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Audit Quality, Abnormal Audit Fee and Auditor Attributes

Ogujiofor Magnus Nkemjika[1*], Anichebe Alphonsus Sunday. (Ph.D.)[2], Ozuomba, Chidinma Nwamaka[3]
Department of Accounting, Novena University, Ogume, Delta State, Nigeria[1]
Department of Accountancy, Anambra State University Igbariam, Nigeria[2]
Department of Accountancy, Gregory University Uturu, Abia State Nigeria[3]
[1]henrymagng@yahoo.com
[2]tesalfo@yahoo.com
[3]chidinmaozuomba@gmail.com
[*]Corresponding author

Abstract- *The study aimed at finding the relationship between audit quality, abnormal audit fee and auditor attributes. The study employed ordinary least square regression technique to analyze the relationship between the dependent and independent variable. Samples of fourteen banks were selected using judgmental sampling technique. The results reveal the existence of positive relationship between abnormal audit fee and audit quality at 5%. Second, the influence of auditor independence on quality appears to also be positive and significant at 5%. Third, the effect of Auditor tenure on audit quality appears to be positive and insignificant at 5%. The study recommended that apex bank should ensure that all factors that hamper auditor independence should be removed unduly long auditor tenure should be discouraged to avoid over familiarity of auditor with the client.*

1. INTRODUCTION

Evolution of auditing can be linked to the expansion of business enterprises in 1200 (Boeijink, 2011)[10]. Service of auditor became essential resolve the divergence of interests of owners, managers and other classes of investors (DeAngelo, 1981)[17]. Engagement of an auditor is mean to offer a high level of pragmatic guarantee that finance records are not drastically misstated. This reassurance diminishes the hazard of stakeholders making erroneous decision (Franken, 2011)[22]. This guarantee that every firm is prepared to part with money to purchase this service presents added advantages such as low cost of capital. Quasi rent paid by the auditor known as audit fee. Audit fee can divided into parts, that is, the normal and abnormal audit fee. Some author are of the opinion that audit fee serves a gauge for measuring audit efforts and risk of cost ligation risk (Choi, Kim & Zang, 2006)[15].This implies that when auditors exert more audit effort they charge clients more. Other scholars argued that excessive high audit fee is not a reflection of audit effort but rather an attempted bribe audit to give auditor free hand to perpetrate opportunistic behaviour there soothing engagement to its advantage. . Abnormal could be either positive or negative. Excessive high audit fee is seen as positive abnormal while extremely low audit fee is a negative abnormal audit fee. Audousset-Coulier, Cazavan-Jeny and Song (2010)[2] auditor sell their independence on the altar of audit fee. Anecdotal evidence shows that auditor sometimes gives in to pressure from management and issue an unqualified opinion in return for quasi rent. Kinney and Libby (2002) opine that when there is strong economic bonding of auditor to auditee quality audit is lowered. The fees paid to auditors (whether high or low) have the propensity to of beclouding the auditor sense of reasoning (Franken, 2011)[22].

International Federation of Accountant (2010) instituted a standard for negotiating audit services. It further state whatever fees is deemed appropriate, and that there may be threat in terms of compliance with fundamental ethical principles when different fees level are charged.

However, the law requires that financial statement of companies to validate by an independent auditor. Nonetheless, is suffices to point that the law did not expressly state amount auditee should pay services rendered. Some studies have argued that whenever auditor receives abnormally high or low fees from client, audit quality might be compromised. (Choi, Kim & Zang, 2006[15]; Dye, 1991; Xie, Cai & Ye, 2010)[39].When an auditor charges abnormally low fee, this is not unethical provided the audit is carried out at a corresponding quality level but when the fees is high it is unethical because it allows client to engage in more questionable accounting practice. Abnormally high audit fees can make auditor to be financially dependent on their clients and create economic bonding of the auditor to their clients. DeAngelo (1981)[20] argued that audit quality could be impaired when significant economic bonding exists between auditor and clients. This is so because, for clients with higher audit fees, the benefits to the auditor from retaining these profitable clients may out weight the cost associated with allowing substandard reporting.

Hope, Kang, Thomas and Yoo (2009) noted that when auditor remuneration is excessively high, investors may perceive the auditor to be economically bonded to the client, leading to a lack of independence, which could impair audit quality.

Alternatively when auditors receive lower audit fees now in anticipation of high fees in future, the auditor may be vulnerable to client pressure for allowing opportunistic earnings management (Gupa, Krishnan & yu, 2009[26]; Stanley, 2007)[31]. Most of the studies done on abnormal audit fees are in developed countries [Xie , Cai, & Ye, .(2009) [China ; Gupta, Krishnan, & Yu, (2009)[31] [United State]; Paul & Henning,(2013) [Germany]; Blankley, Hurtt & Macgregor, 2012[6] (United state). And of these studies there seem to be inconsistent and inconclusive findings. Therefore this study seeks to investigate the impact and association between abnormal audit fees and audit quality using data from developing nation (Nigeria).

2. LITERATURE REVIEW

2.1 Abnormal Audit Fee

Choi,Kim and Zang. (2010) see abnormal fees as the difference between actual audit fees paid to auditors and the expected normal level of audit fees. In a broad sense, abnormal audit fees can be viewed as "client-specific quasi-rents". Chung and Kallapur (2003) argue that the existence of (positive) client-specific quasi-rents creates an incentive for the auditor to compromise his independence with respect to a specific client. They further explained that audit fees consist of two components namely: normal and abnormal .The first component reflects the normal level of audit fees. It is determined by factors that are common across different clients, like size, complexity and risk. The second component reflects the abnormal fees that are specific to an auditor-client relationship. Krishnan, Zhang and Sami, (2005) document that abnormal audit fee is a measurement for under or over payment for audit services.

Hope, Kang, Thomas and Yoo (2009) ; Choi et al., (2010) and Frankel et al., (2002) [23]measure abnormal audit as the residuals from a regression of total fees on a large number of explanatory variables. Positive residuals represent overpayment while negative residuals represent underpayment

2.2 Audit Quality

De Angelo (1981)[17] defines audit quality as the likelihood that financial errors or omissions will be detected and reported. This definition is often referenced to although and sometimes it is slightly restated. According to her definition, audit quality is an increasing function of an auditor's ability to detect accounting misstatements and auditor independence as assessed by the market.

Palmrose (1988) defines audit quality in terms of level of assurance since the purpose of an audit is to provide probability that financial statements contain no material misstatements. In fact, this definition uses the results of the audit, that is, reliability of audited financial statements to reflect audit quality. Titman and Truman (1986) also define audit quality in terms of the accuracy of information the auditor supplies to investors. Lam and Chang (1994) suggest that audit quality should be defined on an engagement-by-engagement basis rather than on a firm basis. Despite the significant role of audit quality in enhancing quality corporate financial reporting, consensus has not been reached on how audit quality should be measured. Teoh and Wong (1993) [34]suggest that an unqualified audit opinion describes the quality of audited financial statements are free from material misstatements. Krishman and Schaver (2000) measure actual audit quality based on audited financial statements complying with eight specific GAAP reporting requirements. Empirical researchers use audit firm size as a proxy for audit quality. Chaney and Philipich (2005) state that audit quality is usually operationalised in research studies as a Big 5 dummy variable'. This means that until Andersen's collapse empirical studies would count its clients, including Enron, as recipients of high quality audits

The quality of audit cannot be directly observed. Nevertheless prior studies have used a variety of measures as proxy for audit quality. Similarly, there is no agreement among researchers about measurement of audit quality. This view is supported by Boeijink, (2011)[10]. who argues that audit quality is a multi-dimensional potential construct; it is extremely difficult to measure and as a result, the extant literature reflects sundry measures of audit quality. On the same note, Bradshaw, Miller and Serafeim, (2011)[5] found that, consensus has not been reached on how audit quality should be measured. According to the Basel Committee (2008), there is no tool to measure audit quality, but there are recent efforts that appraised how to measure it. In order to measure audit quality, researchers have taken one of the following approaches, which are: (1) direct approach, based on assumption that reporting of contract breaches and the probability of discovery will be reflected in features of the audit such as abuses and errors made by auditors; and (2) an indirect approach by looking at correlates of audit quality (Boeijink, 2011)[10]. However, the direct approach depends on the application of self-censorship by the auditors themselves, thus direct approach is difficult to reach, because it is difficult to report on contract breaches, abuses and errors made by same auditors. In contrast, the indirect approach measures audit quality from an ex-ante perspective either using surrogates of quality or checking the attributes or factors perceived to be associated with audit quality (Boeijink, 2011). Therefore, majority of previous studies that have attempted to measure audit quality have used indirect approach to measure audit quality, and more specifically, have use surrogates of audit quality since audit market participants are generally unable to observe audit quality directly. For example, restatement as a measure of audit

quality (Srinivasan, 2005[32]; Doa, Raghunandan & Rama, 2012)[18]. Comparing audit outcomes between classes of auditor is also used as proxy for audit quality, Big four and non-Big four (Francis & Krishnan, 1999; Weber & Willingbor 2003)[37]. Industry specialist, in addition to a brand name, which is known to offer a high level of assurance than a non specialist. (Craswell, Francis & Taylor, 1995[16]; Beasly & Petroni 2001[7]; Owhoso, Messier & Lynch, 2002; Balsam, Krishnan & Yang, 2003[3]; Reichett & Wang, 2010)[27]. Furthermore an extensive branch of audit differentiation research have focused on the quality of the client financial statements, in which discretionary accruals are often used as proxy for audit quality and they reflect constraints over managements reporting decision.

Thus, Becker, Defond, Jiambalvo and Subramanyam (1998)[8] assert that high audit quality decrease earning management, while Watkins, Hillison and Morecroft (2004)[36] suggest that unintentional measurement error can be reduced by high audit quality. Caramasris and Lennox (2008) [11]measured audit quality by actual engagement hours and show that client earning quality is high when auditors exert more effort in there audit work. Enofe,Mgbame, Aderin and Ehi-Oshio (2013)[21]. analyzed the determinants of audit quality in the Nigerian business environment and the relationship between audit quality, engagement and firm related characteristics such as audit tenure, audit firm size, board independence and ownership structure with a sample size of one hundred (100). They found that audit firm size, board independence and ownership structure were found to be positively related to audit quality; however, only board independence exhibited a significant relationship with audit quality. Audit tenure exhibited a negative relationship with audit quality which was also not significant.

Al-khaddash, Al-Nawas and Ramadan (2013) investigate the factors affecting audit quality in Jordanian commercial banks and found that there is a positive significant correlation between audit quality and audit efficiency, the reputation of auditing office, audit fees, size and the proficiency of auditor. This indicate that auditor should increase their reputation by been objective in their report and maintain a high level specialty in auditing.

2.3 Auditor Independence

De Angelo (1981)[17] defines auditors' independence as the conditional probability that the auditor will disclose any misstatement in financial statements given that this misstatement was already discovered.

Chia-Ah and Karlsson (2010), state that independence can be in two forms namely; independence of mind and independence in appearance. Independence of mind requires the auditor to have a state of mind that permits the provision of opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity and exercise objectivity and professional skepticism independence in appearance requires the auditor to avoid situations that will cause others to conclude that they are not maintaining an unbiased attitude. Another school thought (Hope, Kang, Thomas and Yoo 2009 ; Choi et al., (2010.) sees auditing from three perspectives namely; programming independence, investigating independence and reporting independence. Programming independence essentially protects the auditor's ability to select the most appropriate strategy when conducting an audit. Auditors must be free to approach a piece of work in whatever manner they consider best. While programming independence protects auditors' ability to select appropriate strategies, investigative independence protects the auditor's ability to implement the strategies in whatever manner they consider necessary. Reporting independence protects the auditors' ability to choose to reveal to the public any information they believe should be disclosed.

2.4 Auditor Tenure

A client can change auditors for numerous reasons. Hay, Knechel and Wrong (2006) suggest that one important and common reason for charging low audit fee is to elongate auditor tenure. This is often referred to as low-balling. The auditor needs to retain the client for several years to recover the initial costs incurred in the setting up of the audit under a low-balling regime (Pong et al., 1994). Anecdotal evidence shows that this is a threat to auditor independence. Auditor tenure is commonly measured in two ways. The first is a dummy variable that reflects a recent change in auditor. The second measure is the actual duration of the current auditor engagement. Mandatory audit firm rotation is one the mechanism put in place to improve the quality of audited financial report. This view is consistent with the argument that audit quality is impaired when auditor tenure increases. A reduction in audit quality might occur, because auditors are more likely to agree with managers on important decisions as the length of the relationship between the auditor and the client increases (Reynolds & Francis, 2001).

2.5 Abnormal Audit Fee and Audit Quality

By the nature of their job, auditors have access to firms accounting details. A rational auditor will to an extent possibly incorporate this information into the audit work conducted and the pricing of the audit. Hence the fees charged may contain an element of private information about the firm which may not be publicly available to stakeholders. To the extent that audit fees reflect this private information, the fees will be higher or lower (positive or negative abnormal fees) than would be if the information is publicly available, (Picconi & Reynold, 2013). Choi, Kim and Zang (2006)[15] define abnormal audit fees as the difference between actual audit fees and the expected level of audit fee. They also stated that abnormal fees can be separated into positive and negative abnormal audit fees. From their study, it was noted that with positive abnormal audit fee, the magnitude of

discretionary accrual is positively associated with abnormal fees. This suggests a negative relationship between audit qualities, while with negative abnormal audit fee, the result is not significant. They concluded that with positive abnormal audit fee, the auditor can be influenced by his client. Prior studies have used different measures for abnormal audit fees (Choi et al., 2006[15]; Frankel et al., 2002[23]; Franken 2011[22] and Gros & Worret, 2014)[25]. They measured abnormal audit fees using an abnormal audit fees model as residual from regression of total fees on explanatory variables controlled for normal fees charged by auditor for a given level of effort and risk. The explanatory variables include Size, Revenue, loss, Big-four, ROE, and ROA). This model has also been built upon by numerous studies (Chaney, Jeter & Shivakumar, 2004[13]; Craswell, France & Taylor, 1995[16]; Defond et al., 2002; Frankel, Johnson & Nelson, 2002[23]; Kim, Kwok & Hwang 2005; Picconi & Reynold, 2013).

In an attempt to examine the influence of client importance on auditors' independence, this study follows prior research (Frankel, Johnson and Nelson, 2002[23], DeFond, Raghunandan and Subramanyam, 2002, Larcker and Richardson, 2004, Hoitash, Markelevich and Barragato, 2005, Hope et al., 2008, Hope and Langli, 2009, Choi, Kim, Kim and Zang, 2010) and uses abnormal auditor fees as a measure for client importance. For the computation of EXCESSFEE, total auditor fees (TOTFEE) is regressed on a number of explanatory variables and the residuals of this regression model are used as a proxy for excess auditor remuneration. This means that

total auditor fees comprises both audit- and non-audit fees. The explanatory variables are used to control for normal fees charged by the auditor, given a certain level of effort and risk. This approach is consistent with the suggestion that auditors' independence may be influenced by the amount of fees relative to their expected amount (DeFond et al., 2002). The explanatory variables are motivated by Simunic (1980) and those studies listed above, which predict that auditor fees are a function of (1) client characteristics such as firm size complexity and industry, and (2) auditor characteristics such as audit firm size.

Most stakeholders have confidence in the advice of experts, in this case the auditor. Usually, these auditors face a conflict of interest between their own self-interest and their obligation to provide an objective opinion (Moore, Tetlock & Tanlu, 2006). It is the clients who hire the auditor and pay their auditing fees. Therefore, auditing firms have incentives to avoid providing negative audit opinions to their clients. As mentioned before, the independence of auditors is sometimes questionable. It could be the case that auditors are financially dependent on their clients. A number of researchers study this financial dependency of the auditor-client relationship (Larcker & Scott, 2004).

DeAngelo (1981)[20] suggests that auditor's incentives to comprise their independence are related to client importance. Client importance is typically measured as the amount of fee from a client deflated by the total amount of fees from an audit firm. The auditor has to choose whether to comprise independence by issuing an unqualified opinion in the presence of poor earnings quality, in return for retaining quasi-rents from a key client that is perhaps managing or manipulating earnings. A study by Craswell, Stokes and Laughton (2002) investigates whether fee dependence within the audit firms' offices could affect auditor independence. T results do not confirm that the level of auditor fee dependence can affect auditor propensity to issue an unqualified opinion. Similar results show up in a study by Reynolds and Francis (2000). They do not find evidence that economic dependence affects the audit outcome. Their results suggest that litigation and reputation risk of auditors lead to the prevention or detection of aggressive reporting practices of their clients.

Dye (1991) shows that audit quality is impaired when auditors are overpaid. The studies mentioned before do not pay attention to the difference between normal audit fees and extremely high or low audit fees. The main focus of prior research is on actual audit fees and non-audit fees. Choi et al. (2010) argue that the use of actual fees as a measure of bonding can introduce measurement errors in the regression of fees on audit quality unless cross-sectional differences in effort costs and litigation risk are appropriately controlled for. Kinney and Libby (2002) state that the concept of an economic bond could be refined by distinguishing between total fees and fees in excess of those expected from observable firm circumstances. The unexpected audit fees may more accurately be linked to attempted bribes according to them. Also Hope et al. (2009) conjecture that when auditor remuneration is excessively large, investors may perceive the auditor to be economically bonded to the client, leading to a lack of independence.

There is another distinction that has to be made when examining the fee-quality relationship. According to Choi et al. (2010) abnormal audit fees must be separated into positive and negative abnormal fees. The results of their study show that when the sign of abnormal audit fees is positive, the magnitude of absolute discretionary accruals is positively associated with abnormal fees. This suggests a negative relation between audit quality and positive abnormal fees. When the fees have a negative sign, the results are not significant. So for clients with positive abnormal fees, the auditor is more likely to be influenced by the client. This is because, for clients with positive abnormal fees, the benefits to the auditor from acquiescing to client pressure for opportunistic earnings management can outweigh the associated costs of litigation risk or loss of reputation (Choi et al., 2010). Positive abnormal fees could have a negative effect on the independence and the objective opinion of the auditor and it will reduce the audit quality.

Because audit quality has a negative relation to earnings management (Becker et al., 1998)[8] and therefore a positive relation with earnings quality, the first hypothesis that will be tested to answer the research Kraub, pronibis and Zulch (2013) examined abnormal audit fees and audit quality in German audit market between 2004 to 2010 using a sample of 841 firms listed in the Frankfurt Stock Exchange. They discovered that positive abnormal audit fees are negatively associated with audit quality, whereas negative abnormal audit fees have an insignificant or at best, statistically weak positive effect on audit quality. They also opined that audit fees premium can lead the auditor to compromise independence and economic bonding whereas audit fees discount can either impair independence or reduce audit effort.

Picconi and Reynolds (2013) explored the association between abnormal audit fees and future stock in United State between 2000 to 2010, using a total sample of 25,389 firms quoted in the New York Stock market found that among small firms the magnitude of both positive and negative abnormal audit fees are associated with lower future stock return and that the audit fees convey auditors private information about future firm performance for small firms.

2.6 Auditor Tenure and Audit Quality

After the accounting scandals of the last decade, the relationship between the auditor and the client is often scrutinized, resulting in questions about auditor independence. Mandatory audit firm rotation is recommended as a solution to improve the quality of financial reporting. This view is consistent with the argument that audit quality impairs when auditor tenure increases. A reduction in audit quality might occur, because auditors are more likely to agree with managers on important decisions as the length of the relationship between the

auditor and the client increases (Ryan et al., 2001)[28]. This view is in line with the argument made in Johnson, Khurana and Reynolds (2002) that the incentives of the auditor switch toward maintaining and profiting from the client. As a result, the auditor will be less concerned with litigation relating to the client. An opposing view of audit firm rotation is that problems might occur more often for new clients. Johnson, Khurana and Reynolds (2002) argue that client-specific knowledge is a necessary input to the auditors' ability to detect substandard financial reporting. The authors also argue that knowledge about operations, the accounting system and the internal controls is crucial to detect financial reporting failures. Furthermore, Solomon et al. (1999) document that as the length of the relationship between the auditor and the client increases, the auditor has more client-specific knowledge. As a consequence, it is less likely that the auditor relies on managerial estimates and becomes thus more independent of firms' management. Geiger and Raghunandan (2002) also suggest that the practice of low balling1 may increase the incentives of the auditor to employ less effort in the early years, in order to limit losses on the current engagement. Several empirical analyses are available which examine the association between auditor tenure and audit quality. Ghosh and Moon (2005), for example, analyze the association between auditor tenure and audit quality as perceived by capital market participants. A focus on perceived audit quality is consistent with prior literature, emphasizing the importance of market perceptions of independence and audit quality (Ryan et al., 2001). Ghosh and Moon (2005) find evidence that investors perceive earnings quality as improving when the length of the relationship between the auditor and the client increases. Johnson, Khurana and Reynolds (2002) present additional evidence regarding the debate about mandatory audit-firm rotation. Johnson et al. (2002) address the association between auditor tenure and audit quality and examine the absolute value of the unexpected accruals. The authors find that long audit-firm tenure is not associated with a decline in financial reporting quality. Myers, Myers and Omer (2003) investigate the extent to which auditor tenure is associated with the distribution of both income-increasing and income decreasing accruals. They document that both income-increasing and income-decreasing accruals are lower when auditor tenure increases, suggesting that audit quality increases with auditor tenure. A more recent paper of Knechel and VanStraelen (2007) studies the relationship between auditor tenure and audit quality for private firms in the Belgian market. Knechel and VanStraelen (2007) argue that this is a very interesting contribution to the academic literature, because most companies in their sample are privately owned. These companies in the Belgian market do usually not have many shareholders to which they are accountable. They also argue that litigation risk in Belgium is very low. Hence, when auditor tenure results in lower audit quality, it is most likely to exist in an environment with low auditor litigation risk. Knechel and VanStraelen (2007), however, document that auditor's do not become less independent when auditor tenure increases.

In contrast to these studies, little empirical analyses are available providing evidence that auditor tenure is inversely related to audit quality. Davis, Soo and Trompeter (2000) examine the relation between auditor tenure and the magnitude of discretionary accruals and forecast errors. Consistent with their hypothesis, Davis, Soo and Trompeter (2002) find that discretionary accruals increase with auditor tenure. They also report a negative relationship between auditor tenure and absolute forecast errors, which is consistent with their argument that management is better able to meet earnings forecasts when auditor tenure increases. These findings are in line with the negative effects of an increase in auditor tenure, that auditors are more likely to agree with managers on important decisions (Ryan et al., 2001) and that the incentives of the auditor switch toward obtaining profits from the client (Johnson, Khurana and Reynolds, 2002).

Overall, a broad array of evidence is available, investigating the association between auditor tenure and audit quality. Based on the description of the studies above, the empirical analyses provide conflicting results. The majority of academic evidence, however, does not support the argument that audit quality decreases with length of auditor tenure. There are numerous reasons why client change auditor. One important and common reason is to obtain a reduced fee from the new audit firm because they may offer service at a discount to win a new business. The auditor need to retain client for several years to recover the initial costs incurred in setting up the audit. (Franken, 2011). He posits that there are two ways to measure auditors' tenure. The first is a dummy variable while the other is the actual duration of the current audit tenure. Empirical findings generally suggest that short tenure is associated with poor audit quality (Myers, Myers, & Omer, 2003; Carcello & Nagy 2004; Blouin, Grein, & Rountree. 2007) or poor perceptions of audit quality (Ghosh & Moon 2005; Mansi, Maxwell &Miller. 2004). There are two opposing view on the effect of audit tenure on the audit quality. The first school of thought (Johnson, Khurana & Reynold, 2002; Meyers, Meyers & omer, 2002) believe that as the auditor-client relationship lengthens, the auditor may develop close relationship with client and may act in favor of management, thus reducing audit quality. While the other schools of thought (Gosh & moon, 2005: Davis, soo & Trompeter,2002: Ryan, Herz, lannaconi, Maines, palepu, Schrand, skinner & Vincent, 2001) believe that the tenure of an auditor has no impact on the quality of audit. They report a negative relationship between audit tenure and audit quality. They also believe that management can better manage their earning when auditor tenure increases.

2.7 Audit Fee and Audit Quality

Audit fees mean all charges that the companies pay to the external auditors against the audit services and non-audit services, e.g. management advisory and consultants. Auditing fees consist mainly of the wages and benefits of office and field personnel, travel costs, and other costs necessary to the audit and related support activities. The fees equal the estimated cost of staff time and the actual cost of travel for those activities, plus margin of profit. In their discussion of Kinney and Libby, (2002) suggested that the threat to auditor independence could be as strong when the audit fee is large. Several studies that have empirically examined the relationship between audit quality and audit fee; Francis and Simon, (1987) assume that audit services are quality-differentiated and that in a competitive market, quality differences are reflected in fees. However, since audit fees have a number of determinants, they are a noisy proxy for quality. A previous study which examines whether, in an Australian setting, the existence of an audit committee, audit committee characteristics and the use of internal audit are associated with a higher level of audit fees concludes that a higher audit fee implies higher audit quality Francis, (2004). Several authors argued that managers and entrepreneurs are willing to pay higher audit fees to receive what are perceived to be higher quality audits

2.8 Review of empirical literature

The literatures on abnormal audit fee and audit quality abound in developed countries like USA, Hong Kong, China and Germany but with little or none in developing countries like Nigeria.

Mgbame, Eragbhe and Osazuwa (2012) examine audit partner tenure and audit quality in Nigeria in 2010, with a sample size of fifty company quoted on the floor of the Nigeria stock market. Concluded that there is a significant negative relationship between audit quality and audit tenure though the variable was not significant. The other explanatory variables (ROA, Board independence, Director Ownership and board size) considered alongside audit tenure were found to be inversely related to audit quality aside from Return on Asset which exhibited a positive effect. Form this we can conclude that the shorter the auditors tenure the more they behave in a dependent fashion because familiarity with client has the effect of reducing the fresh point of view auditor have in the early year of engagement.

Boeijink (2011) explored the impact of excess auditor remuneration (abnormal audit fees) on Audit quality in 13 countries around the world (Australia, Denmark, Netherland, Norway, Sweden, Switzerland, United Kingdom, Hong Kong, India, Malaysia, Singapore, South Africa and Spain) between 2004 to 2008 using a samples of 2,767 firms. He found that there is no significant association between abnormal audit fees and audit quality.

Xie, Gai and Ye (2010) investigated abnormal audit fee and audit opinion in china, in 2002 to 2008. Using a sample of 7,028 firms, they found that abnormal audit fees are only significantly associated with audit opinion shopping. That is when the auditor meets some specific profitability benchmarks. This indicates that abnormal audit fees improve audit opinion only for firms that engage local auditor and low degree of return on asset.

Shafie, Wan Hussin, Yusof, and Md Hussain(2009) explored the relationship between audit firm tenure and auditor reporting quality in Malaysia between 2002 using 187 firms found that audit firm tenure has a positive significant relationship with audit quality, this indicate that when client never change auditor there is a tendency to issue a clean opinion though the client may suffer apparent financial problem.

Choi, Kim and Zang (2006), examined the association between audit quality and abnormal audit fees in Hong Kong between 2000 to 2003. Using sample of 9,820 firms, they posit that positive abnormal audit fee has an insignificant relationship with audit quality, while negative abnormal audit fees are significantly associated with audit quality. From this we gather that firms who over-pay their auditor get better audit quality than firms who underpay auditor.

Zhang (2006) thought that the researches of audit fee mainly focus on: (1) Audit fee determinants; (2) Audit risk and audit fees; (3) Low price assurances, auditing term and auditing fees; (4) Size, brand and audit charges; But so far, the researches on the confirmation of abnormal audit fees and its relationship with audit quality are rare. Abnormal audit fee on the impact of audit quality is a two-way street: on the one hand, the abnormal increase of audit expense may indicate a client's financial statements have a higher risk, and may lead to the auditors' excessive dependence on the client. For instance, Stanley (2007) discovered that there is a
significant positive correlation between unexpected audit fee and the management risk of the financial distress company. One the other hand, Higgs and Skantz (2006); Willekens and Bruynseels (2009) indicated that abnormal increase of audit expense may also reflect auditors put more audit effort and exercise a wider range of audit, so that the audit quality become higher. In addition, Choi et al. (2010) use the US listed companies from 2000 to 2003 as research sample, during the research of the correlation of audit fees and earnings management, the notations of abnormal audit fee was considered for the first time. Discretionary accrual was used as a substitution variable for audit quality and the abnormal audit fee is the difference between the actual cost of the audit and normal audit fee. The result shows that when the abnormal charge is negative, no significant relationship between audit quality and abnormal charge; and when the abnormal charge is positive, there is a negative relationship between abnormal fee and audit quality.

In China, Chen Jieping, Su Xijia and Wu Xi (2005) for the first time in the perspective of abnormal audit fees, studied the influence of audit fees on audit quality. The results showed that: in the case of non-rotation of CPAs, the increase of audit fees and the improvement adverse audit results are significantly positive correlation, which means by increasing the audit fee, listed companies successfully realized the purchase of audit opinion; However, under the circumstance of rotation CPAs, no significant correlation between the improved adverse audit results and abnormal increase of audit fees. Fang Junxiong (2004) discovered that the improvement of listed companies' audit opinion in China is associated with abnormal audit fees, it has found that the abnormal audit fees and the improvement of adverse audit opinion are positively correlated; However, out of expectation, in the case of increasing audit fees, domestic accounting firms less change their opinion compared with foreign accounting firms. Tang Yuejun (2009) use 2004-2008 Chinese listed companies as samples, found that the abnormal increase of audit fee and the possibility of non-standard audit opinion are negatively correlation

3. METHODOLOGY

3.1 Population and sample size

All the listed banks in the first-tier market of the Nigeria stock exchange (NSE) as at 31st December, 2014 will constitute the population for the study. A total number of twenty -two banks that were quoted in the Nigeria stock market as at 31st December 2014.

Fourteen banks were selected from the population applying the thumb that states that at least 50% of the entire population represents the entire population. The study employed judgmental sampling technique to select all banks that have not be involved in any form of merger and acquisition within the period under review.

3.2 Source of data

This study will employ secondary data, which will be obtained from the audited annual report and accounts of the sampled banks and annual publication of the Nigeria stock exchange fact-book.

3.3 Model specification and data analysis plan

In an attempt to examine the impact of abnormal audit fees on audit quality, this study will follow prior research [Choi et al., 2006; Gros & Worret, 2014 and Jones 1991] For the computation of abnormal audit fees (ABFEES), total audit fees (TOTFEE) was regressed on a constant and the residuals of the regression model will be used as a proxy for abnormal audit fees.

As estimated below, the error term which is the residuals will be used as proxy for abnormal audit fees. Specifically, the model for abnormal audit fees was adopted from the study of Gros and Worret (2014)[25].

$$AF = \alpha_0 + \varepsilon t$$

Where

AF= Total fees paid to auditor

α_0 = Expected Audit fees

εt = Error term

The model for the study was adapted from the work of Choi, Kim and Zang (2006) as stated below.

$AQ = \beta 0 + \beta 1ABAFEE + \beta 2AUTEN + \beta 3BAUDINP +$ *error term,*

3.4 Operationalization of Variable

S/N	VARIABLES	MEASUREMENT	SOURCE
1	AQ	Measured by abnormal loan loss	Jones (1991) as cited in Gross and Worret (2014).
2	ABFEES	Abnormal fees measured as a residual from model one	Gros and Worret (2014).

3	AUDTN	This will be measured using the number of years spent by the auditor in the company	Enofe, Mgbame,Aderin and Ehi-Oshio (2013).
4	AUINP	Measured by log of audit fee	Enofe,Mgbame, Aderin and Ehi-Oshio (2013).
5	AUDFEE	Measured using the total number fee paid to auditor	Ramadan Al Nawas and Al-Khaddash (2013)

Table 1(Source: Authors compilation (2016))

3.5 Method of data analysis

The study will make use of Ordinary least squares (OLS) regression analysis as the data analysis method. In this study we adopted OLS regression techniques to examine the relationship between independence variables (firm size, profit, industry and origin) and corporate social responsibility disclosure. The OLS regression was adopted because it is the appropriate techniques for examining the linear relationship between variables.

Where autocorrelation is suspected, we shall adopt the Cochrane Orcutt method which implies including an autoregressive (AR) term as part of the exogenous variables and re-estimating the model (Eviews, 7.0). However, preliminary analysis such as correlation analysis was also conducted.

4. PRESENTATION AND ANALYSIS OF RESULT

Table 2 Descriptive statistics

	ALLP	ABFEE	AUDIND	AUDTEN
Mean	0.442623	6333.221	113601.1	3.024590
Median	0.000000	-8712.000	100000.0	3.000000
Maximum	1.000000	7446000.	481000.0	7.000000
Std. Dev.	0.498745	900929.6	77349.67	1.613287
Skewness	0.231034	4.931583	1.466291	0.469912
Minimum	0.000000	-2236000.	17000.00	1.000000
Probability	0.000038	0.000000	0.000000	0.039826

Source: researcher's computation 2016

From the descriptive statistics of the variables as shown in table 2 above, it is observed that ALLP has a mean value of 0.44 with maximum and minimum values of 1and 0 respectively. The standard deviation measuring the spread of the distribution stood at 0.499 which is small suggests considerable cluttering in values for ALLP from the mean across the sample of banks. ABFEE is observed to have a mean value of 6333 indicating that the under banks review paid excess fee of 6333000 naira. The standard deviation value of 900929.6 indicates average dispersion from the mean. The mean value for AUIND stood at a value of 113601.1 and standard deviation of 77349.67 is an evidence of dispersion of AUDIND from the mean. The mean value for auditor tenure (AUDTEN) is 3.02 with maximum and minimum values of 7 and 1 respectively. This indicates that the highest number of years spent by an auditor with his client is seven. This is within the CBN prudential guideline. The standard deviation stood at 1.613287 which implies clustering around the mean. Finally an evaluation of the Jarque-Bera statistics for the variables reveals that curve normally distributed (P=0.000).

Table 3 Pearson Correlation result

	ALLP	ABFEE	AUDIND	AUDTEN	
ALLP	1.000000				
ABFEE	0.709492	1.000000			
AUDIND	0.445060	0.540767	1.000000		

AUDTEN	0.099345	-0.034354	0.059834	1.000000	

Source: Researcher's computation 2016

Table 3 above presents the Pearson correlation coefficient result for the variables. As observed, ALLP and ABFEE appear to be positively associated as depicted by the correlation coefficient (0.70). ALLP also shows positive correlation with AUDIND (0.45) and with AUDTEN (0.09). AUDTEN is observed to be negatively correlated with ABFEE (-0.03) but positively correlated with AUIND (0.060). Finally, AUDIND is observed to be positively correlated with ABFEE (0.54). The correlation coefficient results show that none of the variables is strongly correlated and this indicates that the problem of multi collinearity is unlikely and hence the variables are suitable for conducting regression analysis.

Table 4 Regression Result

Dependent Variable:	Coefficient	Std. Error	t-Statistic	pro
C	1.200710	0.389180	3.085231	0.0026
ABFEE	7.24E-06	1.07E-06	6.744010	0.0000
AUDIND	1.25E-07	3.42E-08	3.664824	0.0004
AUDTEN	0.038680	0.019719	1.961537	0.0523
AR(1)				
Durbin-W =1.56 R^2=0.59 $AdjR^2$=0.56				

Researcher's Computation (2016).

Table 4 above shows the ordinary least squares regression result conducted using Eviews 7.0. The white heteroskedasticity-consistent standard error is used to control for possible heteroskedasticity in the model while the auto-regressive scheme AR (1) term was included in the model for autocorrelation. As observed, the R^2 and coefficient of determination is 0.59 which indicates that the model explains about 59% of the systematic variations in the dependent variable. The evaluation of the slope coefficients of the explanatory variables reveals the existence of positive relationship between audit quality (ALLP) and abnormal audit fee (ABFEE) at 5% (β_1=7.20, p=0.000<0.05). The finding is consistent with the notion that greater fee lead to putting more effort on the audit engagement hence higher quality is delivered by the auditor.

The effect of auditor independence (AUDIND) on audit quality as measured by abnormal loan loss provision (ALLP) appears to be positive and significant at 5% (β_2=-1.2E, p=0.036<0.0004). The finding suggests that the independence of the auditor exerts a significant influence on the level on audit quality, the independence the auditor is the better the audit quality. Finally, the effect of Auditor tenure (AUDTEN) on audit quality (DISACC) appears to be positive and insignificant at 5% (β_3=0.039, p=0.52>0.05). The Durbin-Watson value of 1.56 indicates that stochastic dependence between successive units of the error term is unlikely in the model.

Table 5: Diagnostic Test

Heteroskedasticity	Serial correlation(LM test)	Ramsey reset test
f-statistic =1.646	f-statistic =0.6051	f-statistic = 1.568
Prob. F(6,672)=0.209	Prob. F(6,672)=0558	Prob. F(6,672)=0.136

Source: Eviews 7 Output.

The following diagnostics tests for the regression results indicates the absence of in the model as the Breusch-pagan-Godfrey test was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which leads us to reject the presence of heteroscedasticity in the residuals and hence we conclude that the assumption of uniform variance of the residuals is satisfied and the estimates are not biased. The LM test for high order autocorrelation shows that the likelihood of autocorrelation in the residuals is rejected and hence the

regression estimates are not biased as the probabilities are greater than 0.05. The Ramsey RESET test was performed to determine whether there were specification errors. The results showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification

5. CONCLUSION AND RECOMMENDATIONS

The summary of the study findings are presented below
First, the evaluation of the slope coefficients of the explanatory variables reveals the existence of positive relationship between abnormal audit fee and audit quality at 5% this result is line positive gotten by Picconi and Reynolds (2013) but in variance with negative gotten by Choi, Kim and Zang (2006) . Second, the influence of auditor independence on quality appears to also be positive and significant at 5% level of significance this is in line with extant positive of . Hope, Kang, Thomas and Yoo 2009 ; Choi et al., (2010.) Third, the effect of Auditor tenure on audit quality appears to be positive and not significant at 5% level of significance this result corroborate with extant positive of Johnson, Khurana and Reynolds (2002) but in variance with extant negative of Myers, Myers and Omer (2003 .
The widespread audit failures have created the need to improve audit quality. Consequently, the factors influencing audit quality have been an intense and inconclusive area of research and an interesting issue of discourse. The factors have been identified to be both exogenous and endogenous to the firm. The exogenous factors have been highlighted to include the reporting standards and institutional environment, economic and financial policies and the broad spectrum of variables outside of the firm's control. These factors have also not attracted considerable empirical research attention as controlling for the factors to make them amenable for empirical analysis is seen as a challenge especially in developing economies. The endogenous factors with the propensity to influence audit quality have been identified also in the literature and these factors are generally regarded as being within the locus of control of the firm. The study found the existence of positive relationship between abnormal audit fee and audit quality (ALLP). The influence of auditor independence on audit quality appears to also be positive and significant. Finally, the effect of auditor tenure on audit quality appears to be positive though insignificant.
In the light of the research work, the following policy recommendations are suggested;
Firstly, audited reporting quality has always been an important dimension of corporate stewardship. This is because not only is audited financial reports are useful to the owners of a company; the reports are also useful sources of information for other stakeholders. The importance of financial reporting for corporate existence is germane. In recent times the quality of audited financial reporting has also become a basis for investment flows across countries with countries perceived to have higher reporting quality receiving significant investment flows. Consequently, the study recommends that the apex bank should ensure that audit fee charged is commensurate to the effort exerted to avert snowballing.
Secondly, auditor independence tends to be a major ingredient for enhancing quality. Apex bank should ensure that all factors that hamper auditor independence should be removed.
Thirdly, unduly long auditor tenure should be discouraged to avoid over familiarity of auditor with the client.

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Appendix

Dependent Variable: ALLP
Method: Least Squares

Date: 08/26/16 Time: 16:31
Sample: 1 123
Included observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.200710	0.389180	3.085231	0.0026
ABFEE	7.24E-06	1.07E-06	6.744010	0.0000
AUDIND	1.25E-07	3.42E-08	3.664824	0.0004
AUDTEN	0.038680	0.019719	1.961537	0.0523
R-squared	0.593977	Mean dependent var		0.442623
Adjusted R-squared	0.565232	S.D. dependent var		0.498745
S.E. of regression	0.328857	Akaike info criterion		0.684522
Sum squared resid	12.22063	Schwarz criterion		0.891376
Log likelihood	-32.75585	Hannan-Quinn criter.		0.768540
F-statistic	20.66367	Durbin-Watson stat		1.557015
Prob(F-statistic)	0.000000			

Descriptive Statistics

	ALLP	ABFEE	AUDIND	AUDTEN
Mean	0.442623	6333.221	113601.1	3.024590
Median	0.000000	-8712.000	100000.0	3.000000
Maximum	1.000000	7446000.	481000.0	7.000000
Minimum	0.000000	-2236000.	17000.00	1.000000
Std. Dev.	0.498745	900929.6	77349.67	1.613287
Skewness	0.231034	4.931583	1.466291	0.469912
Kurtosis	1.053377	41.54732	6.476262	2.379602
Jarque-Bera	20.34782	8047.819	105.1459	6.446490
Probability	0.000038	0.000000	0.000000	0.039826
Sum	54.00000	772653.0	13859332	369.0000
Sum Sq. Dev.	30.09836	9.82E+13	7.24E+11	314.9262
Observations	140	140	140	140

Correlation

	ALLP	ABFEE	AUDIND	AUDTEN
ALLP	1.000000			
ABFEE	0.709492	1.000000		
AUDIND	0.445060	0.540767	1.000000	
AUDTEN	0.099345	-0.034354	0.059834	1.000000