners on corporate board not only add to board competence in term of skills and knowledge but also brings with them different values, norms and understanding (Ruigrok, Peck &Tackeva, 2007).

The inclusion of foreigners on board shows firm's willingness to improve monitoring and commitment to corporate transparency (OXelheim & Randoy, 2002). Consistent with agency theory argument, the independent of the board of directors is paramount to the board ability to discharge it statutory role. To achieve board independence, agency theory clamour for higher percentage of non-executive directors.

This paper argues that demographical diverse board are more independent. Ruigrok, Peck and Tackeva (2007) posit that foreign directors are not connected with closed domestic network and are independent of management. Their presence on board signals to investors, most especially minority foreign investors whose firm is professionally managed and their right safeguarded (OXelheim & Randoy, 2002). Consequently, a professionally managed firm reduces auditor's perceived risk due to effective monitoring role of the board. Hence, it is expected that the overall audit fees is reduced. Likewise, from the audit demand perspective, the presence of foreigners on board might necessitate the demand for high quality audit. As mentioned earlier, foreign directors tends to have different exposure to governance practise, and are bound to import their foreign ideas in the way local companies are managed. This makes the board to demand for an expanded audit scope to protect their reputational capital.

In light of this argument, the current study proposes the following:

H8: The presence of foreign director on board influence audit fees.

3.2.2.7 Establishment of risk management committee

To strengthen financial reporting process and to enhance internal control process, the 2011 SEC code made provision for the establishment of risk management committee. The existence of a risk committee will affect audit fees due to several factors.

One function of the risk management committee is to provide an oversight of reviewing and approving the company's risk management policy, risk tolerance and risk strategy. Added to this function, the committee is expected to review the company's compliance level to applicable laws and regulatory requirement. Thus, researchers (Goddard & Masters, 2000; Simunic, 1980) have found that the planned audit hours increases as the internal control process of the organisation diminishes. Therefore, the presence of risk management committee is expected to strengthen the internal control processes as a result, the expected audit hours and audit fees are lower. However, in a bid to improve the quality of financial reporting and ensure compliance with various regulatory requirements, the risk management committee, demand for high quality audit can as well influence the audit pricing.

Considering reported results, the following hypothesis is stated:

H9: The establishment of risk management committees affect audit fees.

3.2.2.8 Establishment of corporate governance committee

The new code of corporate governance as issued by the Nigeria security and Exchange commission in 2011 requires public listed companies to establish corporate governance committee. This committee is charged with the sole responsibility of seeing into the appointment, remuneration, evaluation of individual board member performance and establishing succession plan policy for CEO and other executive position, among others (SEC code, 2011).With the establishment of this committee, expectedly the board will be made of individuals that strive for best quality financial reporting and audit quality

Based on the aforementioned developments, the current study proposes the following:

H10: The establishment of corporate governance committees significantly influence audit fees.

3.2.3 Audit Committee Characteristics

As firstly noted above, section 359 (3) & (4) of the Companies and Allied Matter Act 1990, requires that public limited liability company should establish an audit committee consisting of maximum of six members and dull represented by the shareholders, management and board member (CAMA, 1990). The Nigeria code of corporate governance further recommends that the audit committee make up of strong and independent minded individuals should be established. In its definition of efficiency, the code recommends that the committee should consist of only one executive director and at least a member of the audit committee should be financially literate to read and understand the annual report and external auditors report. In addition to this, non-executive directors serving on the committee should be independent of the company in respect of contractual relationship that might impair personal judgement. Submissively prior researchers report that audit committee independence and financial expertise improves the effectiveness of audit committee. The audit committee plays an intermediary role between the management and the external auditors, which makes independence of member to override individual self-interest. Independence is a concept that refers to a state of mind of not being influenced either monetary or in kind which, permit audit committee members in position of trust to give opinion without compromising personal integrity. Nigeria code of corporate governance emphasises that majority of the members should comprise of non-executive directors as it is believed that non-executive directors have the will to express independent judgement even when contrary to management wishes or a significant shareholder (McCabe & Nowak, 2008). It is widely postulated that an independent audit committee will demand high quality audit service either by increasing the scope of work to be done thereby increasing the overall time and test of procedure carried to be conducted or requesting the management to employ the service of a reputable external auditors. The rationale for independent audit committee to demand for high quality audit as identified by Mat Zain, Subramaniyam and Goodwin (2004) and Robinson and Jackson (2009) is that non-executive directors are not personally and financially connected with firm. Therefore, they are more likely to be objective and painstaking in performing their duty. More so, non-executive directors tend to be more concern with their reputational capital, which promotes them as been proficient in managing company's affairs.

Consistent with this line of reasoning Carcello et al. (2002), Abobott et al (2003), Mat Zain, Subramaniyam and Goodwin (2004) and Goodwin-stewart and Kent

(2006) find a positive association between the level of audit fees and the independence of the audit committee. Conversly, Felix et al. (2002) document a negative relationship between audit committee and audit fees.

3.2.3.1 Audit Committee Expertise

Nigeria corporate governance code further states that at least a member of the audit committee should be financially literate. This is because most of the oversight functions to be performed by them involve assessment of the company risk management and accounting policies adopted by management as its affect the performance of the company. Logically the absent of a financial expert on audit committee makes the committee to make sub-optimal decision (Mat Zain, Subramaniyam & Goodwin, 2004). Section 404 of the Sarbanes Oxley Act 2002 defines financial expert as a literate that have a better comprehension of the general accepted accounting principles, financial statement and the role of audit committee.

Extant studies on audit fees in relation to audit committee expertise show a positive relationship between both variables. For instance, Godwin-Stewart and Kent (2006) examine the relationship between audit fees, audit committee presence and internal committee presence in an organisation. Results from their studies show that audit committee expertise is positively affected by audit fees when meeting frequency and independence is low. In a similar vein, Vafeas and Waeglein (2007); Yatim et.al (2006) and Abott et.al (2003) observed that audit fees are positively related to audit committee expertise. On this note, the study postulates the following;

H11: Audit committee expertise significantly influence audit fees.

3.2.3.2 Audit committee diligently

Audit committee needs to be diligent before it can effectively discharge its statutory required role. Researchers have mostly use audit committee meeting as proxy for measuring the committee diligent (Yatim et al., 2006; Carcello, 2002). The major factor that impedes the efficiency of committee is its ability to meet regularly and complete its assign duty (Carcello et al., 2002). Stewart and Munro (2007) posit that the frequency of meeting and the auditor attendance at such meeting affect audit fees. Where auditors attend such meeting frequently, the perceived audit risk is reduced. However attending such meeting is an additional cost to the auditor (Stewart & Munro, 2007).

Thus the current study postulates the following:

H12: Audit committee diligent significantly influence audit fees.

3.3 Population

Population refers to all conceivable elements within the geographical boundary of researcher interest, at a particular point in time (Shekaran & Bougie, 2009). The target population for this study include all public listed companies on the floor of Nigeria stock exchange excluding banks and other financial institution. Base on the Nigeria stock Exchange fact book (2010), there are two hundred and thirty three public listed companies in Nigeria. This figure represents the total number of public listed companies. The researcher's choice for public listed companies is informed by the fact that only public listed companies are required to file a company of their audited report with the Nigeria Stock Exchange. Hence, data needed are available and can be easily collected from the annual report of public listed companies in Nigeria.

3.4 Sample frame

A sample frame defines the entire sampling element in a population, which forms the basis of drawing a sample (Shekaran & Bougie, 2009). Going by this definition, the Nigeria Stock Exchange facts' book of 2010, which contain the names of all public listed companies in Nigeria, is used as the sample frame for this study. Whilst the impact of audit fees on ownership structure and corporate governance affect all companies in the sample frame, the study exclude banks and other financial institutions due to their capital structure, regulatory framework and tendency of biasness. In all, thirty- five (35) sectors make up the Nigeria economy. However, since the study exclude banks and other financial institutions, the sample frame reduced to thirty-one sectors making up one hundred and fifty two companies. Numbers of companies selected from each sector depends on the availability of the annual report in the library of the Nigeria Stock Exchange Ilorin, Kwara State branch to be precise. Similarly the annual reports were searched for online through company's website and other available online source.

3.5 Research Sample

Scheaffer, Mendenhall and Ott (2006) define a sample as a collection of sampling element drawn from a frame. Sample is a subset of all elements that make up the entire population. However, for a valid statistical generalization and conclusion to be reached regarding the sample, the sample must fully represent all the units contain in the population (Shekaran & Bougie, 2009).

To draw a valid conclusion in this study, companies were selected based on the annual reports that are readily available at the time of data collection will constitute the sample size of the study. Evidence available shows that senses of record keeping is lacking. There are no data banks and this has led to situations where in most cases older copies of annual report were destroyed to make space for new ones (Othman, 2011). Thus, the final sample size consists of 123 firm annual report observations with 66 and 59 observations for the year 2010 and 2011 respectively. Table 3.1 below provides the industrial distribution for the sample. The sample size shows the difficulties researchers face in sourcing for data for empirical studies in Nigeria.

Table 3.1 Sector representation of the sample size

INDUSTRY	No of company	percentage
Agriculture & Agro-Allied	3	4
Airline service	2	3
Automobile and Tyre	2	3
Breweries	3	4
Building materials	4	5
chemical and paint	6	8
Commercial and service	3	4
Computer and Office Equipment	3	4
Conglomerate	5	7
Construction	3	4
Engineering and Technology	2	3
Engineering and Technology	1	1
Food / Beverages and Tobacco	4	5
Health care	6	8
Hotel and tourism	2	3
Industrial and Domestic product	5	7
information communication & Telecom	3	4
Media	2	3
Packaging	5	7
Petroleum (Marketing)	4	5

Printing and Publishing	3	4
Real Estate	1	1
Road and Transport	1	1
Total	73	
		100%

Table 3.2 Sample selection procedure

	2010	2011
Total listed companies	213	218
Banks and other financial institutions	(81)	(71)
Not available online and at the Nigeria stock exchange library as at time of data collection.	(67)	(89)
Total number of companies in the final sample	65	58

3.6 Model development and Measurements of variables

In line with prior literature on audit fees, this study employs the audit fees model introduced by Simunic (1986) as extended by Chan et al (1993) and Boo and Sharma (2008). In addition to using variables that reflect internal corporate governance mechanisms (i.e. Board characteristics, audit committee efficiency and Ownership structure), the study as well introduces control variables used by existing studies. These variables include Auditee riskiness, Auditee complexity and Auditee size.

Table 3.3 Variable and their measurement

Variables	Measurement	Adopted from
Institutional Block shareholding	Institutional Shareholders with at least 5% of the total share of the company	Sullivan, 2000
Foreign ownership	Dummy variable One if outstanding shares are substantial owned by foreigners, zero if otherwise.	Che Ahmad, 2001
Board independence	Proportion of non-executive director on board.	Sullivan, 2000
Foreign directors	Number of Foreigners on board to board size.	Che Ahmad, 2001
Board ethnicity	A dummy 1 variable for board compose of diverse ethnic group.	New variable
Risk management committee	A dummy variable one if present and zero otherwise	New variable
Corporate governance committee	A dummy variable one if present and zero otherwise	New variable
Board size	Number of directors sitting on the board of a firm in a particular financial year.	Che Ahmad, 2002
Board diligence	Number of meetings conducted by the board of directors.	Carcello et al, 2002
Audit committee Expertise	Dummy variable one if present and zero otherwise	Yatim et al. (2006)
Board share ownership	The percentage of shares held by directors.	Yatim et al. (2006)
Complexity	Ratio of inventory and receivable to total assets and Number of business segment.	Gul, (2006)
Size	Turnover	Chan et al, (1993)
Risk	Shareholder equity to total assets	Chan et al, (1993)
Auditor status	A dummy variable one if audited by Big four and zero if otherwise	Gul, (2006); Yatim et al, (2006)

Note, Che Ahmad and Houghton (2001) measures foreign board of director's presence on board by considering only foreign owned companies. However, for the purpose of this study foreign director's presence combined both domestic and foreign owned companies. In Nigeria the presence of foreign directors is common among some domestic companies.

3.6.1 Research Model specification

The purpose of developing a research model is to describe the relationship between independent variable (internal corporate governance mechanisms) and dependent variable, which answer the research questions posed in this study. To test the impact of ownership structure and corporate governance mechanisms on audit pricing, this study uses panel data regression as the sample of companies was observed over two years period.

In panel data set, better estimates are obtained because of the pooling effect assumption. Similarly it take cares the problem of omitted variables which may cause biased estimates in a single individual regression (Asteriou & Hall, 2007).

Unlike the pure cross sectional or time regression series analysis, panel data provides solution to control time invariant factors that are not control for in either cross sectional or time series studies (Wahab, Zain & James, 2011; Yunos Ismail & Smith 2012). Meanwhile researchers have shown that OLS which has best unbiased estimator property (BLUE) still has spurious regression which biases the result. It has limited ability to show the clear effect or influence (Asteriou & Hall, 2007). This is due to the problem of data availability that will span across 30 years period.

In panel data, there are three main models pool effect, fixed effect model (FE) and random effect model (RE). The difference between the three models lies in the treatment of the individual effect (Gujarati, 2006). In pool regression, model individual effect is absent. However, in FE the individual effect is said to be correlated with other regressors while such is ruled out in the RE model. Thus in order to choose the appropriate model Husman test was run (Rasak, 2013). Hausman test check whether the errors (U_i) are correlated with the regressors. If pro>chi2 is < 0.05 (i.e. significant) the fixed effect model is use.

A generic panel data is written as:

$Y_{it} = \beta_0 + \beta_1 X1_{,it} + \ldots + \beta_k X_{k,it} + \gamma_2 E_2 + \ldots + \gamma_n E_n + u_{it} + \varepsilon_{it}$

Where

Y_{it} is the dependent variable (DV) where i = entity and t = time.

–$X_{k,it}$ represents independent variables (IV),

–β_k is the coefficient for the IVs,

–u_{it} is between entity error term

ε_{it} *is* within entity error term

–E_n is the entity n. Since they are binary (dummies) you have n-1 entities included in the model.

–γ_2 is the coefficient for the binary repressors (entities).

Therefore base on the above, this study estimate the following audit fee model using panel data methodology to test the research hypothesis developed:

$LOGFEE_{it} = \beta 0 + \beta 2DFL_{it} + \beta 3MGROWN_{it} + \beta 4BLKSHARE_{it} + \beta 5BIND_{it} + \beta 6BSIZE_{it} + \beta 7BDILIG_{it} + \beta 8DETHNIC_{it} + \beta 9FDIRECTOR_{it} + \beta 10RISKCOM_{it} + \beta 11CORPCOM_{it} + \beta 12ACDILIG_{it} + \beta 13ACEXP_{it} + \beta 14TOVER_{it} + \beta 15RITA_{it} + \beta 16BISSEG_{it} + \beta 17GEARING_{it} + \beta 18BIG4_{it} + u_{it} + \varepsilon_{it}$

Where, for each company ($_i$) and each year ($_t$); LOGFEE represents natural logarithm of audit fees; MGROWN represent direct managerial ownership; DFL represents dummy for Foreign equity; BLKSHARE represents block share ownership; BIND is the Board independence; BSIZE is the Board size; BDILIG is the Board diligence; DETHNIC represents dummy ethnic composition; FDIRECTOR represents board nationality; ACIND represents Audit committee independence; ACEXP is the Audit committee expertise; TOVER represent turnover; RITA is the receivable and inventory to total asset; BISSSEG represents number of business segment; GEARING represents shareholder equity to total debt ; BIG4 represents Big four audit firm; u_{it} is between entity error term ε_{it} *is* within entity error term

3.7 Data Source

In this research work, the annual report of sampled companies was used to gather relevant data needed. Annual report is an important channel through which companies communicate their corporate governance structure. Ben Othman and Zegghal (2010) as reported by Othman (2011) noted that annual report is the most valued source of information by financial analyst and manager in emerging economies. Both quantitative and qualitative data were hand collected from the annual report. The quantitative data are financial information extracted from the balance sheet, income statement and note to the account and it includes. Audit fees disclosed in annual, total asset of the company and debt. While the qualitative information are those related to governance practise, more specifically the ownership structure of the firm along with activities and characteristics of the board.

3.8 Collection procedure

This involves the method used in collecting the data for the study. According to the sample of this study, 2011and 2010 annual reports of 74 public listed companies excluding banking and other financial institution were collected. Since data collection may be time consuming and tasking in developing countries due to lack of online annual report services and commercial database. Annual reports of companies were retrieved from the Nigeria stock Exchange archive. For easy access to the company's annual reports a letter of introduction to the Nigeria stock exchange was obtained from Othman Yeop Abdullahi Graduate School Universiti Utara Malaysia. The researcher visited the library of Nigeria stock exchange both in Abuja being the Headquarter and the Ilorin office where photocopies of the annual reports were made for conveniences. In all, it took 3 months starting from December 2012 to February 2013 to gather the annual reports.

The choice for 2011 as the study period is informed by the mandatory changes in reporting and auditing requirement that bade the year farewell. Firstly, the new corporate governance code issued by the Nigeria Security and Exchange Commission in 2011 is supposed to be voluntarily adopted by all listed companies by April 2011. In addition, the federal reporting council vested with the responsibility of ensuring transparency and appropriate disclosure practise was established in the same year 2011. Secondly, all listed companies are to adopt the international financial reporting by the end of year 2012 and 2011 precedes the adoption year. It is expected that this period is of significant to the study. In lieu of all these recent development, it is expected that corporate governance practise will be greatly affected compared to previous year.

3.9 Data Analysis Technique

Two methods of data analysis were employed for the purpose of this study. The first analysis is the descriptive analysis which provides some frequencies and averages. And the second analysis technique is the panel data regression analysis. These were run using STATA 11.

3.10 Unit of Analysis

Individual public listed companies excluding bank and other financial institutions on the Nigeria stock Exchange made up the unit of analysis of this study. Each public listed company was evaluated in accordance to its corporate governance structure in relation to audit fees.

CHAPTER FOUR

RESULT AND DISCUSSION

4.0 Introduction

This chapter provides data analysis and findings of the study. The findings relate the research objective and the research questions in chapter one with hypothesises developed in chapter three. However using a different statistical method and a different regulatory setting, (i.e. random effect panel regression analysis method), the study aim to examine deeply the impact of ownership structure and corporate governance mechanisms on audit pricing in Nigeria. Analysis was conducted to test the impact of independent variable on dependent using random panel regression model and was run with the aid of STATA version 11.

4.1 Sample profile and Descriptive statistic

This section provides the sample profile which includes composition of the sectors used in this study and the overall percentage and also the descriptive statistic of this study.

4.1.1 Sample profile

Table below shows the sample composition of the sectors used in the study. The sample represents some of the sector making up the Nigeria economy with exception of financial institutions. The majority of the samples come from Chemical and Paint, Health and care; industrial and domestic product representing 8%, 8% and 7% of the sample size with only 1% from Emerging market, Real Estate and Road and Transport. The remaining sample companies are from Agriculture and Allied, Breweries, Commercial and Service, Computer and Office Equipment, Construction Information and Telecommunication representing 4% each. Likewise, Airline service, Automobile and Tyre, Engineering, Hotel and Tourism, Media and Printing and publishing took 3% each out of the whole sample, and finally Building Material, Food and Beverages and Tobacco and Petroleum (Marketing) taking 5% each.

Table 4.1 Sample composition in percentage

INDUSTRY	No of company	Percentage
Agriculture & Agro-Allied	3	4
Airline service	2	3
Automobile and Tyre	2	3
Breweries	3	4
Building materials	4	5
chemical and paint	6	8
Commercial and service	3	4
Computer and Office Equipment	3	4
Conglomerate	5	7
Construction	3	4
Engineering and Technology	2	3
Emerging	1	1
Food / Beverages and Tobacco	4	5
Health care	6	8
Hotel and tourism	2	3
Industrial and Domestic product	5	7
information communication & Telecom	3	4
Media	2	3
Packaging	5	7
Petroleum (Marketing)	4	5
Printing and Publishing	3	4
Real Estate	1	1
Road and Transport	1	1

Total	73	100%

4.1.2 Descriptive statistical analysis of variables

Table 4.2 reports descriptive statistic for the full sample of 124 firm yearly observations, which were used to run the audit fees model. The table reveals the values of the mean, minimum, maximum and standard deviation. LOGFEE represents dependent variable; while DFL, INSBLCK, INDIBLK, BLKSHARE, DBOTSHARE, INBOTSHARE, BIND, BSIZE, BDILIG, ACDILIGENT, ACEXP, DETHNIC; BNATIONALITY, RISKCOMM and CORPCOM represent ownership and corporate governance mechanisms. Also the audit fees model used in this study includes control variables that were used in prior studies (e.g. Chan et al, 1993; Boo & Sharma, 2008; Gul, 2006) TOVER, RITA, GEARING, BIZZSEG, BIG4, and NOSUB.

As shown in table 4.2, the audit fees for the sampled companies' ranges between [7]400,000 Naira and 134,624,000 Naira and on the average, foreign owned companies represented by the DFL has the mean value of .3951613. Around 61% of the directors of the sampled companies are independent on the average. The number of board meeting held ranges between 3 and 15 firms with most firms having a mean of 5 meeting in the years. Moving to audit committee characteristics, the mean percentage of audit committee member with accounting and financial expertise is 57% while in respect to audit committee diligent the number of meeting held in the years ranges from 1 to 8 with mean of 3.2%. Also, as shown in the table RISKCOM and CORPCOM have a mean value of 36% and 27% respectively indicating that less

[7] 165 Naira to a Dollar

than half of the sampled companies have the presences of this committee (i.e. Risk management committee and Corporate Governance Committee).

In addition the 62% of the sampled firm are audited by the BIG 4 auditors, with subsidiary ranging between 1 to 14 subsidiaries in sample with a mean value of 3%. The sampled firms have an average gearing of 144% and mean RITA is 1.113628.

Table 4.2 Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
LOG FEE	123	15.90332	1.121585	12.89922	18.718
DFL	123	.398374	.4915655	0	1
BLKSHARE	114	48543.01	18003.54	4665.6	85216.32
MGROWN	123	.1367882	.3738998	0	3.794124
BIND	99	.608603	.1634536	0	1
BSIZE	121	8.801653	2.350957	5	16
BDILIG	118	4.70339	1.475204	3	12
ACDILIG	113	3.168142	1.133127	1	8
ACEXP	108	.537037	.500951	0	1
DETHNIC	123	.5121951	.5018956	0	1
FOREIGND	123	3.52e+07	3.90e+08	0	4.32e+09
RISKCOM	122	.3606557	.4821709	0	1
CORPCOM	122	.2704918	.4460457	0	1
TOVER	123	2.56e+10	5.21e+10	2.47106	2.39e+11
RITA	122	-1.113628	1.000706	-4.314109	3.991636
GEARING	123	143.9349	737.5562	0	7155.956
BIZZSEG	121	2.082645	1.446759	0	5

BIG4	123	.6178862	.4878915	0	1
NOSUB	121	2.958678	2.919465	1	14

Table 4.3 Shows result on the bivariate statistical correlation among all the relevant variables. The correlation table shows that an audit fee which is the log of audit fees is significant at ($p< 0.001$) and positively correlated with BIND at ($p< 0.05$), BSIZE at ($p< 0.001$), BDILIG at ($p<0.001$), ACEXP at ($p< 0.05$) and DETHNIC at ($p<0.10$). The correlation among other independent are moderately okay.

Table 4.3 Correlation matrix

	1	2	3	4	5	6	7	8
1	1.0000							
2	0.4089	1.0000						
3	0.1766	0.1354	1.0000					
4	-0.2037	-0.2167	***0.086	1.0000				
5	**0.0037	0.1059	***0.0117	-0.2914	1.0000			
6	0.2454	0.1442	-0.2745	-***0.0001	*0.0100	1.0000		
7	***0.0035	-**0.0038	-*0.0863	**0.0398	0.1648	***0.0021	1.0000	
8	***0.0065	**0.0354	**0.0423	-**0.0124	0.1016	-0.1162	0.4140	1.0000
9	-**0.0214	0.3577	-***0.0008	***0.0059	0.2313	-0.1070	-0.1068	*-0.0991
10	-*0.0681	-**0.0420	-**0.0390	0.1574	-0.1079	0.1622	-0.1788	-*0.0909
11	0.3182	0.6610	0.3339	0.1824	0.1345	*0.0728	-**0.0227	-**0.0429
12	0.1483	-*0.0888	-0.2117	-0.1425	**0.0184	*0.0585	0.1534	-0.1564
13	0.1620	0.1980	-0.1559	*0.0864	0.1521	0.2815	0.1813	-*0.0832
14	0.6992	0.1940	0.1894	-0.1302	**0.0395	0.3933	-*0.0831	-**0.0437
15	-0.2181	0.1685	-*0.0872	0.1740	-0.1932	**0.0579	**0.0413	0.1153
16	0.2330	-**0.0028	0.2236	-*0.0605	**0.0275	-**0.0455	-0.1486	-**0.0152
17	0.2406	0.1623	0.1558	*0.0558	-0.1778	0.2209	***0.0073	-0.1012
18	0.3408	0.1439	0.1338	-0.1942	-***0.0050	-0.2830	0.1341	0.1714
19	0.2528	**0.0206	-**0.0019	**0.0261	-0.2356	**0.0543	-*0.0877	-**0.0197

	9	10	11	12	13	14	15	16	17	18
9	1.0000									
10	***0.0009	1.0000								
11	0.3236	0.0596	1.0000							
12	-0.1300	-0.2360	-0.1060	1.0000						
13	*0.0521	0.0311	0.1844	0.3925	1.0000					
14	-*0.0067	0.0435	0.1146	0.0845	0.1546	1.0000				
15	***0.0071	0.0587	0.0575	-0.1025	0.0448	-0.123	1.0000			
16	**-0.0177	-0.1740	-0.0460	0.0861	-0.0210	0.3072	-0.226	1.0000		
17	-**0.0032	0.1062	0.3374	0.1364	0.2533	0.2312	0.1522	-***0.0000	1.0000	
18	-***0.0007	-0.1070	*0.0062	0.2107	-0.1180	0.1630	**0.0003	***0.0033	*0.0723	1.0000
19	-0.1113	***0.0000	-0.1420	-0. 9001	-0.1150	0.2290	0.1890	-***0.0000	***0.0000	0.1230

Note ***Correlation is significant at 0.01 levels, **Correlation is significant at 0.05 levels, *correlation is significant at 0.10.

Where: 1= LOG OF AUDIT FEES; 2= DFL; 3= BLKSHARE; 4=MGROWN; 5= BIND; 6= BSIZE; 7= BDILIG;8= ACDILIG; 9= ACEXP; 10= DETHNIC; 11= FDIRECTOR; 12= RISKCOMM; 13 = CORPCOM; 14 = TOVER; 15=RITA; 16= GEARING; 17= BIZZSEG; 18=BIG4; 19=NOSUB.

4.2 Inferential Statistic and Measurement of Relationships

In order to answer the research question raised in this study, 12 hypotheses were tested using panel data regression model so that the results of the study can be inferred statistically. The first three hypotheses tested the impact of the various ownership structures on audit fees. While the remaining hypotheses test the impact of corporate governance mechanism on audit fees.

H1: There is a negative relationship between managerial ownership structure and audit fees

H2: There is a negative relationship between block share ownership and audit fees

H3: Foreign owned companies pay higher audit fees compare to indigenous companies

H4: There is a positive relationship between boards of director's independence and audit fees

H5: Board diligence significantly affects audit fees.

H6: Board size significantly and positively affects audit fees

H7: Board ethnic diversity is negatively affects audit fees

H8: The presence of foreign director on board influence audit fees

H9: The establishment of risk management committee affect audit fees

H10: The establishment of corporate governance committees significantly influence audit fees.

H11: Audit committee expertise significantly influence audit fees.

H12: Audit committee diligent significantly influence audit fees.

4.2.1 Multivariate Analysis

The researcher studies the impact of ownership structure and corporate governance mechanisms on audit fees using panel data regression model. At the initial stage, both the fixed effect model regression and the random effect model were run using STATA version 11. All variables under this study were tested in accordance with Pallant, (2007). According to Pallant t-calculated above 1.96 or less than -1.96 are significant at alpha = 0.05, while t-calculated should be significant above 2.56 or less than -2.56 for two tailed test at alpha = 0.01. Consistent with the preceding, significance of variables for this study were determined using statistical significance of the t-calculated value compared with the t-distribution table at alpha = 0.05 for this study.

4.2.2 Poolability test

In panel data, the first thing to start with is to test whether the series can be estimated through a panel data or through a pooled OLS (Baltagi, 2008). Poolability tests if the slopes are the same across group or overtime. Base on the result obtain from STATA version 11, the null hypothesis which state that all a_i zero is to be rejected (Baltagi, 2008). Accordingly the OLS regression is biased and inconsistent thus indicating the presence of individual bias. Therefore panel data estimation is better than a pooled OLS.

4.2.3 Panel data regression model

In panel data regression model there are two models namely: fixed effect model (FE) and random effect model (RE). The difference between the three models lies in the treatment of the individual effect (Greene, 1997).). Thus in order to choose the appropriate model Husman test was run (Hausman test check whether the errors (U_i) are correlated with the regressors. If pro>chi2 is < 0.05 (i.e. significant) the fixed effect model is use (Greene, 1997). The Hausman test as presented in appendix C shows a probability less than greater than 5%, so the null hypothesis was rejected, hence random effect model is appropriate for the study.

4.2.4 Random Effect model (Nested effect variable)

Suspecting the problem of variance estimation and heteroscedasticity the vce (robust) stata estimation command was use to obtain a robust variance estimate that adjust for within the cluster estimation. Vce represent variance estimation that might occur within the variables while robust corrects the problem of heteroscedasticity that might occur in the random effect model (Baum, Nichols & Schaffer, 2011; Windmeijer, 2005).

The reasons for variance estimation and heteroscedasticity are due to the fact that panel data were correlated by unit identifier (firm id code) which allow for within firm correlation but ignores across firm error. Thus clustering by time period allows for common shocks, but assume that errors associated with a given firm are independently distributed. In this case, considering time random effect would absorb all within the year clustering, the vce (robust) option specifies how to estimate the variance–covariance matrix (VCE) is corresponding to the parameter estimates. Expectedly, the result improve when compared with the random effect result contain in appendix B, which shows the robustness of this model. Table 4.4 present the result for variance estimation and heteroscedasticity.

4.3 Significance estimate of the study

4.3.1 Control variables

The result of the random panel data regression model revealed that the control variables such as size, Big4 are all positive and significantly affect audit fees. However gearing as a proxy for risk was not significant with audit fees. Similarly RITA a proxy for complexity shows a negative and significant relationship, though other measure of complexity i.e. number of subsidiary and number of business segment were positively related to audit fees.

4.3.2 Hypothesis 1: There is a negative relationship between managerial ownership structure and audit fees

Hypothesis 1 predicts a negative association between managerial ownership and audit fees. The researcher measure this by the number of directly held shares by the board of directors divided by the total shares in issue. The coefficient for MGROWN is negative and significant (0.001 $p < 0.05$) and this result supports the first hypothesis that managerial ownership structure negatively impact audit fees. The interpretation of this result is that firms with high managerial ownership are less prone to manager's opportunistic behaviour, thus reducing the overall perceived risk by audit and consequently reducing the audit fees to pay by auditee. This report supports the hypothesis that managerial ownership negatively significantly influence on audit fees.

The result of this study provides support to previous studies conducted in the area of audit fees. Following previous research, the empirical result shows that managerial share ownership is a desirable mechanism that may reduce the cost associated principal-agent relationship.

Table 4.4 Random effect (Nested effect variable)

fee	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
DFL	.338	.072	4.71	***.000	.198	.479
BLKSHARE	-1.570	1.160	-1.36	*.087	-3.840	6.910
MGROWN	-.156	.048	-3.27	***.001	-.250	-.063
BIND	-.344	.292	-1.18	.238	-.916	.227
BSIZE	.023	.065	0.36	.722	-.105	.151
BDILIG	-.001	.060	-0.02	.988	-.118	.116
ACDILIG	.094	.111	0.85	.398	-.124	.313
ACEXP	-.064	.025	-2.60	***.009	-.113	-.016
DETHNIC	-.064	.155	-0.41	.680	-.367	.239
FDIRECTOR	.866	.261	3.33	***.001	.356	1.376
RISKCOM	.164	.059	2.79	***.005	.049	.278
CORPCOM	.074	.037	1.99	***.046	.001	.147
TOVER	8.440	2.510	3.36	***.001	3.510	1.340
RITA	-.244	.036	-6.75	***.000	-.316	-.174
GEARING	.000	.000	0.53	.595	-.000	.000
BIZZSEG	.021	.003	5.85	***.000	.014	.028
BIG4	.350	.161	2.18	***.029	.035	.664
NOSUB	.067	.025	2.70	***.007	.018	.115
_cons	14.440	.801	18.03	.000	12.870	16.010
R-sq: within =	between	overall =	Prob	>F0.000		

0.7143	= 1.0000	0.7123

Note: ***, **,* imply significant at 1%, 5% and 10% levels.

Findings of this study is consistent with finding of related researches (Mustapha & Ahmad, 2011; Wahab, Zain & Haron, 2009; Mitra et al. 2007; Peel & Clatworthy, 2001; Chan et al, 1993) which found managerial ownership to have significantly negative effect with audit fees. This result implies that the greater the managerial ownership in an organisation the lower is its audit fees.

4.2.3 H2: There is negative relation between block share ownership and audit fees

The coefficient for BLKSHARE as measure by Institutional Shareholders with at least 5% of the total share of the company is negative and weakly significant (-0.0865p > 0.05). This result shows that block share ownership affects audit pricing in Nigeria. This finding is consistent with Adelopo et al (2012) and Mitra et al, (2007).

The finding suggests that the higher the level of block share ownership, the lower the level of audit fees. This indicate an increase monitoring function on the part of Block shareholders, meaning that control and reporting practices in the company is greatly monitored, so that the extent of audit procedure and test require by auditor to arrive at their opinion is reduced.

4.2.4 H3: Foreign owned companies pay high audit fees compared to indigenous companies

Hypothesis 3 predicts that foreign owned companies pay higher fees compared to indigenous companies. The coefficient for DFL is positive and significant (0.000<p

0.05). And this result supports the hypothesis that foreign owned companies in this sample pay higher audit fees. The finding provides support to the agency theory argument which suggests that as control become highly separated from ownership (geographical boundary in this case) the higher the agency cost rise. This is because managers tend to act more opportunistically. In situations like this shareholders rely more on auditors report (Sullivan, 2000). Hence the scope and quality of audit demand is high, which invariably increase audit fees (Mitra et al, 2007). Similarly it can as well be argued that in order to reduce their bonding cost and to attract more foreign shareholders, management of the sampled companies demand for more audits or employ the service of big4 audit firms (CheAhmad, Houghton & Yusof, 2006).

4.2.5 H4: There is a positive relationship between board of director's independence and audit fees

The hypothesis states that board of director's independence positively impact audit fees. This was measure by the proportion of non-executive director on board, the regression result on table 4.4 shows that the coefficient for BIND is negative and insignificant at 0.34446. Hence the hypothesis was not supported.

4.2.6 H5: Board diligence significantly affects audit fees.

The above hypothesis states that, board diligence significantly affect audit fees. However, the result of study found no evidence to support that Bdilig significantly influence audit fees among the sampled companies. Hence, the study reject alternate hypothesis.

4.6.7 H6: Board size significantly and positively affects audit fees

The hypothesis states that board size significantly influence audit fees. The coefficient for BSIZE is positive and not significance (0.722, $p > 0.001$) and this result does not support the sixth hypothesis that board size significantly and positively affect audit fees among the sampled companies.

4.6.8 H7: Board ethnic diversity negatively affects audit fees

The above hypothesis states that there is an association between board ethnic diversity and audit fees. The coefficient of board ethnic diversity is negative but not significantly related to audit fees. This result implies that ethnic diversity enhance board monitoring role as a result of information diversity has defined by board skill diversity and different knowledge base. Standardized coefficient = -0.0638366, t = 0.680 $p>.10$, which is not significant.

4.6.9 H8: Presence of foreign director on board influence audit fees

This hypothesis states that board nationality, as measure by the proportion of foreign nationals on board to total board size is positively associated with audit fees. The result of the random effect model regression analysis shows that board nationality is positively associated with audit fees; standardized coefficient = .8662485, 0.001 $p< 0.001$. This findings shows consistency with the claim of OXelheim and Randoy, (2002) that the inclusion of foreigners on board signals firm’s willingness to improve monitoring and commitment to corporate transparency.

This implies that for the sampled companies, the presence of foreign directors on board leads to demand for more audit quality, which invariably increases the audit fees charge by directors. Hence, this finding supports the hypothesis.

4.6.10 H9: The establishment of risk management committee affects audit fees.

Hypothesis 9 states that the establishment of risk management committee is associated with audit fees. The standardized coefficient= .1636855; 0.046 < 0.005. Hence, the establishment of risk governance committee is significantly associated with audit fees.

4.6.11 H10: The establishment of corporate governance committee significantly influence audit fees

This hypothesis states that the establishment of corporate governance committee is associated with audit fees. The coefficient results on table 4.4 reveal that the establishment of corporate governance committee positively affect audit fees. Coefficient = .0740358, 0.005p< 0.001. Hence the finding support the hypothesis

4.6.12 H11: Audit committee expertise significantly influence audit fees.

It was hypothesized that audit committee expertise as measure by the presence of a financially literate member on board significantly impact audit fees. The coefficient result on table 4.4 shows that audit committee expertise significantly and negatively affects audit fees. The coefficient is = -.0644015, t= -2.90, p<0.05. Hence, this hypothesis is supported.

4.6.13 H12: Audit committee diligent affect audit fees

This hypothesis states that audit committee diligent is associated with audit fees, however the regression result on table 4.4 shows that audit committee diligent is not a significant determinant of audit fee. Hence, the finding does not support the hypothesis

4.3 Chapter Summary

This chapter discourse the procedures use for data analysis. To answer the research question in this study, twelve research hypothesises were formulated and tested through random effect regression model. This model was adopted in investigating the impact of ownership structure and corporate governance mechanisms on audit pricing. Some of the hypotheses were significant therefore the findings of this study were statistically supported.

CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 Introduction

Now, with globalization and advancement in capital market, transparent and reliable financial information, through high quality audit determine the survival of country’s capital market. The quality of audit affects capital market operation, since audited financial statement is supposed to give true and fair information of the company affairs, which often guide investor’s decision in the market (Kilgore, Radich & Harrison, 2011). Motivated by recent development in the corporate world vis- a -vis indictment of accountants and board of directors in corporate collapse and the yawn to strengthen corporate governance practise in Nigeria, this research study examine the impact of ownership structure and corporate governance mechanisms on audit pricing in Nigeria.

This study adopts audit fee model used by prior researchers (Boo& Sharma, 2008; Chan et al, 1993) by introducing factors that were likely to affect audit fees in the regulatory environment under consideration. The impact of board nationality, board diversity and the two new sub board committee introduced in the Nigeria code of corporate governance (i.e. risk management committee and corporate governance committee) was introduce into audit pricing model. The result of the random panel data regression model revealed that the control variables such as size, Big4 are all positive and significantly affect audit fees. However gearing as a proxy for risk was not significant with audit fees. Similarly RITA a proxy for complexity shows a negative and significant relationship, though other measure of complexity i.e.

number of subsidiary and number of business segment were positively related to audit fees.

Going to the hypotheses variables board nationality, risk committee and the presence of risk management committee were all positive and significantly associated with audit fees. This finding is consistent with demand side argument of audit pricing. The demand side argument states that due to reputational capital risk, litigation risk and increase the confidence of investors in the board and its committees will demand for more auditors' effort in order to reduce agency cost and enhance the quality of audit report (Zaman, Hudaib & Haniffa 2011; Robinson & Owen-Jackson, 2009; Mitra, Hossain & Deis, 2007; Carcello, et al, 2002). Meanwhile managerial ownership and board ethnic diversity were negatively associated with audit fees, with board ethnic diversity showing an insignificant relationship. This is in line with supply side argument, which posits that an effective corporate governance mechanism can militate against all the risk associated with external audit, which by implication reduce external audit fees and improve audit quality (Zaman, Hudaib & Haniffa 2011; Robinson & Owen-Jackson, 2009).

5.2 Research Contribution

An important contribution of this study is the introduction of Nigeria companies into the field of audit pricing. Empirical evidence shows that research on the impact of ownership structure and corporate governance mechanism on audit pricing have not receive much attention in the sub-Saharan African specifically Nigeria. Thus, this study adds to the scanty literature on audit pricing in developing countries.

Consequently, the study introduces variables that reflect corporate governance regulatory environment within the Nigeria context. These variables include board ethnic diversity, presence of foreign directors, the establishment of risk governance committee and corporate governance.

The important role played by audit price in ensuring quality audit as expound in this study, is expected to enhance firms management understanding how its corporate structure and operating result affects reporting quality. Therefore, more appropriate steps could be taken to ensure proper company management

5.3 Limitations and future studies

Like other empirical works, this research is not perfect and has various limitations that require the findings to be interpreted within the purview of the highlighted limitations.

First, the sample use in this study is too small; reasons clinch to the problem of data availability as at the time of data collection and the period for MSc program. Most of the annual reports were not available at the Kwara state branch office of the Nigeria Stock Exchange. In addition, the present study excludes banking and other financial institutions due to their reporting structure. To this extent, the result of the sample may suffer from sample bias. Future studies should use larger sample in order to get a more robust result. Furthermore, the number of years use in the study should be improve upon by examining the pre and post implementation of the new 2011 SEC code and the establishment of the financial reporting council in Nigeria. It is expected that the examination of these two periods will enhance knowledge in respect of the impact of the new corporate governance rules on audit pricing in Nigeria.

Secondly, contextual variables that will capture corporate governance practice in Nigeria distinct from what is obtainable anywhere else should be introduced in future studies on audit pricing in Nigeria. Probably, such variable can serves explains variation in audit fees better within the Nigeria context. Such variables can emanate from ownership structure type in the country or the dominance of one ethnic group in board structure, if possible in line with risk averseness and business shrewdness of each ethnic group.

Thirdly, non-audit fees are lumped together with audit fees in the annual report consequently the study use auditor's remuneration. However, the study does not expect non-separate disclosure of these to affect the findings of the study because it is less relevant in Nigeria. Lastly, consistent with resources dependency theory, future studies within this regulatory setting can examine the impact of networking (i.e. Political connected firms) and board negotiation skill on audit pricing.

5.4 Policy implication and recommendation

This study has been structured to enhance contribution to both knowledge and practise and its finding have an important relevance to regulators and the general public. In this section, an outline of suggestions for regulators and practitioner was enumerated to facilitate the implementation of the study outcome.

Foremost, the study has implication on board characteristic and audit committee characteristic as investigated in the study. The effectiveness of both the board of directors and audit committee cannot be overemphasis, as both determine the extent of compliance with corporate governance codes in an organisation. An independent board for instance will discharge its duty without fear of dominance or intimidation from an individual. Accordingly, there is likelihood that non-independent board compromise their statutory monitoring role which increases the risk associated with an external audit. Similarly in widely disperse ownership structure, like foreign owned companies in the sample; the cost of monitoring (Audit fees) is very high. This has the implication that agency problem is heightened in this companies due to geographical separation between ownership and control.

Meanwhile, the immense contribution of listed companies to national growth has made issues revolving round corporate governance to be inevitable. Audit pricing being one of such issue have not been given much attention per se in the country. Moreover, evidence emerging from this empirical study has shown that ownership structure along with other corporate governance mechanisms are important factors that impact audit pricing in Nigeria. In lieu of these findings, it become imperative on policy makers to promulgate policy that check the excesses of audit fees been paid to auditors. This will go in a large extent to improve disclosure and reporting practises in the country, thereby restoring public confidence in the audit profession.

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