EFFECT OF AUDIT FEE ON MARKET PERFORMANCE IN NIGERIA

Mbah Alice Nkechi[1], Prof. M. S. Ifuruenze[2] & Prof. A. S. Anichebe[3]

[1-3] Department of accountancy, faculty of management sciences, Chukwuemeka Odumegwu Ojukwu University, Anambra State.

E-mail: 12alice2@gmail.com[1] ; **mifurueze@yahoo.com[2]** **&** **anichebe@coou.edu.ng[3]**

Abstract

This study empirically investigated the effects of audit fee (AUDFE) on market performance of industrial goods companies arises in Nigeria. A sample of 18 quoted industrial goods firms in Nigeria were used covering the period of 2011-2020. Market performance (MAPEF) was the dependent variable using share price as proxy while audit fee (AUDFE) was used as the independent variable. *Ex-post facto* research design was used and the hypothesis formulated was subjected to some preliminary data test like descriptive statistics, Pearson Correlation analysis and Variance inflation factor and the data were analyzed using Panel regression analysis. Findings revealed that Audit fee (AUDFE) has negative and insignificant relationship on Market performance of industrial goods companies in Nigeria. The study recommends that regulatory agencies in Nigeria should increase surveillance on audit practices with regards to fees charged.

Keywords: Market Performance, Audit firm fee. Share Price.

1.0 Introduction

Stakeholders, government, investors and shareholders of companies rely on the information in the financial statements prepared and issued by the external auditors for economic and investment decisions. However, the main objective of financial auditors is to express opinion, and to assure the shareholders and stakeholders of the credibility and reliability of the financial report. Sometimes, management tends to manipulate the information in the financial reports for their own selfish interests and this attitude has led to cases of companies' failures in Nigeria. Hence, the authenticity and reliability of the financial statements tend to be doubtful and questionable. Most times, high audit fees may compel auditors to compromise independence and consequently lead to poor audit reports which affect the market performance. Thus, auditor's independence is very necessary to achieve high quality report which will enhance market performance. In line with the above, audit independence is defined as an auditor's un-biasness in taking decisions during an audit (Okolie & Izedonmi, 2014). Furthermore, independence implies being free from pirate, stimulates or guidance of which in the absence of independence the value of the audit function will be greatly compromised (Sweeney, 1994). On this note, audit fee is regarded as the aggregate account in monetary terms received by an auditor for a particular audit service. Audit fee is the remuneration received from a client on the discharge of audit services. Ali and Ibrahim (2018) stated that audit fee is the amount charged by the auditor for the audit assignment of a client. Meanwhile, the variation in the amount of the audit fee depends on audit size and how complex the auditing process is. Turley and Withikens (2008) stated that three factors contribute to the establishment of audit fees and they are: complexity, client size and associated risk.

Audit fee is one of the determinants of firm performance (Mountino 2012). Managers rely on information in the financial statement to make economic decision. This information, incorporate fees for audit and non-audit services subject to mandatory disclosure in the U.S since 2001 (SEC, 2000). Meanwhile, (Hay, et.al 2011) opinioned that audit fee is related to corporate performance. In other words, auditors have the potential privilege to predict the clients' future economic conditions. Similarly, (Bell, et.al 2008) pointed out that increase in audit efforts are determined by the audit firms' likely hood of incurring in future losses due to engagement with that specific client. In addition, Stanley (2011), emphasized that audit fee can be a sign of current and future performance of businesses.

Some prior studies discovered that high audit fees paid by a company to its external auditor enhances the economic ties between them and as such may compromise the independence of the auditor (Frankel, Johnson & Nelson 2002; Li and Lin 2005). This weakens unconventionality and results in poor audit quality and also gives room for earnings manipulations (Okolie and Izedonmi 2014). However, the extent of audit planning depends on the audit fee and extent of planning which is assured to be a function of audit fees. Prior studies had used auditors independence to measure audit fees while in this study audit fees is used as the independent variable measured by the amount paid for audit services. At the same time market performance was the dependent variable measured with market share price.

1.1 Statements of The Problem

It has been observed that independence guarantee high quality audit report that enhances firms' performance. However, some prior studies discovered that high audit fees paid by company to its external auditor enhances the economic ties between them and may compromise the independence of the auditor which consequently result to poor audit quality and gives room for earnings manipulations (Okolie & Izedonmi 2014). On this note, the study sorts to investigate the effect of audit fee on firm performance, using the industrial goods firms in Nigeria.

1.2 Objective of The Study

The main objective of this study is to investigate the effect of audit fee on market performance of industrial goods companies in Nigeria.

1.3 Research Hypothesis

H_{01} Audit fee has no significant relationship on market performances of industrial good companies in Nigeria.

1.4 Significance of The Study

The study will benefit the following users;

At the end of the study, the result from the study will help to educate the stakeholders in the Nigeria industrial good firms on the implication of high audit fees on the quality of information produced by the management. Investors will be in a better position to judge the company's affairs and know if they are performing well or not. At the same time, managers will also be in a better position to make good economic decision which will result to increase in performance. Policy makers and regulatory agencies will be able to design policy frame works such as

corporate governance codes etc. Finally, students and researchers that want to carry out research on the same area will also be benefitted

2.0 Literature Review

2.1 Audit Fee

Audit fee is the aggregate amount in monetary terms received for a particular audit service. Audit fees are amounts paid to auditors for an audit assignment. It reflects the cost of the efforts expended by the public accountants and risks of litigation (Choi,et.al 2009). This can be viewed as the sum payable to the auditor, for the audit services offered to the client. The IFAC rules of ethics of public accountant's cited in Yuniarti (2011) noted that audit fees may vary depending on the risk assessment, the complexity of services provided, level of expertise required to perform such services, the related cost structure of the CPA firm and other professional considerations. Auditor fees are the compensation to auditor for the services he rendered to a client, and such services include statutory audit and non-statutory services known as management consultancy services. According to Jibril (2016), audit fee is the collection of costs incurred by the auditor for conducting the audit (audit effort) and the expected present value of possible future losses to the client's stakeholders that may result from this period audit of financial statements. He further stressed that these loses arise from litigation and loss of reputation and therefore, the higher the expected losses from being involved with the audit, the higher should be the fees. It was observed that audit risks, client size, and audit complexity were among factors that influence\ the audit fee.

2.2 Market Performance

Market Performance is referred to company's ability to generate new resources from day to day operations, over a given period of time. Market performance is a general measure of how well a firm generates revenue from its capital. Some of the major market performance indicators include; Earnings per share (EPS), Tobin Q, Market Share Price; Shareholders value added etc. (Baph, Khan Azad, Saddique& Khan 2017). In the study of Cho and Pucik (2005), Tobin's Q and market to book value was used to measure market performance.

Santos, Cerqueira, and Brandao (2015) analyzed audit fees, non-audit fees and corporate performance in United State of America (USA) and found that there is a significant negative relationship between cooperate performance variables of Tobin's Q, EP, ROA and ROE and non-audit fees, suggesting that the increase (decrease) in corporate performance is related to the decrease (increase) in non-audit fees. Okolie (2014), investigated audit firm size and market price per share on quoted companies in Nigeria with the aim to ascertain the influence which audit firm exert on the market value per share of companies in Nigeria. The result shows that audit size has a significant relationship and significantly influences on market price per share of the companies in the sample. In this present study, market share price was used to measure market performance and at the same time used as the independent variable.

2.3 Share Price

Stocks are equities that allow investors to put their money into a company with hope of achieving a higher return than that of a saving account or bonds (Sloan, 2012). Determining share prices is a complex and conflicting task. According to economic theory, the price of any asset is usually determined by the market forces. However, a number of empirical studies have

been conducted on the determinants of stock prices. Some of these studies looked at the relationships between stock prices and the factors that could impact on it. Conceptually, share price means a change in stock prices over time. A stock price in an efficient (price) market provides investors with a good measure of any firm's performance and its value.

2.4 Theoretical Frame Work

2.4.1 Signaling Theory

Signaling theory was proposed by Michael Spence in the year 1973. He proposed that two parties get around the problem of asymmetric information by having one party send a signal that would reveal some piece of relevant information to the other party. Stanley (2011) suggested that audit fee can be a sign of current and future performance business entities. In line with the above, the present study is anchored on signaling theory.

2.5 Empirical Review

Ugwu, Akipitoanyi and Idemudia (2020) studied the impact of audit quality on financial performance of deposit money banks in Nigeria. The data used were collected from financial statement of 15 listed DMBs in Nigeria from the year 2011- 2017 using multiple regression analysis. The result showed that there is negative and significant relationship between joint audit and ROA and negative and significant relationship between audit fee and ROA.

Ado, Rashid, Mustapha Adenlade (2020) examined the influences of audit quality on financial performance of listed companies in Nigeria using multiple regression. Data were collected from Thompson Reutas data stream and financial statement of the used firms from 2010-2018. The result revealed that audit fee has a positive and insignificant relationship with ROA.

Illenena and Okohocha (2019) studied the effect of audit quality on financial performance of developing capital market and data were sourced from annual reports of the selected firms from 2012-2018 The study applied linear regression for analyzing the data. The result showed that the rotation of audit firms and the audit fees have significant effect on return on asset (ROA).

Sayyar, Basurbain, Rasid and Elhabi (2015) examine the impact of audit quality on performance of Malaysia listed companies covering the period 2003-2012. The study employed (OLS) Ordinary square regression for data analysis and established that Audit fee is significantly and positively related to Tobin's Q.

Santos, Cerquiera and Brancho (2015) examined whether audit and non-audit fees are associated with firm performance using non-financial firms in S& P from 2002-2014 and data were gathered from Thomson Data stream. The study revealed weak relationship between the fees paid to audit firm and performance.

Martinez (2014) investigated the relationship between fees for audit and non-audit service of Brazilian Public companies using Tobin's Q from 2009-2011. The study revealed a significant relationship between non-audit fees and a negative relationship between non- audit fees and Tobin's Q.

Afza and Nazir (2014) studied the impact of audit quality on firm value of listed insurance companies in Nigeria using data extracted from annual report 2015-2019 and Correlation and

regression analysis were employed and the study identified that audit fees (AFEES) have a positive and statistical significant effect on the value of listed insurance companies in Nigeria.

Ikpantan and Emeakponuzo (2019) assessed the influence of audit quality on financial reports of Deposit Money Banks in Nigeria using data obtained from annual reports and account and notes to financial statements using Pearson Product-Moment Correlation and Linear multiple regression. The study revealed that Audit fees and audit tenure exert insignificant influence and exhibited significant relationship on discretional accruals of deposits money banks in Nigeria.

Moutiho (2012) investigated the relationship between audit fee and firm performance using sample of U.S. publicly traded, non-financial firms covering the period 2000-2008 with the aid of Least squares regression in analyzing the data. The dataset is composed of financial statement information downloaded from Thomson Data stream and concluded that audit fees has negative relationship on firm performance.

3.0 Methodology

The study employed *expost facto* design and descriptive statistics using panel data from 2011-2020. Population of the study comprises of 23 industrial goods firms quoted in the Nigeria Stock Exchange. Secondary data sourced from the financial statements of the selected companies. Purposive sampling technique was used and 18 firms selected. The study used Panel least square regressive analysis, fixed and random effect determined by Hausman test to test the hypothesis at 0.05 level of significance with the audit of E-View 10 Econometric Statistics Software. Person Correlation Analysis was used to measure the relationship and direction between the variables. Audit fee (AUDFE) measured as Natural log of the audit fees paid to the company while market performance (MAPEF) measured with market share price calculated as the average of share price for the period.

3.1 Model Specification

This study adapted the model of Tarmid, Fitria and Ahmed. (2019)

$ROA_{it} = \beta_0 + \beta_1 AUDFE_{it} + \beta_2 AUDFSZ_{it} + \beta_3 ASPEC_{it} + \beta_4 AUDADJ + U_{it}$ ---------- (1)

This model was restarted thus

$Y = F(X_1)$---------- (1)

$MAPEF = AUDFE + U_{it}$---------- (1)

$MAPEF = \beta_0 + \beta_1 AUDEF_{it} + Ɛ_{it}$ ---------- (1)

Where:

MAPEF = Market Performance

AUDFE = Audit fee

$Ɛ_{it}$= Unobserved error term of firm i in period t

B_0= Constant term

B_1= Slope to be estimated of firm i in period t

i= Firm identifier

t= Time variable 2011-2020 (10 years)

4.1 Data Analysis

The study was subjected to preliminary data test such as descriptive statistics, correlation matrix and inferential analysis like Variance Inflation Factor (VIF). The study used panel least regression analysis in obtaining functional casual effect relationship between market performance (MAPEF) and Audit fee (AUDFE).

4.2 Preliminary Data Tests

Below is the complete set of data for the analysis and was selected from the selected industrial goods companies in Nigeria.

Table 4.2.1: Descriptive Analysis

	MAPEF	AUDFE
Mean	30.57667	0.222761
Median	8.050000	0.076600
Maximum	279.0000	5.714300
Minimum	0.200000	0.015700
Std. Dev.	52.94291	0.526290
Skewness	2.410523	7.450359
s Kurtosis	8.375357	70.90363
Jarque-Bera	391.0271	36247.01
Probability	0.000000	0.000000
Sum	5503.800	40.09700
Sum Sq. Dev.	501728.4	49.57972
Observations	180	180

Source: researcher's summary of descriptive result (2022) using E-view 10

The descriptive statistics result in table 4.2.1 above shows the mean values for each of the variables, maximum values, standard deviation and Jarque- Bera values which show the normality and nature of the data. This section provides the descriptive statistics as per the objective of the study.

Market performance which was the dependent variable was measured as market share price with a mean value of 30.57. It was observed that over the period under review, the sampled firms have average positive market share price of #30.57 per share in the market. Within the period under review, the firm's shares were sold at a maximum share price of 279 and minimum share price of 20. The large difference between the maximum and minimum share price, indicates that the share price of the firms differs greatly among the firms selected and over the period under review, this shows that the firms are not homogenous. The standard deviation for

share price was 52.94 suggesting considerable clustering of share price for the distribution around the mean value. The skewness for share price was 2.410 implying that the data on share price were skewed to the right hence most values were bunched to the left of the distribution. The kurtosis for share price was 8.375 that are greater than 3 hence the distribution is said to be leptokurtic hence it may have few outliers. The Jacque-Bera statistic value of 391.02 alongside its p-value (p=0.000<0.05) indicates that the data satisfies normality.

Similarly, Audit fee was observed to have a mean value of #0.2227 and a standard deviation of 0.5262 suggesting considerable clustering of audit fees for the distribution around the mean value. The maximum and minimum values are 5.714 and 0.0157 respectively. The Jacque-Bera statistic of 3624 alongside its p-value (p=0.000<0.05) indicates that the data satisfies normality.

4.2.2 Pearson Correlation Matrix

Pearson's correlation matrix was applied to check the degree of association between Audit fee and market performance of quoted industrial goods firms in Nigeria so as to determine the nature or degree of association is positive or negative correlation and magnitude of the correlation between dependent variable and independent variable. Correlation can be positive (>0) or negative (<0).

Table 4.2.2 Correlation Analysis Result

	MAPEF	AUDFE
MAPEF	1.000000	
AUDFE	-0.127170	1.000000

Source: researcher's summary of correlation result (2022) using E-view 10

The result of the correlation matrix coefficient showed that there exists a negative and weak association between market performance and audit fee (MAPEF& AUDFE= -0.127).

In checking for multicollinearity, the study noticed from the correlation table above that the variables were not perfectly or highly correlated. This indicates the absence of multicollinearity problem in the model used for the analysis. This justifies the use of panel regression analysis and variance inflation factor (VIF).

4.3: Regression Results

In order to examine the relationship between the dependent variable (MAPEF) and the independent variables (AUDFE, MAPEF) and to test the formulated hypothesis, we employed panel regression analysis since the data had both time series (2011-2020) and longitudinal properties (18 quoted industrial goods firms). However, the study takes into cognizance the non-homogeneity nature of the firms, hence the need for testing its effect on the data. This necessitates the use of Hausman effect test to ascertain which effect to explain.

4.3. 1: Hausman Effect Test

Hausman effect test was conducted to decide which effect to adopt in interpretation of our regression result. That is whether fixed effect or random effect is to be used in interpreting the regression result or to ascertain that which is best to be adopted in the study since our data is a

panel data with complete information. Below is the summary of the Hausman test result, details of the result were presented in table 4 under the appendix. The summary result of regression analysis is presented below after this Hausman effect test.

Hausman Effect Test: Decision rule

H_0 – random effect is more preferable than fixed effect

H_1 – fixed effect is more preferable to random effect

When chi-square probability value is less than 5% – rejects H_0 and accepts H_1 ($P \leq 0.05$)

When chi-square probability value is greater than 5% – accepts H_0 and rejects H_1. ($P \geq 0.05$)

Hausman test is used to decide between fixed effect model or random effect model. When the Chi square (Prob) value is greater than 5%, you interpret random effect and said that random effect is more preferred to fixed effect but when it is less than 5%, you interpret fixed effect and said that fixed effect is more preferred to random effect.

Table 4.3.1. Hauseman Effect Tests

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.911359	7	0.2591

Source: Researcher's summary of Hausman effect analysis result (2022)

The Hausman test result above shows a chi-square statistics value of 8.9113and probability value 0.2591 which was greater than 5%, this means that there is heterogeneity in the collection of the firms' data. Since the Chi-square (Prob) value is more than 5%, hence we accept the random effect and interpret its regression while the fixed effect is rejected. Hausman test shows that the Random-effects estimation (REM) method is more appropriate than the Fixed effects (REM) for all the industrial goods sector firms in Nigeria; hence the results from REM is presented and interpreted. Therefore, the study used the Random effect to correct the problem of heterogeneity in the data used for the study; the random effect regression result is presented in table 4.3.2 below.

Table 4.3.2 Random Effect Regression Result

Cross-section random effects test equation:
Dependent Variable: MAPEF
Method: Panel Least Squares
Date: 04/15/22 Time: 05:21
Sample: 2011 2020
Periods included: 10
Cross-sections included: 18
Total panel (balanced) observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27.12696	15.05629	1.801703	0.0735
AUDFE	-1.123971	3.939398	-0.285316	0.7758
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.813821	Mean dependent var		30.57667
Adjusted R-squared	0.784994	S.D. dependent var		52.94291
S.E. of regression	24.54898	Akaike info criterion		9.367463
Sum squared resid	93411.09	Schwarz criterion		9.810930
Log likelihood	-818.0717	Hannan-Quinn criter.		9.547270
F-statistic	28.23058	Durbin-Watson stat		1.520724
Prob(F-statistic)	0.000000			

Source: Researcher's summary of regression result (2022).

The table 4.3.2 above shows the panel regression analysis of quoted industrial good firms in Nigeria. From the result above, the study observed that the R. squared value was 0.8138 (81.4%) approximately and R-squared adjusted value was 0.7849 (78.5%) approximately. The value of R- squared which is the coefficient of determination stood at 81.4% which implies that 81.4% of the systematic variations in individual dependent variables were explained in the model while about 18.6% were unexplained thereby captured by the stochastic error term. Again, the adjusted R-squared which stood at 78.5% indicates that all the independent variables jointly explain about 78.5% of the system variation in audit quality of our sampled companies over the 10years period while about 21.5% of the total variations were unaccounted for, hence captured by the stochastic error term. Moreover, the F-statistics value of 28.23and its probability value of 0.000 shows that the overall auditor's independence model used for the analysis was statistically significant at 1% level. This confirms the appropriateness of our model used for the analysis. Moreover, the Durbin Watson statistic of 1.520 showed that the model is well spread since the value is approximately 2 and that there have not been self or auto correlation problem and that error are independent of each other.

4.1: Discussion of Findings

In addition to the above, the specific findings from each explanatory variable were provided as follows:

H_{01} Audit fee has no significant effect on market performance of industrial goods companies in Nigeria.

Based on the regression result above, it was found that audit fee has a negative and statistically insignificant effect on market performance of quoted industrial goods firms in Nigeria having recorded a negative coefficient value of -1.123 and probability value of 0.7758 (β_1= -1.123, p = 0.7758). The value $\beta_1$was negative showing that audit fee has a negative effect on market performance of listed industrial goods firms in Nigeria hence when audit fee decreases by one naira, share price is affected thereby increasing the market performance of firms which rises by a non-significant value of 1.123 degree. This empirically validates the argument that higher fees may result in low market share price as the auditor will be made to go home with enormous amount of money which affects the profitability base of the firms as a result of by higher

amount of money paid to the auditors thereby decreasing their market share price. This suggests that, a N1 decrease in total audit fees paid to the auditor increases market performance by 1.123%. This is explainable by the concept of economic bonding. When the auditor receives enormous fees from the client, there is a tendency for the auditor to acquiesce when the client adopts unacceptable accounting rules to prepare financial statements and this indirectly affects the clients' market performance. Significantly high audit fees from an audit client will result in economic bonding which will jeopardize auditor independence and performance. This finding was in line with the findings of Ugwu, Aikpitoanyi and Idemudia (2020) and Blankley, Hurtt, and MacGregor (2012) who found evidence that abnormal audit fees were negatively associated with the likelihood that financial statements are subsequently restated but disagrees with the findings of Farouk and Hassan (2014), Illiemena and Okolocha(2019), and Ado, Rashid, Mustapha, Adenlade (2020) who examined the influences of audit quality on financial performances of listed companies in Nigeria using multiple regression analysis and revealed that audit fees shows a positively and insignificant relationship with ROA. In the same vein, Sayyar, Basurubdin, Rasid and Elhabi (2015) examined the impact of audit quality on firm performance for Malaysian listed companies and discovered that audit fee is insignificantly and positive related to Tobin's Q. Based on this insignificant result found, the study accepts the first null hypothesis and conclude that, audit fee has no significant effect on the market performance of quoted industrial goods firms in Nigeria.

5.1 Summary of Findings, Conclusion and Recommendations

Audit fee is one among the factors affecting audit quality. The main objective of the study is to investigate the effect of audit fee on market performance of industrial good sectors in Nigeria. In view of this, Audit fee was found to have negative and insignificant effect on market performance of industrial good companies in Nigeria having recorded a negative coefficient values of -1.123%and a probability value of 0,7758. It was concluded that higher audit fees may result to low market share price. Based on the above findings, the study recommended that government and regulatory authorities should place surveillance on audit practice especially as it regards to extent of audit fee change.

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