

## Determinants of Audit Fees in Nigerian Consumer Goods Sector

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### Abstract

*The purpose of this study is to assess the determinants of audit fees among consumer goods companies publicly listed on the floor of the Nigerian Exchange Group (NGX). Secondary data of firm size, age and profitability (independent variables), and audit fee (dependent variable) from the chosen consumer goods firms in Nigeria's annual reports and accounts from 2012-2022. "Descriptive statistics (mean, median, standard deviation, skewness, kurtosis, and Karl Pearson correlation); diagnostic statistics (variance inflation factor, Breusch Pagan-Cook test for heteroskedasticity, Ramsey RESET test); and inferential statistics (Chi square test, Fisher's exact test, and t-test) were used to analyse the data;" and principal component analysis) and inferential statistics (ordinary least square). Generally, the results showed that firm size and profitability are the measure determinants of audit fees while firm age do not determines audit fees. It is therefore it was recommended that consumer goods companies need to enhance the size and profitability (return on assets).*

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**Keywords:** Audit Fees, firm age, Profitability, Firm Size, consumer goods,

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### 1. Introduction

Sections 374, 375, 376, and 377 of the Nigerian Companies and Allied Matters Act (CAMA), 2020 require listed corporations to have their financial statements examined by external auditors. This is because auditing plays a crucial role in strengthening the dependability of financial statements. Specific factors that increase the interest in auditing include the size, intricacy of designs, and worldwide presence of numerous enormous organizations with auxiliaries that should be combined into a solitary arrangement of budget summaries; the executives' steady endeavor to coordinate execution with market assumptions to not be viewed as missing the mark regarding organization objectives; and the global idea of current exchanges, all of which contribute to the need for reliability (Jensen and Meckling, 1976).

However, the auditing of the firms' financial statements by external auditors is expected to attract some allowable level of costs to be incurred by the listed companies known as audit fees. Since review estimating depends on review quality, controllers require review expenses to be uncovered in the fiscal summary to check deviant charges and give validity to the monetary report.

Due to the significance of this topic in light of the several instances of audit failure experienced by Enron and other organisations, a number of studies have been conducted on the topic of Audit fee decisions. Many authors, including "Taffler and Ramalingam (1982) and Brinn et al. (1994) in the

United Kingdom; Simunic (1980), Simon (1985), Palmrose (1986) in the United States; Francis (1984) in Australia; and Firth (1985) in New Zealand,” had conducted numerous studies due to the widespread interest in the topic, as well as the laws, ethical issues, government laws, professional interventions, anti-competition, and financial scandals involving earnings management (Wharton, 2002).

The major concern is the collapse of public believe in auditors based on ex-post analysis and dissertations of the Enron, Worldcom and Parmalat accounting scandals in 21<sup>st</sup> century which is seen to be as a result of an abnormal audit fees that was charged (Davidson, 2015). According to Soyemi & Olowookere (2013), The large charge received by auditors in 1990 “to cover discretionary practises and retain companies by lowering prices contributed to the accounting scandals at Wema Bank, Nampak, Finbank, and Spring Bank in Nigeria.” This indicates that there were incentives for keeping the connection between auditor and client alive, and that the auditor's independence and the quality of the audit itself became a cost of doing business.

Therefore, the audit fee is a crucial aspect in the recorded literature's (Simunic, 1980 Gist, 1995) “explanations for the auditor's performance, the amount of auditor independence, and the audit quality.” As a result, studies focusing specifically on audit fees may be considered as a subset of studies focusing on problems like auditor independence and audit quality.

The 'audit engagement contract' details the services to be performed, the expected duration of the audit, and the number of auditors that will be needed to complete the job. This cost is expended so that stakeholders, especially shareholders, may get a "objective, credible, and outside opinion on the directors' financial reports" (D'Silva & Khan, 2010). This payment might be a percentage of what is earned, a flat amount, an hourly rate, or a combination of these (Diamant, 2000). Independent auditors' opinions are adversely impacted by contingent fees and perks in kind, but are unaffected by revealed fixed price and hourly rate (Gonthier-Besacier & Schatt, 2007).

In his pioneering work on market theory, Simunic (1980) posited that audit pricing determined the audit charge, and he introduced “the use of demand and supply functions to isolate those variables. Auditor attributes such as size, reputation, experience, and multinationalism” (Musa, Salman, Amoo, & Subair, 2020; Kimeli, 2016) and auditee characteristics such as “size, profitability, complexity, and risk” (Musa, Salman, Amoo, & Subair, 2020) have also been identified as determinants of audit fees. Firms' audit fees are affected by both auditee and auditor characteristics, as described by Taylor and Simon (1999) as microeconomic factors.

Due to the potential for rapid economic growth, the Consumer Goods Sector in Nigeria has attracted considerable attention since independence in 1960 (Banjoko, Iwuji, & Bagshaw, 2012), motivating this study's focus on that subsector of the Nigerian Non-Financial Sector.

The factors that influence audit fees in the consumer products industry have been the subject of many studies in recent years. Musa et al.'s (2020) research, for instance, zeroed down on the particular variables of a subset of consumer goods companies, whereas other studies focused on a more limited set of factors influencing audit costs.

### **1.1 Statement of the Problem**

Listed corporations in Nigeria “are required to have their financial statements audited by external auditors in accordance with sections 374, 375, 376, and 377 of the Nigerian Companies and Allied Matters Act” (CAMA), 2020. This is because audits have a significant impact on the dependability of

financial statements. In keeping with this regulatory mandate, businesses seek affordable auditing fees, while auditors providing these services want to guarantee that the rates they charge are sufficient to cover their costs (Gist, 1992).

The factors that influence audit fees in the consumer products industry have been the subject of many studies in recent years. Musa et al.'s (2020) research, for instance, zeroed down on the particular variables of a subset of consumer goods companies, whereas other studies focused on a more limited set of factors influencing audit costs.

However, scholars have not come to a consensus on the results. Research has shown conflicting results, suggesting that the questions surrounding auditor fees and audit fee judgements are still far from being resolved experimentally.

Furthermore, to the best of my knowledge, many works have not been done in the area of consumer sector enterprises in Nigeria and most empirical research on the drivers of audit fees have been completed in developed nations.

The purpose of this study is to assess the determinants of audit fees among consumer goods companies publicly listed on the floor of the Nigerian Exchange Group (NGX).

## 1.2. Objective of the Study

The main objective of the study is to investigate the determinants of audit fees of consumer goods sector firms in Nigeria. The specific objectives include;

- i. Examine the influence of firm profitability on audit fees on consumer goods sector firms in Nigeria
- ii. Investigate if firm size impacts on audit fees of consumer goods sector firms in Nigeria
- iii. Investigate the effect of firm age on audit fees of consumer goods sector firms in Nigeria

## 1.3. Hypotheses of the study

In line with the objectives, the following hypotheses would be tested:

**H01:** Firm profitability has no significant impact on Audit fees of consumer goods sector firms in Nigeria.

**H02:** Firm size has no significant effect on Audit fees consumer goods sector firms in Nigeria

**H03:** Firm age has no significant impact on audit fees of consumer goods sector firms in Nigeria

## 2.0 LITERATURE REVIEW:

### 2.1. Conceptual framework

#### Audit Fee

The 'audit engagement contract' details the services to be performed, the expected duration of the audit, and the number of auditors that will be needed to complete the job. This payment might be a percentage of what is earned, a flat amount, an hourly rate, or a combination of these (Diamant, 2000). Independent

auditors' opinions are adversely impacted by contingent fees and perks in kind, but are unaffected by revealed fixed price and hourly rate (Gonthier-Besacier & Schatt, 2007).

Audit costs are expended so that "stakeholders—primarily shareholders—have access to an objective, credible, and outside opinion on the directors' financial reports" (D'Silva & Khan, 2010). It is common practise for auditors to charge by the hour or by the amount of days or weeks spent on the job for a certain customer.

Audit expenses and profit are included in the audit charge, as stated by Deigh (2011). Fixed and variable audit costs are broken out. A premium indicates an abnormal profit over and above the standard profit margins of comparable businesses (often "Non-Big" businesses).

(Nyerho Odje, 2016) cited Deigh, 2011 opined that audit fees (Total Audit Fees) component is divided into three- Normal profit, audit cost and audit premium. The audit cost is divided into fixed audit costs and variable audit costs. The variable audit costs have sub-head of direct audit costs and indirect audit costs respectively. The direct audit costs are further sub-divided into cost of audit time and direct audit expenses.

### **Firm Size**

The amount of labour and time an auditor will spend on a customer is the first consideration when setting a price for audit services. Numerous researchers (Simunic, 1980; Pong and Whittington, 1994; Beattie et al., 2001) agree that a company's size is the single most important factor in determining audit costs. This indicates that the auditor's agency concerns rise in proportion to the organization's size (Fama and Jensen, 1983).

According to Javed and Khan (2011), firm size is a formalised property and predictable variable in an audit of a company's operations and an accounting of its resources.

Several studies confirm that larger corporations pay more for audits than smaller ones because of the complexity of their exercises and the need to give more data to general society to diminish inconsistency data to a base. It is anticipated that auditors will devote a greater portion of their time to ensuring the validity of transactions via the use of quality audits.

Total assets, personnel strength, and turnover have traditionally been used as the most prevalent measures of company size in the literature. The client's size is the single most important factor in establishing audit fees. Research on this topic has been published by several authors over the years.

### **Firm Profitability**

The efficiency with which a business turns a profit is reflected in its profitability. It is a common yardstick for gauging an organization's efficacy. The capacity to turn a profit is a strong indicator of management's competence and effectiveness. Since remuneration is frequently tied to profitability, corporations that report better earnings have an incentive to be more transparent about their performance in order to lower agency costs and better defend their pay. Since these businesses are often the focus of public attention, auditors are likely to conduct additional checks on revenue recognition and cost matching in order to confirm any performance metrics that may be used to calculate remuneration. Since the auditor may charge for more hours of work, firms that declare bigger profits tend to pay higher audit

costs. Conversely, audit costs are often higher for businesses that declare lesser profits. Companies that are trying to decrease costs may see a decline in internal controls, which will increase the auditor's workload (Watts & Zimmerman, 1986; Musah, 2017).

Return on assets, return on equity, and return on capital used are some of the traditional metrics used to evaluate business success. Profitability is often evaluated using the profitability ratio plus a dummy variable to indicate the presence or absence of a loss. In a nutshell, the measurements used may not adequately depict market dynamics, despite the intuitive attractiveness of the supposed link between audit fees and profitability.

As stated in their discussion of auditors' fees, Baldacchino, Attard, and Cassar (2014) believe that highly successful businesses often pay higher audit fees due to the extensive labour required by the audit company to check or verify the revenue and related expenditures contained in the client's financial statements.

The people of Bangladesh, Siobhan (2019), and Musah (2017). Studies by Ohidoa and Okun (2018) indicated a strong and backhanded relationship between client productivity and review charges, while concentrates by Bota-Avram et al. (2018) and Shakhathreh and Alsmadi (2021) tracked down no connection between the two.

### **Firm Age**

The duration of existence of a firm, from its inception until infinity.

The length of time a business has been around since its beginning is considered its age. In principle, investors will have greater faith in a seasoned firm than in one that has just been started. This is because it is generally accepted that an established business may deliver a higher return on investment than a startup.

A company's age may be calculated by subtracting the number of research years from the year it was founded, as stated by Agustia & Suryani (2018). The following formula may be used to calculate a firm's age:  $\text{Research Year} = \text{Company's Founding Year}$ .

Companies with a long history demonstrate reliability, and their performance may be evaluated by shareholders across several years. External finance options will be more restricted for newer enterprises. The company's performance will deteriorate with time as a result of its age (Loderer & Waelchli, 2011). Ageing businesses have a harder time identifying, accepting, and acting on signals of innovation from the market because of the inherent rigidity of their internal structures.

Businesses evolve with time, learning their strengths and improving their weaknesses. Loderer and Waelchli (2011) found that when people become older, their abilities naturally decline. While startups have the upper hand initially, their earnings always decline, and they soon fall behind their midrange rivals.

## **2.2. Theoretical Framework**

The four major theories that are of interest to this study Corporate Governance Theory, Agency theory, Audit Fee Theory and Economic Theory.

### **Corporate Governance Theory**

Since financial governance is a part of corporate governance and audit fees are a cost of monitoring the agency issue, the research employs the corporate governance theory to ensure the most efficient use of capital. The corporate governance is also important because audit pricing model and the variables are drivers of the audit price. These variables include firm size, firm profitability, and firm age as used in this study. Most importantly is linkage of agency theory to corporate governance theory as it strives to manage the agency problem (Jensen and Meckling, 1976).

(CA, 2006) opined that corporate governance exists in all aspect of business in terms of relevant status, board committees and companies constitution that regulate organization behaviour. (Cadbury Committee, 1992) described corporate governance as a system that an administration and management of the organisation.

However, the corporate governance theory has some limitations despite its benefits. These limitations include the inability to resolve problems such as a drop in revenues not due to mismanagement (a microeconomic aspect), depending on management's willingness to enact measures as criteria for effectiveness of corporate governance, lack of much support by empirical research noticeable body to minimize the agency problem. (Miles, 2012, P.36.). (Prawitt *et al.*, 2010) suggest that manipulation of accounting results will be greater where management is entrusted with significant amount of power.

### **The Agency Theory**

Agency theory just like the corporate governance theory focuses on micro-economic factors which is a contract in which one party authorises another to act on his or her behalf in the performance of specified tasks. The dilemma of agent choices may be addressed by factoring in agency charges (Ittonen, 2010; Farrer & Ramsay, 1998). Stephen Ross and Barry Mitnick was credited to the agency theory (Mitnick, 2006).

Langli, and Thomas (2012) agency cost is greater due to clever accounting, thus shareholders should engage in oversight operations, they said. Because of this reduction in risk, audit costs tend to decrease when shareholders' interests are safeguarded. The need for large, international auditing companies is projected to decrease as a result. Mustapha and Ahmad (2011) argued that thorough audits are necessary for maximising time and cost, but that management ownership would lessen the need for audits. Shareholders' anxiety and mistrust in auditors may be mitigated by clearly communicating the audit's goals and value, as suggested by Soyemi and Olowookere (2013).

Like the corporate governance theory, the agency theory has its own shortcomings. The inability to perceive or address the data anomaly between the inspector and the auditee; the presumption that administration and proprietorship would have disparate interests; which isn't generally the situation; and the variation of macroeconomic elements, the greater part of which are neither inside the control of the administration nor the investors.

### **The Audit Fee Theory**

The audit fee theory is accredited to Suminic which is also known as the Model or theory for determining the suminic audit fee. Seetharaman et al. (2001) cite Simunic (1980) as the source for the review expense model they give. The reliant variable in the model is the Review Expense (Anticipated that All out Expenses should the Review), and the free factors are the per unit cost of outer review assets to the examiner (counting a markup for typical benefit) meant by the image "C," the amount of assets

required by the evaluator to do the review denoted by the symbol "q," the potential for future losses arising from the current year's financial statements denoted by the symbol "E(d)," and the probability that the auditor would pay for. Simunic's idea is crucial because it allows the audit fee to be determined by taking into account a number of important factors. For instance, the audit charge depends heavily on the kind of business, the auditing company, and the age of the business.

However, like every other theories, this theory has its limitations. The limitations include reasonable certainty of client's future losses, uncertainty of audit client existence for uncertainty in the markup for normal profit, which can be affected by factors like the examiner's size or area of review client, and the time span over which the assessed future misfortunes are being anticipated; potential future misfortunes hopeless by the evaluator, which could likewise be impacted by the level of legitimate affinity inside the climate in which the client completes its business, for example, the gamble of misfortune emerging from suit against the auditor (Taylor and Simon,1999).

### **The Economy Theory**

The economy theory in relation to product differentiation is attributed to John Beath and Yamus Katsoulacos in 1991 as their opinion is that a since a result of the firm's differentiation methods, customers of the assurance department have more leverage in negotiations, since they are unable to get the same services from competing audit companies. The audit firm through their reputation and expertise will gain a fee premium for the particular service rendered (Beath & Katsoulacos, 1991).

(Ribstein, 2002; Armstrong, 2008) opined that Fewer audit companies have strategic leeway to affect market circumstances via competitive responses since the audit market is termed as oligopolistic market. (Numan & Willekens, 2012; Reichelt & Wang, 2010) recognizing that cutthroat tension on an occupant reviewer's expense communities upon the straightforwardness with which the confirmation clients can change to a contending review firm; they proposed that in evasion of contention in the provincial area, contending firms ought to rehearse shared persistence by swearing off contending forcefully in their rivals' neighborhood businesses.

## **2.3. Empirical Framework**

### **Firm Size**

Musa et al. (2020) adapting Craswell and Francis (1999) audit fee model researched on how auditee-specific characteristics influence audit fees for publicly traded Nigerian consumer goods companies. According to the findings, audit fees vary greatly depending on the size of the auditing company.

Size does important for pricing audit fees, as shown by Musah (2017)'s application of a panel regression approach to the study of influential audit price determinants in Ghana.

According to Kimeli's (2016) static panel regression analysis of the characteristics affecting audit fees at 41 publicly traded businesses in Nairobi between 2008 and 2014, larger companies had higher audit costs.

According to research by Urhoghide and Izedonmi (2015), who looked at the factors influencing audit fees at 133 publicly traded firms in Nigeria from 2007 to 2012, audit costs are proportional to the size of the client company. Both conventional least squares relapse and board assessed summed up least squares are joined into one pool.

Size (as estimated by absolute resources) is demonstrated to be the most persuasive figure the review charge, according to Simunic (1980). The R<sup>2</sup> score of 0.57 is statistically significant for a single independent variable, and the positive intercept shows that this finding applies to auditees of all sizes.

Hassan Yahia Kikhia (2015) found the following in his study entitled "Determinants of Audit Fees" According to data gathered in Jordan, audit fees are mostly attributable to the size of the auditing company. The research examined financial data from 2010 to 2012 from a sample of 117 non-financial firms registered on the Amman Stock Exchange (ASE). The data is analysed using a regression model in view of the conventional least squares statistic.

Wasiu Ajani Musa, Ramat Titilayo Salman, and Ibrahim Olayiwola Amoo's (2020) study on the factors that impact review expenses for publicly traded Nigerian companies found that firm size is a major factor. Secondary data collected from businesses between 2009 and 2018 utilising positive sampling methods were utilised in this research.

Determinants of audit fees in a developing economy: a systematic literature review (Alhassan Musah, 2017) In line with Hay's (2010) meta-analysis, evidence from Ghana shows that audit fees rise in direct proportion to the size of the client's firm.

### **Firm Profitability**

Musah (2017) in adopting the Simunic (1980) Companies in Ghana were analysed from 2010 to 2014 using the model, which discovered a statistically significant and inversely proportional association between customer profitability and audit fees.

In their research done between 2015 and 2018, Hossain and Sobhan (2019) found a positive and statistically insignificant correlation in Bangladesh. Based on the research of Ohidoa and Okun (2018),

According to a study, the level of a client's profitability has no bearing on the total amount paid in audit fees. It demonstrates, without a doubt, that auditing is a business that requires customers to pay costs commensurate with the professional services provided. Ohidoa and Okun (2018), Bota-Avram et al. (2018), Hossain and Sobhan (2019), and Shakhathreh and Alsmadi (2021) all found similar things. The method of common least squares relapse was utilized for the examination.

Hassan Yahia Kikhia (2015) found the following in his study entitled "Determinants of Audit Fees" According to data gathered in Jordan, audit fees tend to rise in tandem with an organization's profitability. 117 non-financial firms registered on the Amman Stock Exchange (ASE) were utilised as a sample, using financial data collected between 2010 and 2012. The data was analysed using a regression model based on the ordinary least squares formula.

Researchers Lemonakis, Ballas, Ballas, and Garefalakis (2018) looked at whether or not the success of a business has any impact on price decisions. During the financial crisis (2008-2010), the correlation between profitability and the audit fee was negative. Similarly, compensation levels prior to the financial crisis (2004-2007) exert an upward pressure on profits.

Studying what factors affect review charges in a creating economy (Alhassan Musah, 2017): According to data gathered in Ghana, the audit charge is significantly correlated with the client's profitability, as measured by return on audit. Furthermore, the anticipated link between ROA and audit fee does not hold. This demonstrates that auditors care only about their clients' bottom lines, and not the risks involved (Al-hashani, 2007).



### Firm Age

Company age has a significant impact on audit fee as a result of earnings management in the financial statement, as shown by research (Nawang Kalbuana 1), Adelina Suryati 2), and Chandra Puspa Arum Pertiwi (2022). These findings are consistent with those of studies held by Agustia & Suryani (2018) and Sakdiyah, Salim, & Rahman (2020), both of which found that a company's age significantly influenced the audit cost related to profit the executives in the budget summaries. Contrary to the findings of Nabiilah Ramadhani (2019) and M. Fahad Fajari (2019), which suggest that a company's age has a negative effect on audit fees because of earnings management in the financial statement, the current study finds no such correlation.

The longer a corporation has been around, the more room there is to manipulate its results. The length of time a firm may remain successful in its field is directly related to its age. The amount charged for audit services is negatively impacted when a long-standing organisation has a reputation and works hard to keep it, as well as the potential to reduce expenses and increase output quality (Yunietha & Palupi, 2017).

### 3.0. METHODOLOGY

In this study, we examined whether factors led to higher or lower audit fees for firms selling consumer products on the Nigerian Exchange Group (NGX) stock market. Eleven (11) out of all publicly traded consumer products businesses were chosen to participate in this ex post facto study. Inclusion and exclusion criteria were used in the sample process.

Table 3.1: Operationalization of Variables

Parameters	Operationalization
<b>Firm Size</b>	Natural logarithm of total assets
<b>Firm Profitability</b>	Return on Asset (Net Profit After Tax divided by Total Assets)
<b>Firm Age</b>	Number of Years Firm has been listed on the NGX
<b>Audit Fee</b>	Natural logarithm of fees paid to the auditors
$i=1,2,3, \dots, 40$	Number of consumer goods companies used in the study
$t=1,2, \dots, 10$	Time period for the study(2012-2022)
$\beta_{1-3}$	Coefficient of the independent variable
$I_t$	Error (other variables not captured in the model)

Source: Compiled by the Researchers (2023)

“Mean, median, standard deviation, skewness, kurtosis, and the Karl Pearson correlation were used for descriptive statistics; the variance inflation factor, Breusch Pagan-Cook test for heteroskedasticity,”

Ramsey RESET test, and principal component analysis were used for diagnostic statistics; and ordinary least square was used for inferential statistics. STATA version 13.0 was used for the statistical analysis.

### The Models:

The chosen consumer goods firms in Nigeria's annual reports and accounts from 2012-2022 were mined for secondary data including company size, age, and profitability (independent variables), and audit fee (dependent variable). This motivated the estimation of the following empirical model:

### Functions:

$$Q_{it} = \alpha_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \mu_{it} \quad \text{eq.1}$$

$$\text{AudFee}_{it} = \alpha_0 + \beta_1 \text{FAge}_{it} + \beta_2 \text{FSize}_{it} + \beta_3 \text{FROA}_{it} + \varepsilon_{it} \quad \text{eq. 2}$$

### Functional Relationships

$$Q_{it} = \alpha_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \mu_{it} \quad \text{eq.1}$$

Where  $\alpha$ ,  $\beta$ , and  $\mu$  are assessed model boundaries (relapse constants) by changing condition 1 to (2) exhibiting the association between ERM and firm value:

$$\text{AudFee}_{it} = \alpha_0 + \beta_1 \text{FAge}_{it} + \beta_2 \text{FSize}_{it} + \beta_3 \text{FROA}_{it} + \varepsilon_{it} \quad \text{eq. 2}$$

### Model specification:

$$Q_{it} = \alpha_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \mu_{it} \quad \text{eq.1}$$

Where “ $\alpha$ ,  $\beta$ , and  $\mu$  are regression constants; to estimate the model, we translated equation 1 to equation 2 to show the relationship between ERM and firm value”:

$$\text{AudFee}_{it} = \alpha_0 + \beta_1 \text{FAge}_{it} + \beta_2 \text{FSize}_{it} + \beta_3 \text{FROA}_{it} + \varepsilon_{it} \quad \text{eq. 2}$$

Where: AudFEe = Audit fee; FAge = Firm Age; FSize = Firm Size; FROA = Firm return on assets of the selected consumer goods companies.

## 4.0. RESULTS AND DISCUSSION

### 4.0 Introduction

We studied what factors into account when determining audit fees for consumer products businesses trading on the floor of the Nigerian Exchange Group (NGX). Eleven (11) out of all publicly traded consumer products businesses were chosen to participate in this ex post facto study. The criteria for inclusion and exclusion informed the selection process.

“Mean, median, standard deviation, skewness, kurtosis, and the Karl Pearson correlation were used for descriptive statistics; the variance inflation factor, Breusch Pagan-Cook test for heteroskedasticity,

Ramsey RESET” test, and principal component analysis were used for diagnostic statistics; and ordinary least square was used for inferential statistics. STATA 13.0 was used for the statistical analysis.

#### 4.1. Descriptive Statistics

Table 4.1: Summary of Descriptive Statistics (Nigeria)

<b>Statistics</b>	<b>AudFee</b>	<b>FSize</b>	<b>FAge</b>	<b>FROA</b>
<b>Mean</b>	5.0484	24.954	2.7199	7.4845
<b>Median</b>	4.3100	22.500	3.3700	7.5600
<b>Standard Deviation</b>	3.0222	16.071	7.3404	0.8064
<b>Kurtosis</b>	6.9835	1.6192	4.2708	3.0188
<b>Skewness</b>	1.6883	0.2651	-0.8921	-0.6597
<b>N</b>	110	110	110	110

Source: Computed by the Researchers (2023)

Table 4.1 showed descriptive statistics breakdown: independent variables, dependent variable (audit fee), and total (firm size, age and profitability) for the sampled consumer goods firms in Nigeria from 2012-2022. It was found that Audit Fee (AudFee) had a mean of 5.0484; this indicates that auditors are adequately paid by consumer goods companies. Also, the determinants of audit fee (firm size, age and profitability) had mean values of 29.954(FSize), 2.7199(FAge), and 7.4845 (FROA) respectively

FSize recorded the highest dispersion (16.071) while FROA (0.8064) the least. The standard deviation of the variables showed that the range for the changes was between 0.6064% and 16.071%. Averages and standard deviations for AudFee (3.0222), and FAge (7.3404) showed relatively low dispersion of audit fee and firm age among the consumer goods companies in Nigeria.

Furthermore, the skewness values for AudFee (1.6883), and FSize (0.2651) are positive except FAge (-0.8921) and FROA (-0.6597) that are negative. This implies that, in Nigeria, audit fees and business sizes went in the same direction, whereas other research variables, such as firm age and return on assets, moved in the other way. In addition, the kurtosis values for AudFee (6.9835), FAge (4.2708), and FROA (3.0188) were all larger than 3 (leptokurtic distribution), which is indicative of an outsized likelihood of very favourable outcomes.

Table 4.2: Karl Pearson Correlation (KPC)

<b>Parameters</b>	<b>AudFee</b>	<b>FAge</b>	<b>FROA</b>	<b>FSize</b>
<b>AudFee</b>	1.0000			
<b>FAge</b>	-0.0566	1.0000		
<b>FROA</b>	0.2246	0.0268	1.0000	
<b>FSize</b>	-0.3681	0.4137	0.1604	1.0000

Source: Computed by the Researchers (2023)

Table 4. 2 showed that FROA (0.2246) is positively correlated with AudFee while FAge (-0.0566), and FSize (-0.3681) were negatively correlated with AudFee. This indicates a positive correlation between audit costs and return on investment (ROA), but a negative correlation between audit costs and either business age or size. Furthermore, there was no perfect correlation between any two sets of independent

variables, as shown by the fact that no pair of coefficients was greater than 0.8 (Gujarati, 2003 cited in Okoro, 2014; and Okoro, 2016).

#### 4.2. Post-Estimation Statistics

Table 4.3: Variance Inflation Factor (VIF)

Parameters	VIF	1/VIF
<b>Fsize</b>	1.24	0.806515
<b>Fage</b>	1.21	0.827222
<b>Froa</b>	1.03	0.972377
<b>Mean VIF</b>	1.16	

Source: Computed by the Researchers (2023)

Table 4.3 showed the VIF results for the sampled consumer goods.

Table 4.4: Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity

<b>Chi1(1)</b>	=	<b>12.61</b>
<b>Prob. &gt; chi2</b>	=	<b>0.0004</b>

Source: Computed by the Researchers (2023)

“Breusch-Pagan/Cook-Weisberg test for heteroskedasticity result” is 12.61 with Prob.> F=0.0004 (Table 4.4), This is much less than 0.05, indicating that there is no heteroskedasticity issue with the research model and that, most likely, the panel dataset does not include uneven variance.

Table 4.5: Ramsey RESET test

<b>F (3, 103)</b>	=	<b>13.31</b>
<b>Prob. &gt; chi2</b>	=	<b>0.0000</b>

Source: Computed by the Researchers (2023)

Table 4.5 showed the Omitted-variable and fitted-value tests for the Ramsey regression specification.  $F(3, 103) = 13.31$ , and the probability of an oversight is less than 0.0000, which indicates that the powers of the fitted values are unrelated. in the determinants of audit fee model

#### 4.3. Inferential Statistics

Table 4.6: Commonality of the Variables

S/N	Variables	Uniqueness	Commonality $\Sigma(\text{loading})^2$ or $1(-\text{uniqueness})\%$
1	FSize	0.16	83.8%
2	FROA	0.26	73.9%
3	Fage	0.51	50.3%

Source: Computed by the Researchers (2023)

Table 4.6 suggests that firm size (83.8%) had the highest commonality, followed by firm return on asset (73.9%) while firm age (50.3%) had the least commonality. Impliedly, Firm size determines audit fee the most (hence ranked 1<sup>st</sup>), followed by firm profitability (ranked 2<sup>nd</sup>) while firm age (ranked 3<sup>rd</sup>).

#### 4.4. Test of Research Hypothesis

The results in Table 4.7 were used to validate the hypotheses of the study as follows:

**H01:** Firm profitability has significant impact on Audit fees of consumer goods sector firms in Nigeria.

**H02:** Firm size has significant effect on Audit fees consumer goods sector firms in Nigeria.

**H03:** Firm age has no significant impact on audit fees of consumer goods sector firms in Nigeria.

Table 4.7: Ordinary Least Square (OLS) Results

Dependent Variable: Audit Fee (AudFee)		No. of Obs.	=	110	
<b>Variables</b>	Symbol	Coefficient	Std.Err	t-Statistics	Sign.
<b>Constant</b>	_Cons	17.27804	2.50881	6.88	0.000
<b>Firm Age</b>	FAge	0.024378	0.01769	1.38	0.169
<b>Firm ROA</b>	FROA	0.121648	0.03556	3.42	0.000
<b>Firm Size</b>	FSize	-1.758504	0.35543	-4.95	0.000
<b>F(3, 106)</b>				10.64	
<b>(p-value)</b>				(0.0000)	
<b>R-Squared</b>				0.2314	
<b>R-Squared Adj.</b>				0.2097	

Source: Computed by the Researchers (2023)

As indicated in Table 4.7, the results of the Ordinary Least Square (OLS) of the entire panel data were presented. A careful analysis of the results showed that firm age and profitability obtained positive coefficients; this is a suggestion that the explanatory variables Fage and FROA have positive relationship with audit fee. However, FROA obtained a t-stat. of 3.42 ( $P > |t| = 0.0000$ ), FSIZE obtained a t-stat. of -4.95 ( $P > |t| = 0.0000$ ), while FAGE obtained a t-stat. of 1.38 ( $P > |t| = 0.169$ ); an indication that while firm size and profitability significantly determine or affects audit fees, firm age had insignificant effect on audit fees. R-squared obtained is 0.2097; this indicates that firm size, age and return on asset accounted for 21% change in audit fee of the Nigerian consumer products firms that are publicly traded.

#### 4.4. List of findings

The following are the list of findings for this research work:

- I. Firm profitability has significant impact on Audit fees of consumer goods sector firms in Nigeria.
- II. Firm size has significant effect on Audit fees consumer goods sector firms in Nigeria.

III. Firm age has no significant impact on audit fees of consumer goods sector firms in Nigeria.

## **5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.1. Summary**

Audit fees determinants were investigated on companies on the floor of the Nigerian Exchange Group (NGX). In the consumer goods sector, eleven (11) companies were used to x-ray the research. Secondary data of annual reports and accounts of selected Nigerian consumer goods businesses were analysed for data on company size, age, and profit (independent variables), and audit fee (dependent variable), between 2012 and 2022. The study used corporate governance theory; agency theory and audit theory were employed in the theoretical framework. The research builds on previous researches carried out using different models thereby resulting varying results.

The study furthermore used this study used a variety of statistical tests and analyses, including “descriptive statistics (mean, median, standard deviation, skewness, kurtosis, and Karl Pearson correlation) and diagnostic statistics (variance inflation factor, Breusch Pagan-Cook test for heteroscedasticity,” Ramsey RESET test, principal component analysis, and inferential statistics [ordinary least square]), to examine data culled from the annual reports and accounts of the sampled organisations consumer goods companies in Nigeria from 2012-2022. The inferential statistical results showed that:

1. Audit fees of companies operating in Nigeria's consumer goods industry are heavily influenced by the profitability of such companies.
2. Audit costs in Nigeria's consumer goods industry are significantly impacted by company size.
3. Third, audit costs in Nigeria's consumer products industry have no discernible relationship to company age.

### **5.2. Conclusion**

This research set out to determine what factors affect audit fees for publicly traded Nigerian firms in the consumer products sector. Eleven (11) publicly traded Nigerian consumer goods businesses' annual reports and accounts from 2012 to 2022 were analysed for information on audit fees, company size, age, and profitability. Data was analysed using both descriptive and inferential statistics, with the latter helping to reveal that business size and profitability, rather than firm age, are the key drivers of audit costs.

### **5.3. Recommendations**

Given the results of the study that firm size and profitability are the measure determinants of audit fees while firm age do not determines audit fees:

1. It is recommended that consumer goods companies need to enhance the size and profitability (return on assets).
2. It is recommended that consumer goods companies should maintain the adequacy of paying auditors to obtain better quality audit reports.

### 5.3. Contribution to knowledge

1. The outcome of the study is significant as its outcome will guide investors in taking relevant investment decision with reference to factors that decides nature of audit fees paid to external auditors in carrying out audit services
2. The study's findings will help regulatory agencies by allowing them to assess the efficiency of existing monitoring tools and change them as necessary.
3. Third, the results will inspire further research into the topic and add to the current empirical studies on the factors that affect audit fees in Nigeria, especially in the consumer goods industry.

### 5.4. Suggestions for further study

1. This study only investigated eleven (11) companies among listed consumer goods companies in Nigeria from 2012-2022. Hence, future researchers may consider more companies of the consumer goods sector in their investigation
2. This study only investigated eleven (11) companies among listed consumer goods companies in Nigeria from 2012-2022. Hence, future researchers may consider other companies like construction and real estate, conglomerate, consumer and insurance companies among others in their investigation
3. This study only investigated ten eleven (11) companies among listed consumer goods companies in Nigeria from 2012-2022 using three (3) dependent variables. Hence, future researchers may consider other variables that had not been considered by previous researchers in their investigation

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## APPENDIX I

### List of Companies Sampled

S/N	Companies	Primary Business	No. of observation
1	Monicholes consolidated	Food Distributors	11
2	International Breweries	Brewers	11
3	Honeywell Flour Mill	Food Distributors	11
4	Guinness Nigeria	Brewers	11
5	Glaxosmithklin Nig	pharmaceutical & drugs	11
6	FTN Cocoa processors	Cocoa	11
7	Flour Mills of Nigeria	Food Distributors	11
8	Fidson HealthCare	Pharmaceutical & drugs	11
9	Dangote Sugar	Sugar Processors	11
10	Champions Breweries	Brewers	11
11	Cadbury Nigeria	Food Distributors	11
	<b>Total</b>		<b>121</b>