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## AUDIT FEES AND AUDITOR'S TENURESHIP: PERCEPTION OF SELECTED AUDIT FIRMS IN NIGERIA

BY

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### ABSTRACT

*This study examined Audit Fees and Auditor's Tenureship: Perception of Selected Audit Firms in Nigeria. The theory on which the subject of the study was based was the Agency Theory. The Population of the study comprises Two Thousand, Four Hundred and Sixty One (2461) Selected Licensed Audit Firm operating in Nigeria. The sample size of the study is 185 Selected Licensed Audit Firm operating in Nigeria which was determined by Taro Yamane. Six (6) Questionnaire items were drawn from Two (2) Research Questions which were administered directly to the ICAN and ANAN Licensed practicing members using the method of Telephonic Interviewing, Google Form, Emailing and on the spot administering. Descriptive statistics (Mean and Standard Deviation were used as method of statistical tool. The major findings are: Audit Fees has a significant relationship with Auditor's Tenure. Clients (Auditee) company's profitability plays significant role in auditor's tenure. It is therefore recommended that auditee as a company should consider her profitability index before fixing audit fee that eventually determine the auditor's tenure.*

**Keyword:** Audit Fee, Audit Tenure, Client Profitability, Client Size

## Introduction

An audit entails the examination of financial records, including books of accounts, vouchers, and other relevant documentation, by an impartial auditor who is either an individual or a firm chosen for this purpose by business managers. Audits are conducted in accordance with widely recognized auditing principles and practices. The primary objective of an audit is for the auditor to render an opinion on the financial statements of a company, while the secondary objective is to verify the reliability and accuracy of the documents prepared by corporate managers. Auditing is the procedural undertaking of executing audit assignments. Publicly traded corporations are required by law to undergo an impartial assessment of their financial statements. According to the Companies and Allied Matters Act (CAMA) of Nigeria, 2020, medium and large-sized firms are required to undergo financial record audits as stipulated in Sections 374, 375, 376, and 377.

The term "audit fee" pertains to the remuneration provided by a client to an auditor in return for the provision of professional services rendered during an audit engagement. The remuneration is provided in return for the provision of professional services. According to Santhosh & Ganesh (2020), it is the customer's responsibility to cover the audit price, which serves as remuneration for the duration of the audit process, the inherent risks associated with the assignment, the requisite degree of skill needed to successfully carry out the audit, and various other professional factors. In an alternative perspective, the audit fee may be regarded as a monetary compensation provided by the corporation to cover the expenses incurred by the auditors, as stipulated in section 408 of the Companies and Allied Matters Act (CAMA) of 2020.

In an optimal scenario, a client organization would possess the capability to remunerate an audit fee that is commensurate with the extent of work executed by an auditor. The remuneration of auditors employed by companies formed in Nigeria is stipulated in Section 408 of the Companies and Allied Matters Act (CAMA) of 2020. The corporate governance principles established by professional groups and recognized statutory regulatory authorities outlines the prescribed procedures for conducting audits and determining audit fees. The aforementioned requirements are typically delineated within corporate governance codes. ICAN and ANAN are two prominent professional organizations in Nigeria. These institutions are responsible for monitoring the quality of audit services rendered by audit firms that are affiliated with ICAN and ANAN. Audit firms that fail to meet the specified benchmark are liable to face suitable disciplinary measures.

Audit fee is the amount charged or the amount agreed by the client and the auditor for the services to be rendered. Each professional body has its own professional service charge. For example, various professional bodies such as the Institute of Chartered Accountants of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) have their various table of fees chargeable.

The term "auditor tenure" in firm refers to the duration or period during which auditor have provided services to their clients. The determination of the overall cost of the audit is of utmost importance. The duration of the audit decreases as the auditor gains experience, possibly due to the auditor's familiarity with the specific task and knowledge of the sources for obtaining necessary information for the audit process. Consequently, the auditor is capable of conducting audits more efficiently, leading to reduced expenses. The extended duration of the auditor-client relationship can potentially compromise the auditor's independence due to the establishment of personal connections and familiarity between the parties involved. Insufficient focus may be directed towards the auditing process by the auditor, potentially encompassing the senior management team of the company. Numerous

endeavours have been undertaken to examine the aspects that may elucidate the present condition of audit fees and the duration of auditors' stay within a business.

The temporal extent of an audit firm's association with a client organization is commonly denoted as the auditor's tenure with the organization. Numerous empirical investigations have been undertaken to examine the association between the duration of audit tenure and audit fees, yielding diverse outcomes. There is an observed correlation between a rise in tenure and a decrease in the duration of audits. It is conceivable that the auditor has acquired a greater level of understanding regarding the operational procedures of the client organization.

ElGammal & Gharzeddine (2020) assert that the establishment of a favourable rapport between the auditing business and the client organization is a continuous process. In order to sustain and enhance the efficacy of this mutually advantageous professional alliance, it is recommended to augment the client's annual audit fees. Based on the outcomes of prior study, it has been observed that apprehensions regarding the quality of audit reporting emerge throughout the initial stages of the audit engagement due to auditors' limited comprehension of the client. Moreover, in an effort to foster long-term client retention, numerous auditing companies use price reductions for new engagements.

The empirical findings from prior studies have indicated a direct correlation between the length of auditor tenure and the amount of audit fees charged. However, it is important to note that these findings have been inconsistent and have produced contradicting outcomes.

Hence, the study *Audit Fees and Auditor's Tenureship: Perception of Selected Audit Firms in Nigeria*.

### **Statement of the Problem**

The need of competent audits and honest financial reporting in maintaining investor trust in the capital market during Nigeria's ongoing severe economic slump is readily apparent. The loss of confidence among Nigerian investors in the credibility, reliability, efficacy, and relevance of audit activities over the past two and a half decades can be attributed to recurring accounting scandals primarily associated with inefficient auditing practices and perceived deficiencies in auditor independence, among other contributing factors. The majority of the issues that precipitated these crises can be attributed to concerns over the auditors' objectivity, independence and integrity resulting from elongated auditor's tenureship, exorbitant fees and familiarity threat amongst others. The auditing process and the act of auditing itself are undertaken to evaluate the probability of significant misstatements and to minimize the risk of these misstatements going unnoticed, as they are believed to be linked to an acceptable or satisfactory degree of assurance.

The reputation of the audit function has experienced a decline due to several factors, such as the global financial crisis, corporate failures, and instances of audit failures. The primary causes of these issues can be mostly attributed to inadequate accounting practices, opportunistic behaviour by management, and the length of time an auditor has served. The aforementioned activities had a significant impact on the precision of the reported accounting data, a critical aspect for numerous stakeholders, including investors. The aforementioned matter has incited a discourse regarding the safeguarding of the audit profession through the establishment of optimal levels of independence among users of financial statements, regulatory bodies, and practitioners. The audit function has been subject to significant scrutiny in light of some recent corporate financial disasters, leading to doubts over its legitimacy, integrity, efficacy, and overall significance.

There exists a certain level of contention on whether the insolvency of these business entities may be attributed to substandard audit quality, potentially stemming from an extended period of engagement with auditors, exorbitant audit fees, or a deficiency in the impartiality of external auditors. In light of the formidable obstacles that the audit function faces, some studies like (Willekens & Gaeremynck, 2000, Heninger, 2001 Ebrahim, 2001; Piot & Janin 2005; Gerayli, Yanesari & Ma'atoofi, 2011) have sought to show the influence of this connection on the caliber of the earnings declared by quoted companies in many nations and have attempted to determine whether there is any discernible link between auditor tenure, fees and size. Efforts have been undertaken to ascertain the influence of this association on the financial accuracy of earnings disclosed by publicly traded enterprises across different nations, alongside investigating the potential correlation between the length of auditor tenure, fees charged, firm size, and the independence of auditors.

Resulting from the above, it was deemed fit to study Audit Fees and Auditor's Tenureship: A Perspective of Selected Audit Firms in Nigeria

### **Objectives of the Study**

The main objective of this research is to examine the effect of audit fee in relation to auditor's tenure in Nigeria. The specific objectives are to:

1. Examine the role of Client Profitability on Auditor's Tenure.
2. Evaluate the relationship between Audit Fees and Auditors tenure

### **1.4 Research Questions**

In view of the above stated objectives, the following research questions will be addressed:

1. How does Client Profitability affect Auditor's Tenure?
2. What is the relationship between Audit Fees and Auditors Tenure?

### **1.5 Research Hypotheses**

1.  $H_0$ : Clients Profitability affects Auditor's Tenure  
 $H_1$ : Clients profitability has no effect on Auditor's Tenure
2.  $H_0$ : There is a relationship between Audit Fee and Audit Tenure  
 $H_1$ : There is no relationship between Audit Fee and Audit Tenure

## **Literature Review**

### **Audit Fee**

Arens(2012) defines audit fees as compensation in the form of money or goods or other forms given to or received from clients or other parties to obtain engagement from clients or other parties depending on the risk of assignment, the complexity of services provided, and the level necessary to carry out these services. Therefore, it can be concluded that even if the audit fee or amount received by the auditor for professional services is given, the auditor's alignment in this matter should be prioritized in the public interest.

Audit fee can also be described as the amount charged or the amount agreed by the client and the auditor for the services to be rendered. Each professional body has its own professional service charge. For example, various professional bodies such as the Institute of Chartered Accountants of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) have their various tables for fees chargeable. There are some fees that audit service providers charge their clients as a kind of recompense for the auditing work that they do. It is up to the

auditing firms to choose what kind of fees are appropriate to charge for their services. It is possible for the audit fees that are charged to audit customers to be either excessive or cheap in comparison to what other auditors within the industry charge.

A payment that is made directly to the auditor and is directly related to the audit function is what is meant by the term "audit fee." In most cases, the costs of the audit are covered by this fee, and it also allows for a reasonable profit margin. In most cases, it is considered to be the culmination of audit costs and profits, as well as the auditor's remuneration.

From a holistic perspective, it is imperative that the audit fee encompasses the expenses associated with conducting the audit, while concurrently yielding a favourable level of profitability. Similarly, the audit fee might be conceptualized as the amalgamation of two distinct elements, specifically the audit cost and the auditors' incentive profit. Prior studies have indicated that substantial advancements have been achieved in understanding and providing country-specific empirical evidence about the determinants of audit fees. This advancement has been demonstrated to have been achieved in recent years.

The aggregate sum of funds received in exchange for a certain audit service is referred to as the audit fee. The remuneration provided to auditors for their services rendered in conducting an audit engagement is commonly referred to as audit fees. The audit fee refers to the cost of the labour performed by public accountants and the potential legal consequences that may come from the payment of funds to the auditor for the provision of audit services to the auditee. Numerous scholars have posited that, in accordance with theoretical frameworks, an increase in audit fees is likely to enhance the financial relationship between the auditor and the auditee. The institution's administration may attempt to exert influence over the independence and professionalism of an audit company that offers lower rates by offering additional financial incentives to the auditor.

## **2.2 Factors to be considered before charging audit fees:**

1. Time to be spent on the audit job or exercise will determine the professional fee to be charged.  $\text{Hours put in} \times \text{hourly rate} = \text{man hour put in}$ .
2. The number of audit staff to be involved in the job or audit exercise.
3. Amount to be paid per hour to each audit staff.
4. Amount of efforts to be put in as a professional.
5. Location and environment of the audit assignment.
6. The size and nature of the client's business or organization to be audited.
7. The volume of activities involved in by the client.

From experience, it is usually based on negotiation ability. This is where the ethics comes into play. Do not over price your effort as an auditor. If a client's comes to, and you charge x naira, and if the client happens to go to another professional auditor, the difference in fees should not be noticeable. That is where the issue of 'table of fee' is necessary.

## **Audit Tenure**

The auditor's tenure with a client company refers to the length of time that the auditing firm has been engaged with the client company as a client. On the topic of the connection between the length of an audit and the fees associated with it, a number of studies have been carried out, with conflicting results. It has been suggested by a number of academics that the auditor's knowledge with the activities of the client company contributes to a reduction in the amount of time necessary to complete an audit. According to ElGammal & Gharzeddine (2020), this leads to the formation of a beneficial partnership between the auditing firm and the organization serving as the client. To maintain this fruitful working relationship, all that



needs to be done is to charge the client a higher annual audit fee. An earlier study came to the conclusion that challenges in audit reporting quality are discovered early on in the duration of the audit due to the auditors' lack of understanding of the client at this time. In addition, many auditing companies lower their costs for new engagements in order to encourage their existing customers to continue using their services for an extended period of time. This is done with the goal of retaining those customers as long as possible.

This research defines auditor tenure as the duration of the connection between the auditor and the customer. An auditor's independence may be threatened by an extended relationship with his or her client because personal bonds and familiarity may form between the two, reducing the auditor's vigilance and even causing him or her to be compliant with the company's top executives. Several studies have also sought to assess potential explanatory reasons for the current status of audit quality, with a focus on the interaction of company-specific variables and audit firm-specific variables that may influence audit quality. This was done to gain a better understanding of how audit quality can be improved. As a result of these studies, the question of auditor tenure has recently received a lot of attention. Should a corporation make it a habit to switch its auditors on a regular basis, or should the auditor be allowed to develop a long-term connection with the company they audit? As a result, it is envisaged that the audit firm's strategy will result in client equality and avoid the auditor's long-standing interactions with his clients from developing into personal bonds.

Throughout the duration of the engagement, the audit firm, commonly referred to as auditors, has maintained a continuous association with the client, overseeing the examination of the client's financial records for a consecutive number of years. The duration of an auditor's tenure is influenced by two primary factors: the duration of the auditing firm's existence and the duration of employment for individuals involved in the audit, particularly the engagement partner. The findings of a study examining the longevity of audit partners suggest a significant association between the duration of an audit partner's tenure and the quality of audits, as shown by discretionary accruals. The identification of this relationship was made.

Within the auditing sector, the term "audit tenure" pertains to the duration an auditor has been engaged with a client subsequent to commencing their initial professional association. An alternative interpretation of "auditor tenure" pertains to the duration for which an auditor has been engaged in a professional relationship with a particular client. There exists a fundamental divergence of perspectives about the influence of auditor expertise on earnings manipulation. Based on the perspective of one school of thought, an extended tenure affords the auditor the opportunity to enhance their expertise, as decisions are informed by a substantial accumulation of client data amassed over a prolonged period. According to an opposing viewpoint, the practice in question poses a risk to the independence of auditors since it facilitates a high level of familiarity with the client, potentially leading to a bias towards serving management's interests.

Long-term ties between an auditor and a client may also result in an alignment of their interests, which reduces the possibility that the auditor would act in an unbiased manner. This is something that could be noticed. Because of their growing familiarity with one another, the auditor's lengthy relationship with his client may pose a threat to their ability to be unusual. As a result of this, the auditor was able to exercise less caution and compromise. Furthermore, a long engagement may result in less effort being put in to uncover internal control and risk sources, as well as a failure to establish a link between audit tenure and competence. This could be the situation if a relationship between audit tenure and competence cannot be established.

Audit rotation restrictions are in place to reduce the risk of complacency that may result from long audit tenure. According to Bedard & Johnstone (2010), a long tenure entails in-depth knowledge of the client, which results in a more valuable auditor-client relationship. Audit fees will rise as a result of an auditor's desire for such a relationship.

### **Company (Auditee) Profitability**

Profitability is generally used to assess the performance of an entity. It shows how the firm has judiciously administered its resources of the firm to make profit. In relation to auditor's fee, highly profitable firms would usually pay high audit fees (Baldacchino, Attard & Cassar, 2014). This is as a result of the fact that, the audit firm has done enormous and rigorous work to confirm or validate the revenue and associated costs included in the client's financial statements.

Musah (2017) using data derived from companies in Ghana for the period 2010 – 2014 and having adopted the Simunic (1980) model, found a significant and indirect relationship between client's profitability and audit fees. Hossain & Sobhan (2019) found a positive and insignificant relationship in the study conducted between 2015 and 2018.

It is an extent to which its total income exceeds its total expenses for any given period. Profitability is an accounting concept that is sometimes referred to as net profit or net income. Putrakrisnanda, (2009); Timtom & Gatri (2016) asserted that, asset growth describes the growth of company assets that will affect the profitability of the company who believes that the percentage change in total assets is a better indicator in measuring company growth. The measure used is to calculate the proportion of increase or decrease in assets. In this study, the company's growth is measured by the proportion of changes in assets, to compare the increase or decrease in the total assets owned by the company. Where there is growth in company's profitability, there is tendency for the auditor to be retained subject to his intention having satisfied the relevant corporate governance rules on their tenure in office having indicated their willingness to continue in office as auditors to the company, in accordance with Section 401(2) of the Companies and Allied Matters Act (CAMA), 2020.

### **Relationship between Audit Fees and Auditors Tenure**

According to Virginus (2020), audit Firm Size is considered the most important determinants of audit choice. The impact is that auditing large clients requires more resources (human and technical), which are usually provided by large audit firms. Okolie, (2014) also posited that, audit firm size measures audit tenure and the tenure of audit is expected to reduce the extent of a firm's manipulations of reported income but majority of the findings appear to suffer from inconsistencies and contradictions.

Similarly, Saidu & Jerry (2018) stated that audit firm size is supposed to be one of the issues that could affect auditor's tenure because it is assumed that the larger audit firms are considered to be more independent. Audit firm size signifies various types of qualities. Okolie, (2014) also asserted that, it is assumed that size (Big 4 or Big5, Big 6 ... Big 8, etc.) of audit firms suggest reputation, international affiliation, and integrity which are reflected in the audit report on the accounts of their clients (Okolie, 2014). This reflected the Limperg Institutes' (1985) theory of inspired confidence. It has severally been argued that the large audit firms significantly determine the disclosure of policies of the companies they audit.

Company size is the size of the company which can be classified based on various ways, including the size of income, total assets, and total equity. The definition of size and company

is conceptualized as company size. Where the size of the company can be defined as the average sales results in the current period up to several years to come.

According to Warnida (2011), company size is the size or extent of a company and is an indicator that can indicate the condition or characteristics of a company. In his own way, Hartono (2016) also defined firm size, as the size of assets used as a proxy for the size of the company. Large companies are considered to have a smaller risk compared to small companies. The reason is that large companies are considered to have more access to capital markets so that they are considered to have a smaller beta. So it can be concluded that the size of the company as measured by total assets, is able to determine the tenure of auditor. The auditor tenure is affected by the size and complexity of the company. Since audit tenure is the length of the auditor-client relationship as measured by the number of years, an auditor who has a fairly long assignment with a client company will encourage the creation of business knowledge so as to enable the auditor to design an effective audit program and high quality audited financial reports (Praptika & Rasmini, 2016).

### **Review of Related Empirical Studies**

Cimini, Mechelli & Forza (2020) explored the effect of audit tenure on value relevance, gauging the effect in contrast to the value of investor's protection and firm-level corporate governance. Findings of the study reveal a decline in the value relevance of accounting numbers. Similarly, Su, Zhao and Zhou (2016) examined the effect of auditor tenure on stock price idiosyncratic volatility, moderated by role of industry specialization. The study used a sample of US firms from 2003 to 2012 and found that longer tenure is associated with higher stock price idiosyncratic volatility present for industry specialist auditors. Also, Banimahd, et. al., (2013) studied the value relevance of audit report, auditor type and auditor tenure of 156 companies listed on the Tehran Stock Exchange (TSE) over a ten-year period. The result of the study shows that the tenure of auditors had a negative effect on the value relevance of Iranian firms. The findings indicate that long tenure of auditor conveys a negative signal to the capital market which resulted to a decrease in the value relevance.

Ugwunta et al. (2018) examined the effect of audit quality on share prices of Nigerian oil and gas firms using regression and covariance analyses. Audit quality was measured using Findings from the regression analysis suggests that the composition of the audit committee composition, *European Journal of Accounting, Auditing and Finance Research*

### **Theoretical Framework**

#### **Agency Theory**

Agency theory as developed by Jensen, explains the existence of a conflict of interest between management (agent) and shareholder (principal). Jensen and Meckling also stated an agency relationship is a contract in which one or more people (principals) involve other people (agents) to do some services on their behalf and then delegate part of the decision-making authority to the agent. The authority and responsibility of agents and principals are regulated in a cooperation contract with mutual agreement. If the two parties involved in the contract try to maximize their utility, then it is possible that the agent will not always act in the best interest. Principal so that it raises agency problems. Therefore, as an independent third party, in this case, the auditor is considered to be able to bridge or become an independent mediator in reducing agency problems.

The agency theory, which offers a basic framework for audit pricing, serves as the basis for this work's theoretical foundation and theoretical framework. It is speculated that audit fees are determined by agency theory in addition to a number of other criteria that have been



found. Conflicts of interest between the firm's owners (the shareholders) and management were the basis of their suggested theory of corporate governance. It's used to figure out how much money companies in Nigeria charge for audits based on how long they take to complete. The agency theory states that a business entity is composed of interdependent contracts. These contracts are made between Principals, who are the owners of the economic resources, and Agents, who are the managers. Managers are accountable for making use of and controlling the allocation of available resources. Principals may have trouble knowing whether or not their agents are acting in their best interests because of the information asymmetry introduced by agency theory, which states that agents have access to knowledge that principals do not.

### **Relevance of the Theory**

The theoretical perspective of agency theory posits that individuals acting as principals and agents employ contractual agreements as a means to strategically optimize their financial gains. The moral hazard phenomenon emerges as a consequence of this situation. During the moment of the agent's decision-making process, the principals are not granted complete access to all pertinent facts. Consequently, the principle lacks the means to ascertain whether the agent is functioning in the optimal interests of the organization. Corporate governance incorporates auditing as an internal control and monitoring mechanism in order to mitigate the potential for moral hazard. The importance of implementing clear ownership distinctions, diversifying distribution channels, and monitoring the effects of these disparities in demand is emphasized. Hence, in the context of increased decentralization in ownership structures, a broader array of auditing methodologies will be required to effectively oversee the acts of the agent.

### **Methodology**

The population for this study comprises of two thousand, four hundred and sixty one (2461) selected licensed audit firm operating in Nigeria that audited their client's company's financial statements as at 31st December, 2022.

Sources: ANAN National Headquarters, Abuja, 2022

ICAN List of licenced Auditor's as at 31<sup>st</sup> December, 2022

The sample size was determined using Taro Yamani's formula of 1967, and it is computed thus;

$$n = N / 1 + N (e)^2$$

Where;

n = sample size

N = population of the study

e = co-efficient of confidence or margin of error

Therefore, using  $n = 1 + N (e)^2$

$$n = 2461 / 1 + 2461 (0.05)^2$$

$$n = 2461 / 1 + 2461 (0.0025)$$

n = 2461/ 1+ 12.30

n= 80/ 13.30

n= 185.037594

Approximately: n = 185 Audit firms.

The sampled 185 audit firms were selected from the Six (6) geo-political zones of the Federal Republic of Nigeria.

This makes a total of 185 audit firms as the respondents

Primary data were used in this study through the use of questionnaire which was derived from sampled audit firms. Six (6) questionnaire items was constructed from the two (2) research questions administered directly to the sampled respondents (185 selected audit firms in Nigeria) using mobile communication (GSM), e-mails and Google form to collect data.

The questionnaire was constructed in two (2) sections. Section B includes the personal information of the respondents while section B includes the six (6) questionnaires which will be drawn from two (2) Research Questions. Responses from the respondent (audit firms) regarding the questionnaire items will be made on a Four Point Modified Likert Type Scale:

Strongly Agree (SA)	4
Agree (A)	3
Disagree (D)	2
Strongly Disagree (SD)	1

The questionnaire items will be validated by the researcher supervisors to ensure the reflection of the research objectives are in accordance with the research questions outlined.

Data was analyzed using descriptive statistics (mean and standard deviation) to analyze and test the hypotheses so as to determine the generality and acceptance of findings or result in this study.

### Presentation and Data Analysis

Table 1: Mean and Standard Deviation on the role of client profitability on auditor's tenure

1	A company's growth is measured by the proportion of changes in assets, to compare the increase or decrease in the total assets owned by the company	58 31.4	46 24.9	37 20.0	44 23.8	2.64	1.158	Reject
2.	Asset growth describes the growth of company assets that will affect the profitability of the company	66 35.7	43 23.2	33 17.8	43 23.2	2.71	1.179	Reject
3.	There is tendency for the auditor to be retained subject to his intention having satisfied the relevant corporate governance rules on their tenure in office	65 35.1	75 40.5	23 12.4	22 11.9	2.99	0.978	Accept

### Field Survey 2023 & IBM SPSS Version 25.0 (2023) Computation

$$\text{Decision Rule: Weighted Average} = \frac{\text{Total Addition of all Mean in each Item}}{\text{Total No of Items}}$$

$$\frac{2.64+2.71+2.99}{3}$$

$$8.34/3 = 2.78$$

### Testing of Hypothesis 1

H<sub>0</sub>: Clients profitability has no effect on audit tenure

The data analysis shows that there was less response that a company's growth is measured by the proportion of changes in assets, to compare the increase or decrease in the total assets owned by the company. Also, a less response that asset growth describes the growth of company assets that will affect the profitability of the company. This is because their mean of 2.64 and 2.71 is less than the criterion mean of 2.88. On the other hand, respondent accepted that, there is tendency for the auditor to be retained subject to his intention having satisfied the relevant corporate governance rules on their tenure in office. This is because its mean of 2.99 is greater than the criterion mean of 2.88.

Table 2: Mean on the relationship between Audit Fees and Auditors tenure

4.	Auditing companies lower their costs for new engagements in order to encourage their existing customers to continue using their services for an extended period of time.	50 27.0	50 27.0	45 24.3	40 21.6	2.59	1.105	Reject
5.	An extended tenure affords the auditor the opportunity to enhance their expertise, as decisions are informed by a substantial accumulation of client data amassed over a prolonged period.	64 34.6	36 19.5	40 21.6	45 24.3	2.64	1.190	Accept
6.	Long-term ties between an auditor and a client may also result in an alignment of their interests, which reduces the possibility that the auditor would act in an unbiased manner.	49 26.5	51 27.6	50 27.0	35 18.9	2.62	1.073	Accept

### Field Survey 2023 & IBM SPSS Version 25.0 (2023) Computation

$$\text{Decision Rule: Weighted Average} = \frac{\text{Total Addition of all Mean in each Item}}{\text{Total No of Items}}$$

$$\frac{2.59+2.64+2.62}{3}$$

$$7.85/3 = 2.62$$

### Testing of Hypothesis 2

H<sub>0</sub>: There is no relationship between Audit Fee and Audit Tenure

The data analysis shows that respondents accepted that an extended tenure affords the auditor the opportunity to enhance their expertise, as decisions are informed by a substantial accumulation of client data amassed over a prolonged period. Also, long-term ties between an auditor and a client may also result in an alignment of their interests, which reduces the possibility that the auditor would act in an unbiased manner. This is because their mean of 2.64 and 2.62 is greater than the criterion mean of 2.62. On the other hand, they rejected that auditing companies lower their costs for new engagements in order to encourage their

existing customers to continue using their services for an extended period of time. This is because its mean of 2.59 is less than the criterion mean of 2.62.

## **Discussion of Findings**

### **Role of Client Profitability on Auditor's Tenure**

The findings revealed that a company's growth is not measured by the proportion of changes in assets, to compare the increase or decrease in the total assets owned by the company. Also, asset growth does not describe the growth of company assets that will affect the profitability of the company. Again, there is a tendency for the auditor to be retained subject to his intention having satisfied the relevant corporate governance rules on their tenure in office. As a result, the null hypothesis was accepted.

This is in line with Putrakrisnanda, et. al. (2016); "Asset growth describes the growth of company assets that will affect the profitability of the company who believes that the percentage change in total assets is a better indicator in measuring company growth".

### **Relationship between Audit Fee and Audit Tenure**

The finding revealed that an extended tenure affords the auditor the opportunity to enhance their expertise, as decisions are informed by a substantial accumulation of client data amassed over a prolonged period. Also, long-term ties between an auditor and a client may also result in an alignment of their interests, which reduces the possibility that the auditor would act in an unbiased manner. On the other hand, auditing companies does not lower their costs for new engagements in order to encourage their existing customers to continue using their services for an extended period of time. As a result, the null hypothesis was rejected.

The finding is in line with ElGammal & Gharzeddine (2020), who stated that there is a beneficial partnership between the auditing firm and the organization serving as the client. To maintain this fruitful working relationship, all that needs to be done is to charge the client a higher annual audit fee.

## **Conclusion**

Resulting from the study: Audit Fee and Auditor's Tenure: A Perception of Selected Audit Firms in Nigeria. It is therefore concluded that Audit Fee has a significant relationship with Auditor's Tenure. The time to be spent on the audit job or exercise will determine the professional fee to be charged, the number of audit staff to be involved in the job or audit exercise, amount to be paid per hour to each audit staff, amount of efforts to be put in as a professional, location and environment of the audit assignment and the size and nature of the client's business or organization to be audited, and the volume of activities involved in by the client.

## **Recommendations**

Based on the findings, the researcher hereby recommends that:

- It is recommended that each of the determining factors for audit tenure be taken into consideration by prospective audit expert employer
- All Accountant/Licensed Practitioners should consider a standard audit fee that is professionally acceptable in line with the professional ethics.
- The audit fee charge table should be strictly adhered to by various professional accounting bodies so as to encourage uniformity in the auditing profession.

- Auditors Tenureship should be strictly based on recommendations of the audit committee and the intention of the auditor to retain their appointment.
- In the future, efforts should be made by interested researchers to consider some other determinants variables such as audit firm size, client age, client board gender diversity and board meetings, experience in professional practice not captured in this study. The need to replicate this type of study in other financial sectors and countries should also be explored.

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