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**ABNORMAL AUDIT FEE AND AUDIT QUALITY: THE MODERATING EFFECT OF BANK
SPECIFIC CHARACTERISTICS IN NIGERIA**

DORAH MAJOR

**Department of Accounting
Edo State University Iyamho, Edo State-
Nigeria.**

Dabor.ola4real@yahoo.com

Abstract

The overall objective of this research is to ascertain the moderating banks' specific characteristics on the relationship between audit quality and abnormal audit fee. The study cover a period of twelve years, that is, 2010-2024. This period was chosen because it is synonymous with audit reforms that originated after the going under of the some big audit firms. Multivariate regression technique will be employed using panel data. The use of panel data in this study will be based on three fundamental justifications a moderator has negative moderating effect on the relationship between abnormal audit fee and audit quality. The results reveals that the board size has a positive relationship audit quality. The effects estimation reveals client risk has a positive moderating influence on the relationship between abnormal fee and audit quality. Additionally, the reveals firm complexity has no significant effect on abnormal audit fee and audit quality. The study first, suggestion for further study is to repeat the study introduce audit committee variables as moderator. Second, intending researchers that wish to via into the subject matter in future should focus on the oil and gas sector only.

Introduction

In the eleventh century, the evolution of audits can be linked to the growth of corporate entities. There was a pressing need to hire assessors who would function as a check against any potential conflicts of interest among principals, executives, and other stakeholders (DeAngelo, 1981). The use of an auditor as a monitoring device simply implies that he is used to improve the dependability of the reports produced by directors. Despite the hiring of auditors to ensure a high-quality audit result, there have been documented incidents of audit botches all around the world in recent years. The audit gaffes of the previous two decades have made it both necessary and desirable for academics to focus their research on this gray area in order to determine the determining variables of fraud and misrepresentation of final reports. The lack of sincerity on the side of auditors was proven to be one of the

key factors that led to audit failures in the last two decades, particularly in industrialized nations.

Several studies (Ahmed, Duellman. & Abdel-Meguid, 2006; DeAngelo, 1981; Chung & Kallapur, 2003) have linked financial report incredulity to the lack of auditor independence. Extant literature reveals that auditors frequently cave in to management pressure in order to avoid being fired by executive directors. The motivations for auditors to give up their independence, according to DeAngelo (1981), are based on the client's worth. The auditor pricing divided by the total amount paid to the auditor by all of his clients in a particular accounting year is how a client's worth is assessed. Even when ethical accounting principles were breached by the preparers for monetary advantage in the name audit fee, the auditor must decide whether to mortgage integrity by offering a biased assessment.

Chung and Kallapur (2003) go on to say that unusual audit fees can rob auditors of their objectivity by clouding their judgment and making them idiosyncratic rather than neutral in their audit assessment. The debate over whether there is a link between auditor remuneration and the proclivity for the auditor to be subjective in expressing his opinion is theoretically unclear because it is clear that auditors are only concerned with the enormous remuneration without considering the negative impact a failed audit will have on their brand name. Anecdotal data suggests that when an auditor receives an unusually large or low charge from clients for an audit, the extent to which readers of financial information can trust the audit report is questioned. When an auditor is paid an unusually low audit fee for an audit engagement, it is unprofessional because it will almost always result in a low audit output.

Similarly, when an auditor receives an unusually large price from a client for an audit engagement, it is considered unethical since the auditor will ignore serious misstatements in his client's financial report in order to keep his job. Blankley, David, Hurtt, and MacGregor (2012), opine that unusual audit fees might cause the auditor to become financially attached to their customers, resulting in economic bonding. The authors also argue that unusually high audit fees indicate that a lot of effort was put into the audit, whereas low auditor remuneration indicates that little effort was put into the audit, implying poor audit quality. Following a series of audit failures, audit reforms were enacted around the world to prevent this perilous scenario from recurring. The aforementioned form the motivation of the study.

The constant demand for auditors and the audit souk pricing are reflections of the auditor's energy. Even though a lot of previous studies (Choi, Kim, & Zang, 2010; Hope, Kang, Thomas & Yoo, 2009; Frankel, Johnson, & Nelson, 2002) made effort to examine the association of abnormally high audit pricing visa-a-vise audit quality, the relationship is thought to be vague (Larcker & Richardson, 2004). Nevertheless, the incomparable responsiveness on auditor independence has been more severe Post-Enron's era and evidences behind qualitative audit and excess audit pricing remain unresolved. However, anecdotal evidence further shows that current audit reforms made many audit firms to (plus a number of the major audit outfits globally) merge and transform themselves into multi-specialty organizations that render a variety of non-audit services to their audit clients. This issue has drawn the attention of scholars on how audit pricing influence audit quality. Some scholar

argued that these developments made the auditor to construct some apparatuses that will measure the effect the audit quality on audit pricing.

Nonetheless, the audit reforms that followed a series of audit gaffes revealed that there are other external factors that influence the degree to which abnormal audit pricing affects audit quality. According to certain studies, the legislative framework is one of the most important external elements that influences the relationship audit quality and a typical audit prices. This, however, defies logic, which assumes that excessive audit remuneration is the only factor affecting audit quality. Legal framework safeguards stakeholders' concern and make sure that auditor performs his job within the sphere of the legal framework. The problems surrounding abnormal audit fee and stakeholder protection within legal framework have been extensively discussed. On the contrary some research works also reveal that corporate governance intermediates the influence of excess pricing on audit quality. This study majorly focuses on the influence banks specific characteristics on the association of abnormal audit fee with audit quality. Prior studies failed to mention these factors. Factors that proceed from clients' quarters are termed as bank specific and they include: bank size, bank profitability, bank risk and bank complexity.

Literature Review

Conceptual Framework

Audit quality

Audit quality is undoubtedly a multifaceted and ambiguous notion. This topic has sparked numerous disputes, yet little has been written about it. Several academics (Like, Lennox, 1999; Levourc'h, & Dean, 2011; Lidang, 2004; Miettinen, 2011) have attempted to characterize the topic area over the last two decades. Despite this, there is no universally accepted definition for the topic. This is because audit quality is determined by auditor judgments, which are based on the perspective from which the definition is supplied.

Bazerman, Loewenstein, and Moore (2001) argue that the outcome of an audit is frequently unobservable, and that audit quality is fundamentally what it isn't. To illustrate audit outcomes, they employ indirect but measurable proxies. They also show that poor audit quality can be traced back to the re-presentation of previously created reports, the presence of unusual accumulations, or when the audit task contains anomalies.

When accounting reassertion or miss-presentation is discovered, De Angelo (1981) defines audit quality as the likelihood that it would be reported. She emphasizes that audit quality is determined by the auditor's capacity to detect errors in the reports submitted to him by directors, as well as his ability to act independently as regarded by investors. Auditor quality is defined by Teoh and Wong (1993) as the perceived trustworthiness of earnings reporting.

Palmrose (1988) defines audit quality in terms of assurance because the primary goal of an audit is to provide assurance that a financial report is free of significant errors. In a nutshell, this definition used the audit's findings, namely the dependability of the evaluated financial reports, to show audit quality. Titman and Truman (1986) define audit quality in terms of the accuracy of the accounting presented to stockholders by the auditor. Lam and Chang (1994), qualitative auditing

should be defined on a case-by-case basis rather than on a firm basis. A noteworthy glitch that originates from this definition is if one ought to distinguish audit quality from auditor quality.

Arens, Elder and Beasley (2012) opine that audit quality is the auditor's aptitude to discover and divulge noteworthy mistakes in the financial accounts prepared by managements. The ability of the auditor to discover error is a measurement of his adeptness, whereas is willingness to disclosure misstatement is an indication of his ethical code or truthfulness to autonomously give his audit judgment.

According to the US Government Accountability Office (GAO), a qualitative audit is one that is performed in accordance with generally accepted auditing standards (GAAS) and provides adequate assurance that the company account audited and related information reported are first, stated in accordance with GAAP and second, do not contain significant errors or dishonesty. Because defining audit quality is a difficult task, legislative bodies, scholars, and authorities view audit quality as a rejection and define it as "not." It was recently articulated by the International Auditing and Assurance Standards Board (IAASB) based on the aforementioned configuration for quality audit. IAASB (2011) also organizes conventional wisdom and the most important determinant of audit quality. These determining elements were classified as inputs, outputs, interactions, and contextual factors. Academics (Like,Lennox,1999; Levourc'h,& Dean,2011; Lidang,2004; Miettinen,2011) argue that auditor characteristics and the audit team are dynamic input constituents, and that individual characteristics such as auditor aptitude, professional understanding, and expertise skepticism are essential variables in determining the value of an auditor's judgment. On the other hand, this might be described as audit quality determinants. Buyer-related stimuli, such as maintaining the buyer and financial attachment to the client, diminish both quality audit and expert judgment of the auditor, according to Abdel-Khalik (1993).

According to Francis (2004), an auditor's efforts must be compelled by the degree of intricacy and danger in order to determine the actual audit work performed. When the complexity and risk of the upsurge increase, studies on audit assignments reveal that auditors put in greater effort and spend more labor hours.

Abnormal audit fee

Choi,Kim and Zang (2010) define abnormal fees as the variance amid real audit fees paid to auditors and the anticipated average level of fee paid the auditor. From an inclusive viewpoint, abnormal auditor remuneration can be seen as "client-specific quasi-rents". Chung and Kallapur (2003) assert that collecting a given amount of money as remuneration will tempt the auditor thus veiling his sense of objective reasoning while performing his professional duty. The authors additionally elucidated that an auditor remuneration is made up of two harmonious constituents namely: normal and abnormal .The first constituent shows the real fee paid by a client. It is calculated by the segregating all variables that all clients have in common, like size, complexity and risk. The second constituent reveals the excess auditor remunerations that are peculiar to an auditor-client association. Krishnan, Zhang and Sami (2005) document that abnormal auditor remuneration is a quantification of under or over payment for audit services rendered by an auditor. Ahmed, Duellman. and Abdel-Meguid (2006) suggest that the diverse outcomes acquired from positive

and negative abnormal audit fees put the subject matter draw the attention scholars in recent times. Auditors are very likely dance to the gallery to do the bidding of his paymaster. When the client pays excessive high remuneration, auditor are also likely to compromise audit quality.

Bank specific characteristics

There are certain features that every firm possesses irrespective of their nomenclature. However, it is important to also stress that there are some attributes that are peculiar to certain categories of firms. Banking industry for example, has some attributes that are peculiar to banks alone. This study combines both common and specific firm attributes to derive bank specific attributes. The following bank specific attributes will be reviewed in this section

Bank Complexity

Bank complexity refers to the number of operational branches a bank has nationwide. Thinggaard and Kiertzner (2008) categorize complexity into two groups. First, is complexity of substance. This is challenge that has validating effect on the final account audited by an auditor. This is linked with variables like the firm type, the accounting benchmarks for verification and quantification, and the degree professional judgment needed with regards to the likely magnitude of the consequence of forthcoming occasions. Second- technical complexity, this complexity does not in any way have link with business reporting after each question about recognition and quantification has been dealt with. In line with the first arrangement it is presumed that several components of final accounts pose potential threat to the auditor. In concordance with this opinion academics use receivables and inventories to proxy items in the final account that cannot be straightforwardly discovered if they are without of substantial misstatement or not.

Prior research work reveals that (Naser et al., 2007; Thinggaard & Kiertzner 2008; El-Gammal 2012; O'Keefe et al., 1994; Ahmad et al., 2006; Gonthier-Besacier & Schatt, 2007) auditor remuneration is significantly resolute by the degree of the client's complexity. Client complexity has drawn concern accounting researchers because of the fundamental role it assumes in auditor remuneration. It is presumed that auditors will need additional time and effort to perform audit task for client with many branches. Ananthanarayanan (2011) document that firm's stratification, topographical subdivision and number branches surge the complexity of a firm. He further contends that additionally subdivision and lot of subsidiaries requires a more audit exertion and more labour hours because of the diverse sizes of the different segments. More subdivisions and subsidiaries infers extended labour hours, widespread travel hours, extra time for familiarization with the probable various configurations of each subsidiary and extra time for amalgamating the records at corporate headquarters. Foreign subsidiaries will certainly add additional work load to the audit task.

Previous research work employed numerous proxies to quantify firm complexity for instance, simunic 1980; Francis and Simon 1987 employed number of subsidiaries to measure complexity. Caneghem (2010) used the amount of industries in which the firm is active. Caramanis and Spathis, (2006) used percentages of receivables to revenue while Naser et al., (2007), Gonthier-Besacier

and Schatt (2007) used the percentage of stock and unresolved payables to revenue and the advancement level.

Joshi and Al-Bastaki (2000) reports that when an auditor's client operate in complex business ecosystem, that is, it is involved in numerous types of trades or has branches overseas, the audit task becomes more intricate. The authors contend that complexity overheads will upsurge as number of subsidiaries upsurge.

Bank Profitability

Client profitability divulges the degree at which an auditor will probably be exposed to a risk in the circumstances where by the client goes under due to bankruptcy (Simunic, 1980). Too diminutive revenue and high degree of anomaly in earnings can lead to greater risk and enormous audit exertion. Firms that announce losses in present financial report can effortlessly influence the auditor's judgment in its favour. Such corporate entities are probable to be involved in suspicious financial reporting which can definitely make audit firm to be vulnerable greater risk (Ananthanarayanan, 2011). Firms with lackluster performance are vulnerable to high audit posse higher threat hence are expected paid more than firms with lower risk. Some researchers contend that companies with good financial performance are subjected to strict examination by the related authorities and this might require extra audit exertion.

Knapp (1985) reports that Client Support Personnel (CSP) recognized that unhealthy competition in the audit market has surge the likelihood that the auditor will give in to pressure mounted on him by directors in face of audit conflict. Additionally, the authors expounds that auditor resistance mechanism deteriorates when confronted by big clients with huge profits. Wright and Wright (1997) employ the waiver of regulating audit judgment and found that of likelihood of the auditors expressing modified disclaimer is contingent on client's magnitude. Nevertheless, when tries ascertain effect earnings, they do not find palpable evidence of prejudice towards bigger clientele.

There are numerous dimensions for profitability in existing literature these include: Return on Investment, Return on Assets and Return on Equity and (ROI, ROA and ROE).

Bank Risk

Prospect theory asserts that man is risk averse in issues where probable gains are set before him and on contrary search for risk when faced by impending losses. Bazerman (1991) asserts that in precarious situations auditors will certainly employ a more stern negotiation methodology and will undergo series of negotiation with the client. Logical reasoning require the auditor remuneration will be higher as client's with greater risk. Anecdotal proof also reveals that auditors are probable to compromise quality for riskier client that pays excesses remuneration.

Threat is examined by auditors at the commencement of the audit assignation. This will allow the auditor to draw out the scope of audit task in order to prevent audit botch. A risky firm require intensive audit testing. Customarily it infers that the riskier an audit assignation is more the higher the auditor remuneration. The client risk is interrelated with auditor remuneration hence the anticipated sign for this association is affirmative. To ascertain the dimension of client risk is

undeniably an onerous task because it divulges the numerous facets of client operations.

Anderson and Zeghal (1994); Simon, (1995); Johnson *et al.* (1995); Simon *et al.* (1996); Sandra and Patrick (1996); and Langendijk (1997); Joshi and Al-Bastaki (2000); and report that to quantify client risk is challenging, as no particular proxy for quantifying client risk is seen suitable. The percentage of inventory and payable figure to total assets was employed by several researchers (Anderson & Zeghal, 1994; Firth, 1985; Johnson *et al.*, 1995; Low *et al.*, 1990; Langendijk, 1997; Simon, 1995; Simon *et al.*, 1992) to quantify client risk.

Spathis (2003) opines that the percentage of inventory and payable to total assets shows the threat on assets that inhabit the time expended an audit task and labour hours.

Waresul and Moizer (1996), Joshi and Al-Bastaki, (2000) and Carson *et al.* (2004) employed leverage to proxy risk. They describe leverage as the percentage of total assets to long-term debt.

Hay *et al.*, (2007) use the twofold furthestmost convoluted items on the final account to proxy the degree risk a business is vulnerable to. These components are inventory and payable. According to Hay *et al.*, (2006) the summation of payable and inventory divided by total assets will reveal the degree of risk of an client's operations. Low *et al.* (1990) employ liquidity and gearing ratio to ascertain the level of client's risk. Low, Koh and Tsui (1984) suggest that liquidity and gearing ought to be calculated using current assets to long-term liabilities and current liabilities current assets to current liabilities ratio. The authors view this fraction as one most reliable ratio for evaluating risk. Karim *et al.* (1996) employ financial performance indexes to establish client risk. They explicate that firms financial losses implies great degree of risk and implies lack of funds. Low *et al.* (1990) additionally elucidate that in addition to losses, expression of the opinion 'subject to' or the presence of contingent liabilities within period that the task was performed is a reflection of high degree risk in previous year. Chan *et al.* (1993) opine that souk rooted measures for risk are healthier dimensions for quantifying clients' operating risk although not empirically proven.

In spite of the contention that excess auditor remuneration is associated with audit quality and by extension contingent on additional audit time and intense audit exertion, several researchers argue that (Boo & Sharma, 2009; Krishnan & Visvanathan, 2008; Tsui *et al.* 2001) there is also a possibility that tremendously low auditor compensation lead to qualitative audit. A supply-based perspective used when an auditor realizes that the client's corporate governance configuration is well constructed, it is perceived that the client is sustained by daunting check and balance apparatuses this will definitely reduce the degree of risk. In this type of condition the client is pay lower remuneration to the auditor.

Board Composition:

This refers to the number of independent non-executive directors on the board relative to the total number of directors. (Undiale, 2010). It is the percentage of those directors function on the board that do not occupy managerial offices in the firm. Board composition is the ratio of non-executive and non-executive directors or external executives to the entire board size. The configuration of a board ought to

display a multiplicity of thought, upbringings, abilities, proficiencies and technical know-how and a variety of tenures that are suitable given that the company's present and predicted situations and that jointly permit the board to do its oversight job successfully. Section 4.1 of 2011 code of Corporate Governance in Nigeria report that the board would configured in a manner as to make sure that multiplicity of expertise without threaten independence of members. Section 4.3 of the code adds that the board should consist of a mixture of executive and non-executive directors to be headed by a chairman, who shall be a non-executive director. Most of the board members will be non-executive, a minimum of an independent director. The code stipulate that the board should comprise of three classes of directors: Executive director, non-executive director and independent non-executive director. An extensively research question is whether independent board affect audit quality. Fama and Jensen (1983) assert that independent directors have reasons to examine activities of firm diligently, because they strive to safeguard their reputations as real watch dog of management. There is a competitive managerial position market in the banking industry making autonomous directors to be disturbed about their reputations (Pathan, 2009). Since they are in a position to curtail excess of management, independent directors are unarguably more effective in barring unscrupulous behaviour, thereby plummeting possible agency conflicts.

Wagner (2011) reports that de facto CEO control can ascend as a result absence of board competency, even if the board is autonomous. Although non-executive directors better supervisors of management, they might not have comprehensive knowledge of the internal mechanism of the banks like executive directors (Adams, 2012). Adams (2011) documents that banks that received bailout from the government all independent boards, holding to the fact that independent board does not automatically translate to strict monitoring. The author drew the conclusion that autonomous board may not ineludibly be advantageous to banks because non-directors may not at all times have the know-how required to handle multifaceted banking firms. Undeniably, the proof on the association of board independence with financial firm performance

Theoretical framework

Economic bonding theory

Economic bonding theory elucidates the ties amid the client and auditor. The theory elucidates that audit fee produces a bonding of auditor and the buyer of audit service. The theory additionally elucidates that when the auditor remuneration received from a particular customer make up the largest percentage total income of an auditor thus economic attachment become inevitable. The theory is champion in contemporary era by Hasen (1999), Frankel et al. (2002) and Gul Gul, Jaggi Krishnan (2007). Gul, Gul, Jaggi and Krishnan (2007) assert that economic bonding can be seen as 'acquaintance and special relations amid the auditor and his clientele. Frankel et al. (2002) perceived economic bonding as a carrot for the auditor to give in to client's pressure thus lowering audit quality through earnings management. One foremost apprehension of non-proponents of this theory has been that, at what degree will attachment to client snowballs into economic bonding. Their claim is rooted on fact that bonding does not essentially imply economic bonding. They additionally contend that the association economic bonding with auditor independence is rectilinear. In reaction to the assertion of non-proponents of

economic bonding theory Abbott, Parker., Peters and Raghunandan (2003) assert that client significant can be employed as a quantification for the degree of bonding. They contend that if a particular client is big and so significant that an audit firm money-wise depends on it, then likelihood that the audit firm will be induced to bow pressure from the client is high. They additionally contend that in this kind of condition the auditor can go as far as overlooking noteworthy mistakes in the final account of that firm since at this point an economic bonding occurs between the audit firm and that client. Some schools of thought (acolytes of economic bonding) align with the theory and assert that auditors will do the bidding of their clients as long as the economic bonding is at the precise levels, even when they know the consequence of audit botch on enormous investors' money. Advocates of economic bonding theory contend that it is hard to perceive that auditors economically knotted to their client for meager amount and proportionately give in to unscrupulous demands of their client. In other words it implies that for economic bonding to exist between client and audit firm the client must be large enough and income received from it essential form a momentous portion of total income of the audit firm.

The argument put forward in this research work is that auditor remuneration in general creates bonding between auditor and client and this tie will not have emblematic effect on audit independence apart from fact that it exceeds the economic tie benchmark. Beyond the benchmark, auditor autonomy is radically impaired hence audit quality is compromised. The point at which auditor remuneration culminates into economic bonding is regarded to as abnormal audit fee. To discover the bench of economic bonding has been the subject of debate amongst scholars. Hansen (1999) suggested a model that can be employed to detect the threshold above which auditors will endanger their reputations for larger economic bonding. The model assists to elucidate the organizational modification when there is a nonlinear association audit quality with excess auditor remuneration. DeFond and Francis (2005) contend that the lots of studies that employed linear models established that fee dependency might transpire only when audit fee exceeds the benchmark.

Krishnamurthy et al. (2006) assert that when expected revenue from a potential client association exceeds reputation cost then it is plausible that auditor independence is threatened. These authors additionally emphasize that when an auditor is unwilling to take the risk of losing a client then the possibility of auditor independence being impaired is high.

This study disagrees with DeAngelo (1981) that contends that even with the existence of economic bonding, the litigation cost and the potential reputation loss would deter auditors from compromising their independence. This additionally brings to bear the contention that auditor independence can be compromised when economic bonding amid client and auditor exceeds the set benchmark. Based on this the study predicts that when auditor is independence the relationship between abnormal audit fee and audit quality will be negative.

Methodology

Population and Sampling technique

The population of the study comprises all banks listed on the floor of the Nigerian Stock Exchange (NSE) between 2010 and 2021. Despite these inter-

temporal influences, all banks within the period of the study that have been delisted NSE. Conversely all quoted banks invariably adequately make the entire population as at the period under review and will be examined for the study. Judgemental sampling technique will be employed to select fourteen (14) banks. The banks selected are banks that were not involved in any form of merger or acquisition during the period under review.

Data Source

The study will employ a secondary source for extraction of information needed. Data kept in the archive will be employed for this study. Information will be drawn from audited statement of financial reports of the selected firms. Data will be extracted from the annual financial statement of these banks for period under review, 2010-2021.

Model Specification

In line with the theoretic paradigm and existing literatures, the dependent variable and explanatory variables the study will be known in order to examine the moderating effect of bank specifics on the association of abnormal audit fee with audit quality. The association of abnormal audit fees with audit quality in presence of bank specific characteristics will be investigated. Banks specific characteristics are predicted to be moderating variables. The study will use a model to explain the relationship between the dependent, independent variable and the moderating variables. Basic panel data models are a modified version of Choi, Kim and Zang (2006) and Franken (2011) as written below:

$$OPIN_{it} = \beta_0 + \beta_1 NLASSET_{it} + \beta_3 CR_{it} + \beta_4 LOSS + \beta_5 OPCASH + \beta_6 ROA_{it} + \beta_7 AUDTEN_{it} + \beta_8 PROBANK + \beta_9 LEV_{it} + \beta_9 BIG4TEN_{it} + \beta_{10} ACQ_{it} + \beta_{11} INVPRO_{it} + \beta_{12} EXCFESS_{it} + \beta_{13} (EXCFEE * INVPRO) + \alpha \dots \dots \dots (1)$$

Where:

OPIN= Audit opinion it represents audit quality

NLASSET= Natural logarithm of total asset

CR= Current assets

LOSS= Indicator variable

OPECASHFLOW= Operating cash flow

PROBANK= Probability score of bankruptcy

ROE= Return on equity

ACQ= An indicator variable which is equal to one when asset are acquired through pooling of interest and merger

INVPRO= Investor protection

EXCFEE= Abnormal audit fee

EXCFEE*INVPRO= Interaction of excess fee and investors protection

From (1) above the models that will be used for the study were derived.

AQ = f (abnormal audit fee, auditor attributes*abnormal audit)

AQ=f(abnormal audit fee, bank specific characteristics*abnormal)

The functions above can be mathematically written as

Model 1 bank specific characteristics

The model 1

$$AQ_{it} = \beta_0 + \beta_1 ABNAFE_{it} + \beta_2 BRISK_{it} + \beta_3 BCOMP_{it} + \beta_4 (ABNFE * RISK)_{it} + \alpha \dots \dots \dots (2)$$

The model II

$$AQ_{it} = \beta_0 + \beta_1 ABNFE_{it} + \beta_2 BSIZE_{it} + \beta_3 BIND_{it} + \beta_3 (ABNFE * BIND) + \alpha \dots \dots \dots (3)$$

Where:

AQ= audit quality

ABNFE: abnormal fee;

BRISK: Bank risk;

BCOMP: Complexity

ABFEE*BCOMP: interactive term, abnormal audit fees and bank complexity

ABFEE*BRISK: interactive term, abnormal audit fees and bank complexity

ABFEE*BPROF: interactive term, abnormal audit fees and bank complexity

ê: error term

Operationalization of variables

Variable	Definition	Measurement	Source
AQ	Abnormal loan loss provision	Difference between expected loan loss provision and actual loan loss provision	Kanagaretnam et al (2010)
ABNFE	Abnormal audit fee	Is measured as the difference between actual audit fee and normal audit fee.	This measurement was used by Choi, Kim, and Zang(2009) and Zang(2013)
BRISK	Bank risk	Total loan/total asset	
BCOMPLEX	Bank complexity	Number of bank subsidiaries	
BPROF	Bank profitability	<u>PATx100</u> shareholders' fund.	
(BIND) (Independent.	Board Independence	Variable): Board Independence was measured as the number of non-executive directors on the board. The above measure for board independence was used in a similar study by	Uwuigbe (2011)
(ABAFEE*BCOMP)	Interaction between bank	The product between	

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	complexity and abnormal audit fee	abnormal audit fee and bank complexity	
(ABAFEE*BRISK)	Interaction between bank risk and abnormal audit fee	The product of abnormal audit fee and bank risk	

Source: Researcher's computation (2025)

Method of Data analysis

The ordinary least squares regression technique will be adopted as the analysis method. For robustness, the study will use a year by year cross-sectional analysis for fourteen banks and two models will be run with and without interaction using bank specifics and auditor attributes as moderating variables.

Multivariate regression technique will be employed using panel data. The use of panel data in this study will be based on three fundamental justifications. First, the data collected had time and cross sectional attributes and this will enable us to study corporate performance over time (time series) as well as across the sampled quoted companies (cross-section).

Second, panel data regression provide better results since it increases sample size and reduces the problem of degree of freedom.

Third, the use of panel regression would avoid the problem of multicollinearity, aggregation bias and endogeneity problems (Solomon et al., 2012). However, the pooled data analysis neglects the heterogeneity effects in the sampled companies. Against this backdrop, the panel data will be preferred as it allowed for analysis and consideration of the cross-sectional and time-series characteristics of the sampled companies. Consequently, the fixed and random effect will also be conducted in the panel regressions for the models. The fixed panel regression models assume that there is a correlation between the independent variables in each model and their panel error terms. The random panel regression models assume that there is no correlation between the independent variables in each model and their panel error terms. The model specified will be subjected to the necessary statistical tests such as collinearity, normality, homoscedasticity, autocorrelation and linearity.

Presentation and Analysis of Results

Table 4.3 Regression Assumptions Test

Multicollinearity test		
Variable	Coefficient Variance	Centred VIF
ALLP	0.0073	NA
COMPLEX	9.0300	1.0943
BSIZE	5.4200	1.2124
ABAFE	2.1990	2.6402
BRISK	4.1200	3.5188
BIND	1.5902	4.8131
Heteroskedasticity Test: ARCH		
F-statistic = 1.66	Prob. F(7,770)	0.11
Breusch-Godfrey Serial Correlation LM Test:		

F-statistic = 284.56	Prob. F(7,770)	0.6
Ramsey model test		
F-statistic = 4.383	Prob. F(1,769)	0.932

Source: Researcher's Computation (2025)

To further strengthen the result of the absence multicollinearity, we carried out a residual diagnostic test of variance inflation factor . From the in table above, it is observe that the variance inflation factor (VIF) which measures the level of collinearity between the variables show how much of the variance of a variable most likely the coefficient estimate of a regressors has been inflated due to collinearity with the other variables or likely regressors. They can be calculated by simply diving variance of a coefficient estimated by the variance of that coefficient had other regressors not been included in the equation. The VIFs are inversely related to the tolerance with larger values indicating involvement in more severe relationships. Basically, VIFs above 10 are seen as a cause of concern (Landau & Everit, (2003) . RISK reported a VIF of 1.03; COMP1, (1.0); BSIZE (1.21); BIND (4.812) ABFEE (2.640). In conclusion, the VIFs of the variables are all less than 10 indicating the unlikelihood of multicollinearity amongst the variables and hence the variables satisfy a very important condition the multivariate regression analysis.

The ARCH test for heteroskedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05 which lead us to reject the presence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05. The LM test did not, therefore, reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

Table 4.2 Result for Regression

Dependent Variable : AQ	
Variables	Model 1
C	7.3909 {84.173} (0.000)
ABAFEE	0.06819 {2.8895} (0.0492)
COMPLEX	-0.035175 {-1.1619} (0.2456)
ABAFEE*BRISK	4.930015 {3.10060} (0.0020)
R ²	0.658

ADJ R ²	0.63073
F-Stat	23.8826
P(f-stat)	0.0002
DW	1.53

Source: Researcher's Computation () represents p, {} represent t value * represents 5%

From the Ordinary least squares multivariate regression result for model I is presented in table 4.4 it is observed that the estimates are presented for banks because of their peculiar nature. The study result show that abnormal audit fee has positive effect on t quality (AQ) depicted by abnormal loan loss provision. This effect is significant at 5% since $t = 2.889 > 2.5$ and $p < .0492$ at 5% level. The result further revealed firm complexity has a negative effect on audit quality as depicted by abnormal loan loss provision. This effect is not significant at 5% since $t = -1.1619 < 2.5$ and $p = .2456 > 0.05$.

Finally, the result revealed that bank risk has a positive moderating effect on the relationship between abnormal audit fee and audit quality on DMBs in Nigeria. This relationship is emblematic at 5% since $t = 3.1006 > 2.5$ and $p = 0.002 < 0.05$.

In evaluating model I which relates firm characteristics, abnormal audit fee and audit quality the R² stood at 0.650 indicating that the model explains about 65% of systematic variations in audit quality in the Nigerian DMBs. The F-stat ($p = 0.00$) for the model is significant at 5% ($p = 0.05$) it implies that the hypotheses of a linear relationship cannot be rejected at 5%. The D.W stat of 1.4 suggest that stochastic dependence is unlikely between successive units of the error term. In the vein evaluating model which relates auditor attributes, abnormal audit fee and audit quality the R² also stood 0.80 indicating that the model explains about 80% of systematic variations in audit quality for the sector. The F-stat ($p = 0.00$) for the model is significant at 5% ($p = 0.05$) it implies that the hypotheses of a linear relationship cannot be rejected at 5%. The D.W stat of 1.5 suggest that stochastic dependence is unlikely between.

Table 4.3 Result for Regression (Model II)

Dependent Variable : AQ	
Variables	Model I1
C	7.20896 {73.43805} (0.000)
ABAFEE	0.06819 {2.8895} (0.0492)
BSIZE	0.06819 {3.50960} (0.00055)
ABAFEE*BI	7.2090 {73.438} (0.0000)
R ²	0.616

ADJ R ²	0.584
F-Stat	17.054
P(f-stat)	0.000
DW	1.5227

Source: Researcher's Computation () represents p, {} represent t value * represents 5%

From the Ordinary least squares multivariate regression result for model II is presented in table 4.5 it is observed that the estimates are presented for banks because of their peculiar nature. The result show that abnormal audit fee has positive effect on quality (AQ) depicted by abnormal loan loss provision. This effect is significant at 5% since $t = 2.889 > 2.5$ and $p < .0492$ at 5% level. The result further revealed firm risk has a positive effect on audit quality as depicted by abnormal loan loss provision. This effect is significant at 5% since $t = 3.5096 > 2.5$ and $p = 0.000$.

Finally, the result revealed that board independence has a positive moderating effect on the relationship between abnormal audit fee and audit quality on DMBs in Nigeria. This relationship is emblematic at 5% since $t = 73.43 > t$ and $p = 0.0000 < 0.05$.

In evaluating model II which relates firm characteristics, abnormal audit fee and audit quality the R² stood at 0.616 indicating that the model explains about 61% of systematic variations in audit quality in the Nigerian DMBs. The F-stat ($p = 0.00$) for the model is significant at 5% ($p = 0.05$) it implies that the hypotheses of a linear relationship cannot be rejected at 5%. The D.W stat of 1.4 suggest that stochastic dependence is unlikely between successive units of the error term. In the vein evaluating model which relates auditor attributes, abnormal audit fee and audit quality the R² also stood 0.80 indicating that the model explains about 80% of systematic variations in audit quality for the sector. The F-stat ($p = 0.00$) for the model is significant at 5% ($p = 0.05$) it implies that the hypotheses of a linear relationship cannot be rejected at 5%. The D.W stat of 1.522 suggest that stochastic dependence is unlikely between.

Discussion of Findings

The robust estimation results for the fixed effects estimation reveals that the board independence has negative relationship between abnormal fee and audit quality. This implies that having more non-executive director on board will affect the extent to which abnormal audit will impact audit quality. The result is at Enofe al at (2013) which reveal that board independence has positive impact audit quality. This implies that the more board independent the higher the audit fee and the lower the audit quality. This result is in variance with Suseno (2013) which show that audit independence has positive influence on the relationship between abnormal audit fee and audit quality. Consequently, the null hypotheses that audit independence does not have significant mediating influence on the relationship between abnormal audit fee and audit quality in the Nigerian quoted companies is rejected.

The robust regression result using the fixed effects estimation reveals client risk has positive impact on the relationship between abnormal audit fee and audit quality.

This implies that the relationship between client risk and audit quality dwindles in the presence of client risk. This result is in line with extant positive results gotten by Asare, Haynes and Jenkin (2007). Consequently the null hypothesis which states client risk does not have significant moderating influence on the relationship between abnormal audit fee is rejected.

The result shows that firm complexity has no significant moderating influence on the relationship between abnormal audit fee and audit quality. Logical reasoning implies that a firm with many branches has large volume audit work which calls for the hiring of competent audit firm which attracts high audit fee and in-turn leads to higher audit quality. However the result reveals that firm complexity has no significant influence on audit quality on Nigerian money deposit banks. This implies audit quality does depend on the number of foreign branches and subsidiaries a client has. This is contrary to logic reasoning which presupposes that the more complex a firm is the higher the chances of committing material error.

The robust estimation results for the fixed effects estimation reveal that board size has a positive relationship with audit quality. This larger board leads to lower audit quality. This result is in line with Naser et al (2007) which shows that there is a positive relationship between board size and audit quality. The move to IFRS has been surrounded by complaints of too much information being provided. Anecdotal claims by practitioners suggest that the move to IFRS has substantially increased the size of the annual report. Thus the possibility of information asymmetry.

The robust estimation results for the fixed effects estimation reveal that abnormal audit fee as a single variable has a positive impact on audit quality. This implies that abnormal audit fee leads to poor audit quality in the Nigerian DMBs. This result is at variance with Defond et al (2002) and Larcker and Richardson (2004) which show that there is no significant relationship between abnormal audit fee and audit quality. This result is in line with Junxiong (2004) which shows a positive relationship between abnormal audit fee and audit quality. The implication of this result is that abnormal audit fee as a single variable leads to dwindling audit quality. Consequently, the hypothesis that abnormal audit fee has no significant impact on audit quality is rejected.

Conclusion and Recommendations

Conclusion

This study is based on the centrality of the issue of credibility of audit report. Credibility thrives on the integrity of the auditor. However, dependability is the cornerstone of credibility, which in turn guides investors' decision. The crash of some big audit firms due to audit failure has gone a long way to reduce the confidence of stakeholders hitherto have on audited financials. Once investor confidence is tempered with, the whole system is perturbed and a financial crisis is imminent. This study focuses on audit quality of the DMBs in Nigeria. The study is motivated by the audit reforms which took place pre-enron era coupled with the fact that there is paucity of indigenous researches in this grey area (Abnormal audit fee). This study introduced two moderating variables namely; board independence and risk complexity in two econometric models in order to ascertain the moderating effect of these moderators on abnormal audit fee/audit quality relationship. The study used abnormal loan loss as proxy for audit quality. Robust estimation was further used to improve the results.

This study contributes to the audit quality literature by introducing moderating variables, to researchers' knowledge this is the first indigenous study to approach

audit quality from the point of view. The study empirical shows that board independence has a moderator has negative moderating effect on the relationship between abnormal audit fee and audit quality at 5 % level of significant. This implies an independent board will help to checkmate activities that will lead to poor audit quality

Furthermore, the results reveals that the board size has a positive relationship d audit quality at 5 % level of significant. This implies that larger board will lead to poor audit quality.

Additionally, the result reveal that client risk has a positive moderating influence on the relationship between abnormal fee and audit quality. This implies abnormal audit fee and audit quality relationship dwindles in the present of client risk. The result reveals that firm complexity has no significant effect on abnormal audit fee and audit quality.

Finally, the result reveal that abnormal audit fee has positive influence on and audit fee of deposit money banks in Nigeria. This implies that abnormal audit becloud the judgment of auditor thereby leading to abysmal audit quality.

Policy recommendations

The recent audit failures that swept across the globe in the last decade made users of audited financial reports to cast doubt on the veracity of earnings reported by firms and the ability of auditors to effectively curtail the management excesses. The reported cases of collapse of financial institutions have made audit quality a major concern amongst financial experts in recent times. Audit failure is seen as a menace that has led the collapse of corporate giants, both within and without Nigeria. However, the weakness in regulations has posed a great challenge on the mean of preventing the re-occurrence of the menace. Weaknesses in accounting regulations are most times not obvious until they have been exploited by management. An understanding the factors that make audit to or lose its worth will help policy

When a board is independence it is able to curtail the excesses of management. However this study shows that abnormal audit fee impacts audit quality negatively when the board is independence. This study suggest that low-bowling may be responsible for this because in long run the auditor will want maximum profit and end up lowering audit quality even if acts independence of management . It is suggest also suggested that payment of extreme low audit fee by a client can also be responsible for this. It is recommended that charging of extremely low audit fee should be discourage by statutory bodies

Recommendations for further studies

This study focused on the moderating effect of bank specifics audit quality/ abnormal audit fee The first, suggestion for further study is to repeat the study introduce audit committee variables as moderator. Second, intending researchers that wish to via into the subject matter in future should focus on the oil and gas sector only. Finally, the proxies for the auditor independent variable may be changed. A dummy variable should use - If audit fee is above industrial average 1 and if not 0.

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Dependent Variable: ALLP

Method: Panel EGLS (Cross-section weights)

Date: 01/07/22 Time: 06:52

Sample: 2010 2021

Periods included: 10

Cross-sections included:14

Total panel (balanced) observations:140

Linear estimation after one-step weighting matrix

White cross-section standard errors & covariance (no d.f. correction)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.390965	0.087806	84.17376	0.0000
ABAFEE	0.068195	0.036092	2.889506	0.0492
COMPLEX	-0.035175	0.030271	-1.161986	0.2456
BRISK*ABFEE	4.930015	1.590015	3.100640	0.0020

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.658298	Mean dependent var	8.544787
Adjusted R-squared	0.630733	S.D. dependent var	2.984790
S.E. of regression	0.744074	Sum squared resid	398.0712
F-statistic	23.88226	Durbin-Watson stat	1.535222
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.600437	Mean dependent var	7.350135
Sum squared resid	401.9506	Durbin-Watson stat	1.298990

Date: 10/11/27 Time: 01:56

Sample: 2010 2021

Periods included: 10

Cross-sections included: 14

Total panel (unbalanced) observations: 140

White cross-section standard errors & covariance (no d.f. correction)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.208968	0.098164	73.43805	0.0000
ABAFEE	0.068195	0.036092	2.889506	0.0492
BSIZE	3.310005	9.42E-06	3.509608	0.0005
BIND*ABAFEE	7.010011	1.920001	-3.642424	0.0003

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.659127	Mean dependent var	7.250357
Adjusted R-squared	0.620477	S.D. dependent var	1.164159
S.E. of regression	0.717185	Akaike info criterion	2.270630
Sum squared resid	276.7226	Schwarz criterion	2.724979
Log likelihood	-619.1889	Hannan-Quinn criter.	2.447499

DORAH MAJOR

ABNORMAL AUDIT FEE AND AUDIT QUALITY: THE MODERATING EFFECT OF BANK ...

F-statistic	17.05407	Durbin-Watson stat	1.522769
Prob(F-statistic)	0.000000		
