Audit Fee Differential and Financial Reporting

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ABSTRACT

This study has examined audit fee differential and financial reporting. Adopted the ex-post-facto research design in order to get preferences as it regards to relationship between audit fee differential and statement on Statement of Financial Position (SFP), the Statement of Financial Performance (SAP), and the Cash Flow Statement (CFS) of of quoted firms in Nigeria between 2012-2022 using Ordinary Least Square (OLS) estimate. Multiple analyses will be performed on the series of data representing the model variable. To begin, we conducted a test for stationary to eliminate the potential for false parameters arising from the regression of two or more non-stationary data series. From the analysis, the study found out that there exist significant relationship between audit fee differential on statement of financial position, statement of financial performance and cash flow statement of quoted firms in Nigeria between 2012-2022. From the finding, the study recommends that there should be transparency in financial reporting, firms should provide detailed explanations and justifications for the audit fee differentials, and also there should be regular audits and independent evaluations of the financial statements can help identify any potential manipulations or misrepresentations

INTRODUCTION

Audit fee differential is a concept that looks at the differences in the fees charged for audit services between companies of different sizes. The consideration encompasses the intricacy of the auditing task, the amount of effort required for its completion, and the financial capabilities of the audited organization. In general, larger companies pay higher audit fees than smaller ones due to their greater complexity. The audit fee differential can be used to identify opportunities for cost savings and to ensure that audit fees are fair and reasonable. Audit fee differential is the difference between the fees charged for a financial statement audit and the fees charged for a review or compilation engagement. It is a measure of the complexity of the audit, as well as the amount of work required to perform the engagement.

Kinney and McDaniel (1989) posited that the variation in audit fees might be ascribed to disparities in audit risk among firms. Companies that possess greater levels of audit risks are more inclined to incur higher audit fees as a result of the augmented effort and allocation of resources required by auditors in order to address the supplementary risk. Conversely, organizations characterized by fewer audit risks may incur reduced audit costs due to the relatively diminished degree of work demanded from auditors. The intricacy of a company's operations and financial statements is an additional element that may contribute to the disparity in audit fees. Companies with complex operations and financial statements may require auditors to invest more time and effort in understanding the business and assessing the risk, leading to higher audit fees (Soderstrom & Sun, 2007).

The variability in audit fees might also be impacted by the standing and proficiency of the auditing company. It has been suggested by Simunic and Stein (1996) that companies can demonstrate a willingness to allocate greater audit fees in order to hire auditors who possess a robust reputation and specialized knowledge within their own sector. This strategic decision is believed to have the potential to augment the credibility and dependability of the financial statements. Similarly, established auditing firms may charge higherfees compared to smaller or less reputable firms, reflecting their brand value and market position.The regulatory environment can also affect audit fee differentials. Certain regulatory requirements may increase the level of scrutiny and documentation required by auditors, which can lead to higher audit fees (Agrawal and Chadha, 2005). Additionally, changes in audit standards or regulations may require auditors to acquire new skills or adopt new procedures, which can increase the cost of the audit and result in higher fees (Krishnan et al., 2010).

The size and complexity of the company can impact the audit fee differential. Larger companies with more complex operations and financial statements may require auditors to allocate additional resources and expertise to complete the audit, resulting in higher fees. Smaller companies with simpler financial statements may have lower audit fees due to the reduced level of effort required by auditors (Francis et al., 1999).Audit fee differentials can be influenced by factors such as audit risk, complexity of operations, reputation and expertise of the auditing firm, regulatory environment, and company size and complexity. Understanding these factors can help companies assess and negotiate audit fees, while auditors can use this information to justify their fees based on the value they provide inassuring the accuracy and reliability of financial reporting.

Financial reporting plays a crucial role in the realm of business operations by providing stakeholders with pertinent information on a company's financial performance. The process encompasses the compilation and dissemination of financial statements, including the balance sheet, income statement, and cash flow statement. The aforementioned statements are created in adherence to established accounting principles and serve to provide a concise overview of a company's financial well-being. As stated by Kieso, Weygandt, and Warfield (2016), the primary objectives of financial reporting include many functions such as facilitating decision-making processes, evaluating the financial status of an organization, and promoting openness and accountability. The evaluation of a company's potential for future profitability and its capacity to fulfill its financial commitments is facilitated by financial analysis, which aids investors and creditors in making informed decisions.

U.S. financial statements adhere to the guidelines set out by the Financial Accounting Standards Board (FASB). The goal of these guidelines is to make sure that all financial reports are reliable and accurate. Financial transactions are to be recorded and reported in accordance with generally accepted accounting principles (GAAP). mistakes of a material nature. They also highlight the role of auditors in providing assurance on the fairness and accuracy of financial statements.Financial reporting is not only important for external stakeholders such as investors and creditors but also for internal decision-making. According to Horngren, Sundem, and Elliott (2016), internal financial reports help management assess performance, monitor budgets, and make informed decisions. These reports provide information on key financial metrics and trends that help in evaluating the effectiveness of business strategies and identifying areas for improvement.

Statement of the Problem

The fee difference is a commonly used factor in the determination of audit engagement fees, with its magnitude contingent upon the dimensions of the business and the intricacy of the engagement. Craswell, Francis, and Taylor (2015) emphasized the concept of audit fee differential, which pertains to variations in the fees charged by auditors for comparable services. According to Knechel and Salterio (2016), the determination of the fee difference often considers many factors, including the audited entity's size, the audit's complexity, the related risk, the audit firm's reputation, and the audit team's expertise. Audit fee differentials pertain to variations in the charges imposed by auditors for comparable services (Craswell, Francis & Taylor, 2015). As an instance, it is often observed that bigger companies tend to incur greater audit fees compared to smaller companies. Likewise, an audit characterized by an elevated degree of risk will often result in a greater audit charge compared to an audit with a lower level of risk.

Aim and Objectives of the Study

The aim of this research is to determine audit fee differential and financial reporting of selected quoted firms in Nigeria between 2012-2022. Specifically, the research is conducted to:

1. examine audit fee differential and statement of financial position of quoted firms in Nigeria
2. examine audit fee differential and statement of financial performance of quoted firms in Nigeria
3. examine audit fee differential and cash flow statement of quoted firms in Nigeria

Research Hypotheses

1. The audit fee differential is significantly related to the statement of financial position of quoted firms in Nigeria.
2. The audit fee differential is significantly related to the statement of financial performance of quoted firms in Nigeria.
3. The audit fee differential is significantly related to the cash flow statement of quoted firms in Nigeria.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Theoretical Framework: Agency Theory

Principals (owners) and agents (managers) in companies are the focus of agency theory, a concept created by Michael C. Jensen and William H. Meckling in 1976. The notion holds that principals (the owners of a business) provide managerial power (the agents) to make decisions on their behalf. However, disagreements between principals and agents might emerge when they have competing objectives. Agency cost theories highlight the possibility that agents may not always behave in the best interest of their principals. When agents behave in ways that are beneficial to themselves but detrimental to their principles, this is called moral hazard. Adverse selection, on the other hand, occurs when agents with hidden characteristics or abilities are selected by principals, leading to suboptimal outcomes.

Agency Theory, according to Rajan and Zingales (1998), reduces the dynamic between principals and agents too much. They argue that the theory is flawed because it incorrectly implies that agents are primarily driven by financial incentives and that disputes always result from a mismatch of incentives. According to Rajan and Zingales, this narrow focus ignores other important factors such as social norms and interpersonal relationships that can influence behavior within organizations. Williamson (1985) provides a critique of Agency Theory by highlighting the assumption of opportunistic behavior. He argues that the theory assumes that agents will always act in their own self-interest and neglects the possibility of cooperative behavior. Williamson suggests that focusing on opportunistic behavior may lead to the creation of governance mechanisms that are too rigid and can hinder organizational efficiency. The application of agency theory to the study of audit fee differential and financial reporting focuses on the role of audit fees in influencing financial reporting quality. According to agency theory, managers, as agents, may have an incentive to manipulate financial reports to meet their own objectives, which may not necessarily align with the interests of shareholders. Audit fees serve as a monitoring technique within the given setting, aimed at mitigating agency issues that may arise between shareholders and management. Higher audit fees can incentivize auditors to exert greater effort and provide more thorough scrutiny of financial reports, leading to higher quality financial reporting.

Literature Review

Audit fee differential has been defined by scholars and adopted by most organizations from ancient time to modern day is the difference between the audit fees charged by the auditor to the company being audited and the fees charged to other companies of similar size and complexity. This differential can be used to measure the auditor’s perception of the risk of the audit. The higher the audit fee differential, the greater the risk perceived by the auditor. This fee differential can also be used to measure the auditor’s incentive to perform a better audit, as greater fee differential results in a higher fee for the auditor.

The notion of audit fee difference has been a subject of study and analysis by several academics throughout history. Its significance and worth in facilitating the development of corporations make it a topic of utmost relevance for debate. Underhill and Kohn (1968) provided a definition for audit fee differential as the disparity between the audit fee imposed by a CPA firm and the audit fee levied by the same firm for a comparable audit conducted for a distinct customer. The variation in audit fees may arise from many variables, including the size of the client's enterprise, the intricacy of the audit process, and the standing of the certified public accounting (CPA) company. The audit fee difference serves as a metric for assessing the comparative intricacy of the audit and the level of exertion necessary for its completion. According to Weygandt (1979), during the 1970s, an audit fee differential was defined as the variance between the audit fees paid by a specific client and the audit fees charged by a public accounting firm for comparable customers. The examination of this phenomenon has been the subject of scholarly investigation since the late 1970s, during which scholars embarked on efforts to ascertain the impact of auditor-client power on the process of determining audit fees. In a study released in 1979, it was determined by researchers that there exists a correlation between audit fee differentials and the extent of control exerted by the customer over the audit process. This research further discovered that there exists a positive correlation between the level of control and the magnitude of the disparity. Therefore, the disparities in audit fees continue to serve as a valuable instrument for auditors and their clients when evaluating the possible impact of auditor-client power on the process of determining audit fees.

Dopuch, Simunic, and Tsakumis (1988) provided a definition for audit fee differentials, which refers to the variances in audit fees imposed to customers based on their varying sizes and/or complexity. The description provided aligns with the definition used by other researchers throughout the late 1980s, including DeZoort and Salterio (1988), who observed that audit fee differentials refer to variations in audit fees imposed on customers of varying sizes and/or complexity. According to Rajgopal (2003), an audit fee difference refers to the extent to which the audit fee paid by a firm surpasses the median audit charge of comparable companies. According to Abor (2005), the use of audit differentials has gained significant acceptance as an indicator of audit quality. According to Biddle and Hilary (2006), it is suggested that greater discrepancies in audit fees indicate a better level of audit quality, whereas audit fee discrepancies that fall below the median are indicative of inferior audit quality. As described by Kieso, Weygandt, and Warfield (2015), the concept of audit fee differential refers to the disparity in audit fees between customers deemed to have high audit risk and those considered to have low audit risk. The present definition is predicated upon scholarly study undertaken during the late 1970s, whereby it was discovered that auditors were inclined to levy greater costs onto customers exhibiting elevated levels of audit risk. The phenomenon of fee disparity is often found in cases when customers exhibit heightened degrees of complexity, such as international corporations or entities engaged in intricate accounting procedures. The audit fee differential can serve as an indicator of the audit effort or quality, as higher audit fees generally indicate a greater level of audit effort or a higher degree of assurance. This is significant in the context of financial reporting, which involves the communication of financial information to external parties, including investors, creditors, and other stakeholders. The process includes the compilation and delivery of financial statements, which provide a concise overview of an entity's financial achievements and standing.

Scholars and researchers have provided various definitions and conceptual clarifications of financial reporting. For example, the Financial Accounting Standards Board (FASB) defines financial reporting as "the process of providing relevant financial information in a way that is useful to external decision makers" (Financial Accounting Standards Board, 2020). This definition emphasizes the importance of providing information that is relevant and useful for decision-making purposes.

Backer and Philip (2016) define financial reporting as a comprehensive framework including regulations, standards, and methodologies that dictate the formulation and exhibition of financial statements and associated data. The authors contend that financial reporting functions as a mechanism of communication between an entity and its stakeholders, facilitating the dissemination of information pertaining to the entity's financial performance and standing. According to Barth (2012), financial reporting may be defined as the systematic procedure of transmitting economic data about an organization to external stakeholders via the use of financial statements. The author underscores the importance of financial reporting as a means of conveying economic information, including both financial and non-financial data that may have implications for decision-making. Financial reporting has three main components: the financial situation, financial performance, and cash flow statement.

Financial position: The term "financial position" refers to the comprehensive financial well-being of an entity or person at a certain moment. The determination of an entity's financial position is achieved by the analysis of its assets, liabilities, and equity. The comprehension of an organization's solvency and stability is contingent upon a comprehensive knowledge of the idea of financial position. The financial status has a strong correlation with several fundamental measures and ratios. The current ratio is a commonly used metric that evaluates an entity's capacity to settle its immediate obligations by using its existing assets (Okechukwu, 2014). The debt-to-equity ratio is a significant indicator that reflects the relative amount of debt in relation to equity within the capital structure of a firm.

Financial performance: Financial performance pertains to the capacity of an entity or a person to make profits and proficiently administer its resources within a designated timeframe. The determination of financial performance is achieved by the analysis of the income statement, which provides a comprehensive overview of the revenues and costs incurred by the business over a certain period of time. Scholars have proposed many approaches for assessing financial success (Fineman & Zaria, 2015). The return on assets (ROA) is a frequently used statistic that quantifies the effectiveness with which a firm employs its assets to create profits. The gross profit margin is a significant measure that serves as an indicator of an organization's basic operational profitability.

Cash Flow Statement: The cash flow statement is a financial statement that presents data on the cash inflows and outflows of an organization during a designated timeframe. The presentation delineates the origins and applications of monetary funds, including operational undertakings, investment endeavors, and financial transactions. The significance of the cash flow statement in evaluating an organization's liquidity and cash management has been underscored by scholars and academics. It helps evaluate the ability of an organization to generate cash from its operations, make investments, and meet its financial obligations. Various ratios and metrics are used to analyze the information presented in the cash flow statement (Fineman & Zaria, 2015). One commonly used metric is the cash flow coverage ratio, which measures the organization's ability to cover its operating cash flow with its debt obligations. Another important measure is the cash flow return on investment (CFROI), which assesses the return generated by an organization's cash flow relative to the amount of capital invested.

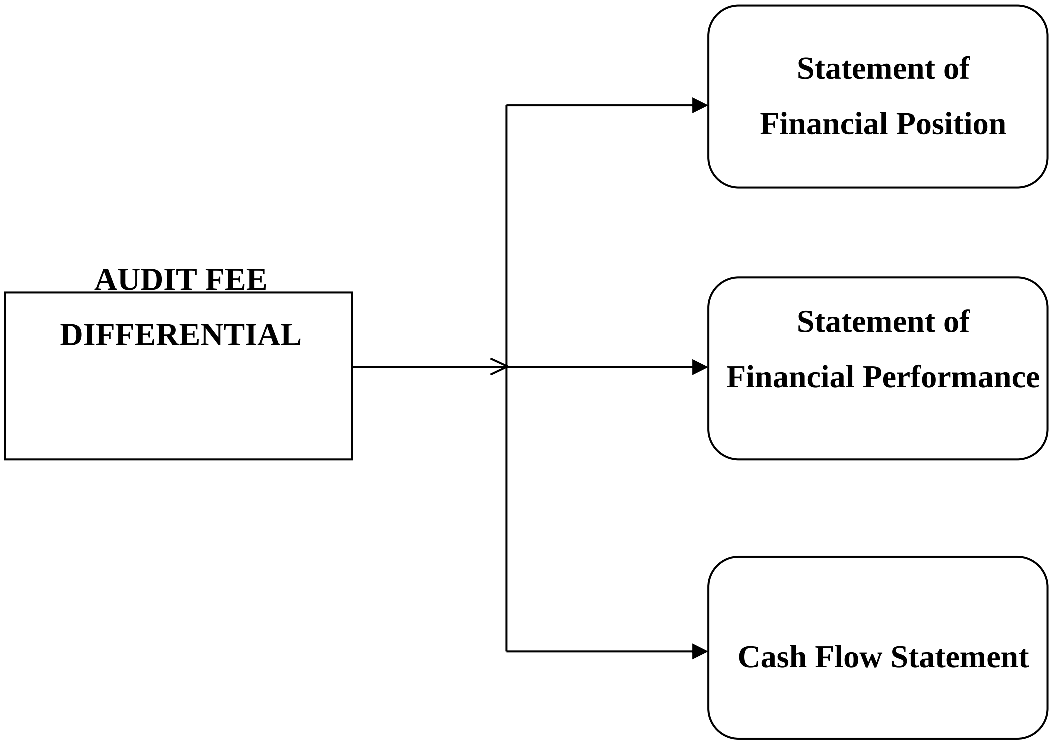

Fig. 1: Conceptual Framework (Researcher's Desk, 2023)

Audit Fee Differential and Statement of Financial Position (SFA)

Audit fees refer to the remuneration imposed by external auditors for the purpose of executing an examination of a corporation's financial statements. The concept of audit fee differential pertains to the variation in audit fees imposed by distinct audit firms for the same audit engagement. The disparity in audit fees may be attributed to a range of variables, including the company's dimensions and intricacy, the perceived level of risk associated with the audit engagement, and the reputation and proficiency of the audit firm. Larger and more intricate organizations may need a greater allocation of time and resources for the purpose of conducting an audit, hence leading to an escalation in associated expenses. Likewise, audit companies with a robust reputation and specialized proficiency in a certain area may impose elevated costs as a result of their exclusive knowledge and extensive practical understanding. The financial statement known as the statement of financial position, or balance sheet, offers a concise representation of a company's financial status at a particular moment in time. The financial statement provides a comprehensive overview of the organization's assets, liabilities, and shareholders' equity. The financial statement known as the statement of financial position has significant importance as it aids investors, creditors, and other stakeholders in evaluating the financial well-being and capacity of a firm to fulfill its responsibilities.

The audit fee differential and the statement of financial position are interconnected since the audit fee is recognized as an expenditure in the income statement, which in turn contributes to the components of the statement of financial position. The company's net income is impacted by the audit fee, resulting in corresponding adjustments to the reported retained profits and shareholders' equity in the statement of financial condition. As an example, when a firm experiences an increase in its audit fee as a result of its magnitude or intricacy, this will be shown as an augmented expenditure in the income statement. The consequence of this will be a reduction in net income and retained profits, leading to a fall in shareholders' equity as stated in the statement of financial position. There is a correlation between the audit fee difference and the statement of financial position. The disparity in audit fees may be attributed to the diverse expenses incurred in carrying out an audit. Conversely, the statement of financial position provides an overview of a company's financial status, including the influence of audit fees on its net profits and shareholders' equity. These two elements have significant importance for investors and other stakeholders when evaluating the financial well-being and dependability of a company's financial statements.

Audit Fee Differential and Statement of Financial Performance (SAP)
During the process of doing financial audits, auditors impose a fee in exchange for their professional services. The concept of audit fee differential pertains to the disparity in audit fees seen between two distinct firms. The disparity might arise as a result of many variables, including the intricacy of the organization's financial records, the sector within which it works, the degree of risk included, and the magnitude of the corporation. The significance of the audit fee disparity lies in its potential to affect the financial statements of a corporation. The payment of a greater audit fee by a corporation might potentially serve as an indication of enhanced financial reporting quality, since it suggests that auditors may do more comprehensive and meticulous inspections. Conversely, a reduced audit price may give rise to apprehensions over the integrity of financial reporting. An effective approach to assessing the impact of the audit fee difference involves a thorough examination of the statement of financial performance. This statement offers a comprehensive summary of a company's financial performance within a designated timeframe, including its generated income, incurred costs, and resulting net earnings or losses.

The disparity in audit fees might have an impact on the financial performance statement via many avenues. The imposition of elevated audit fees might lead to supplementary expenditures for the organization, so diminishing its net profit. Conversely, reduced audit fees have the potential to decrease expenditures, so yielding an augmented net profit. The consideration of the audit fee difference by auditors has significance in relation to the statement of financial performance, as it plays a crucial role in ensuring the fair representation of the company's financial condition within the financial statements. Auditors need to ensure that their fees are reasonable and proportionate to the work performed, taking into account the complexity and risk associated with the company's operations. In addition to the audit fee differential, other factors such as changes in accounting policies or estimates can also impact the statement of financial performance. Auditors need to carefully evaluate these factors and their impact on the financial statements to provide an accurate and reliable audit opinion. The audit fee differential can have an impact on a company's statement of financial performance. It is important for auditors to consider the differential and other factors that can affect the financial statements to ensure that the financial reporting is accurate and reliable.

Audit Fee Differential and Cash Flow Statement (CFS)

The audit fee differential refers to the disparity between the actual audit fee disbursed by a business and the amount that would have been incurred had an alternative audit firm been hired. The variation in audit fees may be attributed to many reasons, including variances in the scale and intricacy of the audit engagement, disparities in audit procedures and methodologies, and variations in the amount of audit risk. The cash flow statement is a fundamental financial statement that offers insights into the origins and applications of cash inside a firm during a designated timeframe. The financial statement encompasses cash inflows and outflows derived from three primary categories: operating operations, investment activities, and financing activities. The cash flow statement has significance for investors and other stakeholders due to its provision of valuable insights into a company's cash generation capacity, liquidity status, and capability to fulfill financial commitments. A correlation exists between the audit fee difference and the cash flow statement. The audit fee is an expenditure that is included within the operational activities segment of the cash flow statement. The disparity in audit fees might impact the statement of cash flows in two distinct ways.

Initially, in the event that the actual remuneration for an audit surpasses the remuneration that would have been incurred had a different audit firm been engaged, this would result in an augmentation of the operational expenditures as shown in the cash flow statement. The increase in costs will lead to a drop in cash flow from operational operations, since greater expenses are associated with less cash flows. Conversely, in the event that the actual remuneration for the audit is less than the fee that would have been incurred had a different audit firm been engaged, it will result in a reduction of the operational expenditures shown in the cash flow statement. This will lead to an augmentation in the cash flow generated from operational operations, since reduced costs contribute to an elevation in cash inflows. The disparity in audit fees, regardless of the scenario, has an influence on the statement of cash flows, potentially influencing the overall cash flow situation of a firm. It is important for stakeholders to possess knowledge of these disparities and take them into account when scrutinizing the cash flow statement. There exists a correlation between the audit fee difference and the cash flow statement, since the audit fee is shown as an expenditure on the cash flow statement. The disparity in the audit fee has the potential to impact the operational expenditures shown on the cash flow statement, thereby influencing the cash flow derived from operating operations. It is essential for stakeholders to understand and analyze these differences when assessing a company's cash flow position.

METHODOLOGY

This investigation made use of an ex-post-facto research strategy. Because the dependent variable has already happened and will be analyzed after the fact in connection to the independent variable, the term "ex-post-facto" was chosen. In addition, the variables will not be tampered with in any way. The research focused on five publicly traded companies. Audit Fee Differential (AFD) data was regressed on the Statement of Financial Position (SFP), the Statement of Financial Performance (SAP), and the Cash Flow Statement (CFS) of publicly traded Nigerian companies using Ordinary Least Square (OLS) estimate. Multiple analyses will be performed on the series of data representing the model variable. To begin, we conducted a test for stationarity to eliminate the potential for false parameters arising from the regression of two or more non-stationary data series. Parameter estimates obtained from a regression including two non-stationary variables, as stated by Engle and Granger (1987), are erroneous and inconsistent. To check whether the variables are stationary, we employed the Augmented Dickey-Fuller and Phillip Perron (Unit root) tests. The variables must be unit-root-free at the 0-1 or 0--1 difference levels, respectively, before they may be used in empirical estimation.

Repercussions of audit fee discrepancy on Nigerian publicly traded companies' balance sheets, income statements, and cash flows. Following the postulation of the Solow growth model the following mathematical formulation of the growth equation for this study is relevant:

BC =f(ATM, POS, ACH) - - - - - - - - (1)

Where:

AFD = Audit Fee Differential
SFA = Statement of Financial Account
SAP = Statement of Financial Performance
ACH = Cash Flow Statement

Given the assumption that the aforementioned connection is of a linear nature, it is possible to rephrase the functional equation shown in equation (1) as follows:

$AFD = \beta_0 + \beta_1 SFA + \beta_2 SAP + \beta_3 CFS + \mu$ - - - - - - (2)

In equation (2) shown earlier, the variable u represents the error term, which accounts for additional variables that are not explicitly included into the model. Additionally, it is anticipated that:

β_0 = intercept
β_1, β_2 and β_3 are the various slope coefficients on a priori
β_1, β_2 and $\beta_3 > 0$

The data were analyzed using E-views software, the model was estimated via the Ordinary Least Square (OLS) technique and the results obtained are presented and discussed below.

RESULTS AND DISCUSSION

Table 1: Regression Result of audit fee differential and financial report

Variable	Coefficient	Std. Error	t-statistic	Prob
C	-76.792	17.596	3.643	0.0023
SFA	0.573	0.147	4.257	0.0146
SAP	0.507	0.919	2.753	0.6992
CFS	0.563	0.396	6.447	0.0753
R-squared	0.061	Mean dependent var		20.6544
Adjusted R-squared	0.052	S.D. dependent var		30.53357
S.E. of regression	0.253769	Akaike info criterion		0.318390
Sum squared resid	0.708383	Schwarz criterion		0.507203
Log likelihood	1.612076	F-statistic		62.07764

Durbin-Watson stat	0.987	Prob (F-statistic)	0.000000

Source: Author's Computation Using E-view 8

Regression findings for the correlation between audit fee differences and financial reports for publicly traded Nigerian companies are shown in Table 1. Statement of Financial Position (SFP), Statement of Financial Performance (SFP), and Cash Flow Statement (CFS) coefficients, standard errors, t-statistics, and probabilities are all included here.

Statement of Financial Position (SFA): As can be shown in Table 4.1, the regression result reveals a statistically significant connection between the audit fee disparity and the SFP of publicly traded Nigerian companies. This means that the audit fee difference will rise by $0.573 for every 1 increase in the statement of financial condition. There is a statistically significant rise in audit fee difference of 5% between stated firms in Nigeria. That is, at the 0.05 level of significance, tcal = 4.257 >ttab = 2.0. As a result, we find no support for the alternative hypothesis, which would suggest that there is no correlation between the audit fee gap and the SFP of publicly traded Nigerian companies.

Statement of Financial Performance (SAP):The table below displays the results of a regression analysis investigating the impact of SFP on audit fee differences across Nigerian publicly traded companies. This means that for listed companies in Nigeria, an increase of one unit in the Statement of Financial Performance would result in an audit fee differential increase of 0.507. Increase the audit fee difference by 5%, and the Statement of Financial Performance becomes statistically significant at the 0.05 level. This means that at the 0.05 level of significance, tcal (2.753) is bigger than ttab (2.0). Therefore, we find no evidence to support the null hypothesis that there is no association between audit fee disparity and the financial performance of publicly traded companies in Nigeria.

Cash Flow Statement (CFS):The regression findings for audit fee difference of listed businesses in Nigeria are shown in the table below, and they reveal that the Cash Flow Statement has a major role. This means that audit fee difference of listed businesses in Nigeria would rise by 0.563 percentage points as a result of a Cash Flow Statement. An rise of only 5% in the audit fee difference of publicly traded Nigerian companies will have a statistically significant impact on the Cash Flow Statement. That is, at the 0.05 level of significance, tcal (6.447) >ttab (2.0). Therefore, we do not accept the null hypothesis, which states that there is no correlation between the audit fee difference and the cash flow statement of publicly traded Nigerian companies.

Discussion of Findings

Audit Fee Differential and Statement of Financial Position (SFA)

Based on an examination of the data in the preceding table, it can be concluded that the audit fee disparity significantly affects the SFA of selected listed businesses in Nigeria. This result agrees with the findings of other academics and researchers. The quality of financial statements was shown to be strongly correlated with audit fees, according to research by Chen et al. (2013). They contend that auditors who provide better levels of assurance and audit quality should demand higher compensation. This suggests that companies with a stronger commitment to auditing are more likely to produce trustworthy financial statements, which might have a beneficial effect on their P&L. The chance of seeing and reporting financial misstatements is strongly correlated with audit fees, as was also demonstrated by DeFond and Zhang (2014). They contend that auditors should be paid more so that they would have a stronger incentive to find and report on any substantial misstatements in the financial statements that they review. Higher audit costs may indicate that a company is serious about presenting reliable financial information, which might be good news for its Statement of Financial Position. However, a research by Wang et al. (2017) done in China revealed no correlation between audit fees and financial reporting quality. They contend that other characteristics, such as auditor independence and competency, are more important indicators of financial reporting quality than audit fees alone.

Audit Fee Differential and Statement of Financial Performance (SAP)

Data analysis reveals an association between audit differential and SAP for a sample of listed Nigerian companies. The results suggest that companies with better financial performance are more likely to pay higher audit fees as a result of the greater degree of audit risk they face. Okafor and Ugwunta's (2019) "Effect of Financial Performance Indicators on Audit Quality in Nigeria" similarly looked at the connection between FPIs and audit quality in Nigeria. Based on their research, they concluded that audit quality may be improved by focusing on financial performance metrics such return on assets and return on equity. Therefore, it may be inferred that higher-performing businesses have superior audit quality. Additionally, Arogundade (2017) discovered a substantial positive correlation between financial performance metrics and audit fees in his paper titled "The impact of financial performance on audit fees: evidence from quoted companies in Nigeria." The findings show that companies with stronger financial performance are prepared to spend more for a more thorough audit. Previous research has shown that audit disparity in Nigerian listed corporations is affected by the Statement of Financial Performance. Profitability, liquidity, return on assets, and return on equity are only few of the key financial performance metrics that have a significant impact on audit fees and audit quality. There is a correlation between a company's financial health and the amount and quality of money spent on audits.

Audit Fee Differential and Cash Flow Statement (CFS)

The findings of this study, which indicate that Cash flow Statement (CFS) has a significant impact on the audit fee differential of quoted firms in Nigeria, align with the research conducted by other scholars in the field.One study by Bédard and Gendron (2010) examined the determinants of audit fee differentials between Arthur Andersen (AA) and other Big 6 auditors in Canada. They found that audit complexity, firm size, and financial reporting quality were significant factors influencing audit fee differentials. In particular, they found that firms with higher financial reporting quality, measured using metrics such as cash flow statement disclosure, tended to have lower audit fee differentials. Another study by Yunanda and Yuningsih (2017) investigated the determinants of audit fees in Indonesia. They found that financial statement quality, as measured by the completeness and accuracy of financial statement information, had a significant impact on audit fees. In particular, they found that firms that provided more comprehensive and accurate cash flow statement information tended to have lower audit fees.These findings from previous studies support the findings of the current study in Nigeria, which suggest that the disclosure and quality of cash flow statement information has a significant impact on audit fee differentials. The results indicate that firms with higher quality cashflow statement information are likely to attract lower audit fees, as auditors perceive them to have better financial reporting quality and lower audit complexity.

Conclusion

Based on the empirical evidence, it can be deduced that a significant correlation exists between variations in audit fees and the financial reporting practices of publicly traded companies in Nigeria. The results indicate a correlation between the fee difference and other components of the financial statements, such as the statement of financial position, statement of financial performance, and cash flow statement. This suggests that the remuneration allocated towards audit costs by a company might potentially influence the manner in which they disclose their financial data. The proposition posits that companies who allocate larger financial resources towards audit fees may exhibit a greater degree of precision and dependability in their financial reporting, in contrast to those entities that allocate smaller costs. Additional examination and investigation would be essential in order to comprehend the precise factors contributing to this correlation and the potential ramifications it may have on the comprehensive standard of financial reporting in Nigeria. The results suggest that audit fees have an impact on the financial reporting procedures of Nigerian publicly traded companies.

Recommendations

From the analysis, the study recommends that:

1. The significant relationship between audit fee differential and financial reporting suggests that firms with higher audit fee differentials may have different financial positions, performances, and cash flows. To ensure transparency in financial reporting, firms should provide detailed explanations and justifications for the audit fee differentials. This will help stakeholders understand the reasons behind the fee differentials and assess the reliability and accuracy of the financial reports.

2. The relationship between audit fee differential and financial reporting indicates the importance of strong corporate governance practices. Firms should establish effective internal controls, risk management systems, and ethical standards to ensure accurate financial reporting. Regular audits and independent evaluations of the financial statements can help identify any potential manipulations or misrepresentations.

3. Given the significant relationship between audit fee differential and financial reporting, firms should carefully consider the quality of audits when selecting their auditors. It is important to choose auditors with a strong reputation, expertise in the specific industry, and a track record of delivering high-quality audits. This willhelp ensure that the audits are thorough, comprehensive, and reliable, leading to accurate financial reporting.

4. Firms should focus on providing clear and comprehensive disclosures in their financial statements. This will help investors and other stakeholders understand the underlying assumptions, estimates, and judgments made in the financial reporting process. Clear disclosures will also allow users of the financial statements to evaluate the potential impact

of audit fee differentials on the financial position, performance, and cash flows of the company.

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