

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,
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DETERMINANTS OF AUDIT FEES: EVIDENCE FROM COMPANIES LISTED
ON GHANA STOCK EXCHANGE.

BY

LEILATU DAKURA SUMANI

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Science (Accounting and Finance) and that, to the best of my knowledge, it contains no materials previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

Dakura Leilatu Sumani

(PG9381821)

(Student,,s Name & ID)

Signature

Date

Certified by:

Dr. Joseph A. Agana

(Supervisor)

Signature

Date

Certified by:

Prof K. O. Appiah

(Head of Department)

Signature

Date

DEDICATION

This project report is dedicated to my family.

KNUST



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My profound gratitude goes to the Almighty Allah for seeing me through this work. Secondly, I owe an immense debt of gratitude to my entire family for their support and encouragement. I also owe a heap of gratitude to my supervision Dr. Joseph A. Agana

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ABSTRACT

If the auditor is unable to give a strong audit quality, this will have an effect on unfair financial statements, lowering investor trust in the market, increasing investment risk, and increasing working capital expenses. The main aim of the study is to examine the relationship between firm-level variables and audit fees among firms listed on the GSE. The research employed descriptive-analytic and exploratory. Descriptive analytics was

used for analyzing and synthesizing historical data of the company's budget statements to recognize the trends and make meaning of them. On December 31, 2020, there were sixteen non-financial companies listed on the GSE, making up the study's target population, ten non-financial enterprises listed on the GSE were specifically chosen using the purposive sample technique. Although additional sources were also used, the annual reports and statements of accounts of the selected financial institutions served as the primary source of secondary data. The study employs multiple regression to find the relationship between the variables under investigation in the data analysis, cross-sectional and time-series data are combined. The study revealed that ROA has a negative and significant relationship with audit fee, it was also revealed that firm size and leverage has a positive and significant influence on audit fees. But the study revealed that audit firm tenure, have an insignificant influence on audit fee. Therefore study concludes that the firm-level variables affecting audit fees include profitability (ROA), firm size and leverage but it excludes audit firm tenure. It is recommended that businesses put into place a corporate governance framework of principles and procedures by which the board of directors ensures accountability, fairness, and transparency in the consumer goods industry because profitability has a negative relationship with audit fees.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

The International Standard on Auditing (ISA), published by the International Auditing Practise Committee (IAPC) of the International Federation of Accountants (IFAC), serves as the foundation for the approval of audit standards and services in Ghana. In accordance with the 2004 Business Act, regulatory authorities have mandated that audit fees be revealed in the business annual report in order to resolve shareholder conflicts of interest. This suggested that auditors' services are necessary for the financial statement's credibility. The requirements of the auditing and accounting practises for the transparency of audit fees have increased the price impact on audit service since there is a good correlation between audit fees and audit quality (Hai and Quy, 2019). On the other hand, customers and auditors see audit fees differently. Therefore, it is necessary to assess the fairness of the amount charged as well as the price of audit fees (Musa et al., 2020).

The size, profitability, Firm leverage and audit firm tenure are client-specific factors that affect audit fees. Audit firm attributes that affect audit fees include size, reputation, experience, competitiveness, industry knowledge, and the "big four dichotomies" (Musa et al., 2021). The firm-specific considerations have the most role in determining the audit fee amount. First and foremost, the size of the customer has an impact on the amount the auditor will charge since auditors of large organisations must devote more time and effort to testing and data analysis (Coffie and Bedi, 2019; Ohidoa and Okun, 2018). Aldamen et al (2012) asserted that levered firms can raise

the likelihood of financial distress, which increases audit risk. Accordingly, the higher the level of leverage, the more the audit risk and thus higher audit fees.

On the one hand, low profitability can be associated with greater audit pressure or fees, which would eventually result in more audit work to confirm if the company is solid. However, less attention to overheads may be paid, which would result in a higher audit fee and more profitability (Apadore and Letchumanan 2016). The service provided is rarely noticeable, with the sole tangible "product" being a rather brief and standardized audit report (opinion), even if the external audit price is no different from other costs faced by the clients (Coffie and Bedi, 2019). Clients would benefit in this scenario from some external confirmation that their fee isn't excessive or out of scale. Even when the audited company is mostly out of the external auditor's line of sight, it nonetheless receives satisfaction from the latter's good assessments of the former's financial records. Investors will find high audit quality to be highly helpful since it can be used to assess the reliability of the data in the company's financial statements.

If the auditor is unable to give a strong audit quality, this will have an effect on unfair financial statements, lowering investor trust in the market, increasing investment risk, and increasing working capital expenses. This will extend the time of financial difficulty given the fall in investor confidence. A lot of stakeholders place a high value on the amount of fees paid to external auditors, hence disclosure practices mandate that this information be reported in firms' financial statements (Kikhia, 2015; Hentati & Jilani, 2013). Although the factors that influence audit fees have been discussed in the literature before, their importance for setting audit fee prices in developing countries is limited. By concentrating on listed firms on the

Ghana Stock Exchange, this study examines aspects related to drivers of audit fees and provides insight into such factors in the context of developing countries. Studies on audit fees, a tool to aid in negotiations between auditors and clients, are frequently conducted worldwide and mostly depend on the elements present in the particular auditing/accounting settings.

1.1 Problem Statement

The term "audit fee" describes the payment that accounting companies and auditors get in exchange for their expert services (Januarti and Wiryaningrum, 2018). The audited units and accounting firms must consult with each other to decide on the audit fees. The establishment of reasonable audit fees is a requirement to ensure that certified public accountants perform the standard information assurance function and ensure the efficient operation of the audit work in order to ensure the quality of the audit report and as an important component of the auditor incentive mechanism. The cost of the audit report is the audit charge. As both the provider and the consumer of the audit report, the link between supply and demand will invariably have an impact on the audit price. Compared to established economies where it is a study subject, audit fees and markets receive less attention in emerging nations.

According to Ohidoa and Okun (2018), the impact of several factors varies depending on the time period, industries, and national characteristics. Ohidoa and Okun (2018) came to a conclusion and suggested that audit fees be updated on a regular basis. Finding out how audit fees are set by auditors is one of the key issues with audit fees. The issue of the various fees auditors charge also begs the question of how size, profitability, complexity, and risk affect audit fees (Hai and Quy, 2019). The reputation of the auditor, their expertise, and the level of competition in the audit market are all factors that have an impact on the audit price paid (Hentati

& Jilani, 2013; Ask & Holm, 2013; Castro et al. 2015). Additionally, the size, complexity of the company's operations, risk to the Client Company, and

profitability of the client company are all factors that affect audit costs (Joshi & AlBastaki, 2000). Researchers have found this topic of study to be intriguing ever since Simunic (1980) published his article on the cost of audit services.

There have been a series of reported corporate scandals in Ghana since 2013 especially in the financial sector of Ghana. A classic example is the collapse of microfinance, DKM, in 2015, which caused depositors' gross financial loss of millions of dollars. More recently, in 2018, five commercial banks collapsed, whereas other banks were consolidated as a result of unearthing another corporate scandal in the country.

In response to this corporate mismanagement, some regulatory bodies in Ghana have recently called for a series of mandatory legislations to strengthen the legal framework of audit committees' composition and activities in light of the SarbanesOxley Act (SOX) 2002. This is because the audit committee's significant role in enhancing the standard of financial news, overseeing the firm's control system and work of external auditors, and watching and evaluating the firm's risk management and speech act practices cannot be neglected. It will additionally monitor compliance with enactment applicable to the bank and report back to the board on it, implement internal economic controls of all the corporations' transactions and review such controls regularly (Afenya et al., Citation2022).

In order to better understand the factors that influence audit fees outside of Ghana, several research projects have been conducted (Xiwang, 2016; Davidson, 2015; Cameron, 2005; Bondari, 2013; Vu, 2012; Yuan, López, & Forgione, 2012;

Gonthier and Schatt, 2007). Few studies, however, have been done in developing economies like Ghana, and the majority of those that have been done (Kiptum, 2013; Ling, Yee, Liang, Yee, & San, 2012; Hassan & Naser, 2013) are countryspecific. While De George et al. (2013) study for Australia found empirical evidence for the impact of IFRS adoption on the audit fee of publicly traded companies on the Australian Stock Exchange (ASX),

Soyemi and Olowookere's (2013) study focused on the banking sector in the postconsolidation periods but prior to the adoption of International Financial Reporting Standards (IFRS). Since IFRS pre-transition and post-transition periods have an influence on audit fees for listed consumer products companies in Nigeria, it is crucial to investigate the effects of firm-specific factors on those costs while controlling for those variables. The annual reports for each of the fifteen consumer products companies for the years 2009 through 2016 contained an audited financial statement. It was decided to start in 2009 because of the beginning of the world economy's recovery from the financial crisis. Additionally, the majority of companies that manufacture consumable items released their annual reports in 2016 as well. The consumer products industry was chosen because it promised a bigger turnover from everyday purchases and sales of commodities.

The literature shows that not much has been done on the relationship between firm audit, profitability, financial leverage, firm tenure, firm size and audit fee. Quality audits are an important function for driving growth within organisations. An audit is necessary because it gives shareholders trust that the accounts are accurate and thorough and gives credibility to a set of financial statements.

1.3 Research Objective

1.3.1 Main Objective of the Study

The main aim of the study is to examine the relationship between firm-level variables and audit fees among companies listed on the Ghana Stock Exchange (GSE). Specifically, the study is to achieve the following objectives:

1.3.2 Specific Objectives

1. To examine the relationship between financial performance and audit fee.
2. To examine the relationship between firm size and audit fee.
3. To examine relationship between Firm leverage and audit fee.
4. To examine relationship between Audit firm tenure and audit fee.

1.4 Research Questions

The purpose of the study is to respond to the following queries:

1. What is the relationship between financial performance and audit fees?
2. What is the relationship between firm size and audit fee?
3. What is the relationship between Firm leverage and audit fees?
4. What is the relationship between Audit firm tenure and audit fee?

1.4 Significances of the Study

Increased employment prospects and personal income may result from a well-run company's high and consistent profitability. Effects of a company's financial success include higher employee salaries, better manufacturing facilities, and better products for customers. Because of this, many individuals or organisations will benefit from research on the implications of audit size, audit firm lifespan, and audit fees.

For instance, management will decide whether to employ one of the big 4 audit firms as the auditors or any other audit firm. Therefore the results from this study will aid management in selecting the rightful audit firm for the company.

For the government, the performance of the organisation is importance, and therefore the study will be providing the necessary policies that will aid the firm to perform financially which will go a long way in helping the growth of the economy.

To investors, the results from this study will aid them in selecting which firm to invest in since the result will be providing the answers to the relevance of audit size and how it affects audit fees which may lead to firm performance.

For researchers and academicians, the results from the study will be a source of reference for studies on audit size, firm performance and audit fees.

1.5 Scope of the Study

Geographically, the study is conducted in Ghana using non-financial companies listed on the GSE. If a financial institution does not have a full banking license or is not under the control of a national or international banking regulator, it is called a "non-bank financial institution" or "non-bank financial company." Contextually, the study is focusing on the audit firm auditing the selected firm, the audit firm tenure and the fee of their audit. The study will cover a period of 10 years from 2012 to 2021.

1.6 Summary of Methodology

The research employed descriptive-analytic and exploratory. Descriptive analytics was used for analysing and synthesizing historical data of the company's budget statements to recognize the trends and make meanings of them. The study employed cross-sectional designs.

As of December 31, 2020, there were sixteen non-financial companies listed on the GSE, making up the study's target population. Between the years of 2012 and 2021, five (5) non-financial enterprises listed on the GSE were specifically chosen using the purposive sample technique.

The study data were taken from secondary sources. STATA 14 and excel are used to analyse the collected data. The study employs multiple regression to find the relationship between the variables under investigation. In the data analysis, time series and cross-sectional data are combined.

1.7 Organization of the Study

The study is divided into five chapters. The study's history, problem statement, aims, research questions, scope, relevance, and constraints, as well as its organisational structure, are all examined in the first chapter. A study of the literature on the idea of an internal audit department is presented in the second chapter, and the research technique is discussed in the third chapter.

The fourth chapter discusses the findings and includes data analyses and interpretation. The research findings, conclusions, and recommendations based on the findings are summarised in the fifth chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this section, the study takes a look at the literature to revive. The review was done under four thematic areas which include conceptual review, theoretical review,

empirical review and conceptual framework. The literature review is done with the objectives of the research in mind.

2.1 Conceptual Review

2.1.1 Audit Fee Concept

A fee audit is a fee received by the auditor derived from fee payments by management (Hartadi, 2012). This study refers to the research conducted by Rizqiasih (2010), namely the audit data that proxies into a professional fees account contained in the financial statements of the consumer goods companies (consumer goods sector) listed on the Indonesia Stock Exchange (IDX), from which the audit fee variable is measured by using natural logarithms from data on professional fees accounts. The basis of this decision-making is the unavailability of data about the audit because data disclosure about the audit in Indonesia is still in the form of voluntary disclosure so not many companies have included the data in the annual report.

The audit fee is the sum payable/paid to the auditor for audit services offered to the auditee (client). Simunic (1980) viewed it as what the economic cost of efficient auditors reflects. Accordingly, the professional accountant ethical code suggests a quotation of appropriately defined fees when a professional accountant is entering into professional services (International Auditing and Assurance Board (IAASB), 2012).

Also, the scale of professional fees of the Institute of Chartered Accountants of Ghana (ICA-GH) affirms that a reasonably or justly paid auditor should ensure the delivery of quality services for the needs of private sector clients, public sector clients, regulatory authorities and the general public. This is a result of various indications of practitioners charging ridiculous audit fees (Soyemi & Olowookere, 2013).

Audit fees refer to the money paid to auditors for their professional services determined by the complexity of the services and the level of expertise. Hassan and Naser (2013) define an audit fee as “the amount of the charge depends, among others, the risk of the assignment, the complexity of the services provided, the level of expertise required to carry out the services of proficiency level, the cost structure of the firm concerned and other professional considerations.” The cost of external audits (audit fees) is the amount paid for services performed by external auditors. The remuneration for the services is related to the length of work and the worth of services provided to the client or the firm.

Financial reporting requires accounting and financial experts to produce high financial reporting. Findings from Gist (2015) reveal a positive and significant relationship between audit committee expertise and audit fees. Similarly, Sari et al. (2019) examined the effects of internal audit, audit committee, and firm characteristics on audit fees in a multi-country and industry setting. They reported a positive and significant relationship between audit committee expertise and audit fees. Shan et al. (2019) argued that Audit firm across the countries represented in our sample demand high-quality audits from the auditor, thereby increasing the audit efforts and time commitment, resulting in higher audit fees.

2.1.2 Profitability Concept

Corporate profits are used to appraise the performance of the management in making efficient use of the resources allocated to them. Profits can be determined by looking at the reporter figures in the financial statements (Sandra & Patrick, 1996; Naser et al. 2013). Companies reporting high levels of profit would disclose more information to highlight their achievements and reduce agency costs (Watts & Zimmerman, 1986).

Disclosing more information will be used by the management of a profitable company to signal information about their performance to strengthen their position and justify their compensation (Hassan & Naser, 2013). These companies will be subjected to rigorous audit testing to verify and confirm their revenues and matching expenses (Joshi & Al-Bastaki, 2000). Hence, profitable companies would pay high audit fees. Profitability has been commonly measured by: Return on Equity (ROE); Return on Assets (ROA); Return on Investment (ROI); and Return on Capital Employed (ROCE). Client profitability levels influence the audit fees charged by auditors (Sandra & Patrick, 1996).

Profitability is the primary goal of all business ventures (Hassan & Naser, 2013). Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important.

Profitability is measured with income and expenses. Income is money generated from the activities of the business (Hassan & Naser, 2013). For example, if crops and livestock are produced and sold, income is generated. However, money coming into the business from activities like borrowing money do not create income. This is simply a cash transaction between the business and the lender to generate cash for operating the business or buying assets. Rising profitability suggests that the economy is on a secular growth path, while a peak or fall in profitability suggests that growth is slowing and the economy is headed for recession. Businesses rely on profitability to survive, which is why it's important to make it one of the primary goals of a business. Profitability is an important measure of the economic activity and performance of a business. It also refers to the ability of a business to earn a profit in the regular course of its operation

2.1.3 Auditor Sizes Concept

The audit partner's assets, the size of the partner's client portfolio, and the number of audit partners within the firm all play a role in determining the size of the auditor (Zhou, 2015). The auditing literature generally comes to the conclusion that Big 4 auditors produce higher-quality audits than non-Big 4 auditors. Rajgopal et al. (2020) assert that an accounting firm's size is a reliable indicator of the auditor's skill because larger accounting firms are less likely than smaller ones to jeopardise their independence because they serve a wide range of clients.

According to Dopuch and Simunic (1980), larger accounting companies offer better services since they have more reputations to uphold. It might also be argued that Big 4 firms offer greater audit quality due to their sheer scale, which allows for more thorough training programmes, standardised audit processes, and alternatives for suitable second partner evaluations.

The two primary categories of auditing firms are Big 4 auditors and non-Big 4 auditors. To minimise the concentration of the Big 4 organisations, individuals in the sector have recently argued for spreading out the market share of non-Big 4 corporations. Investment professionals generally agree that Big 4 firms, as compared to non-Big 4 firms, are more conservative in audit reporting and more likely to manage client pressure in their efforts to lower lawsuit risk. This is because of the Big 4 firms' larger financial resources and greater customer influence over non-Big 4 firms.

David et al. (2020) refuted this assertion made by small businesses and showed that big audit firms are more independent and capable of performing audits of a higher calibre. Large audit firms are better equipped to spot major misstatements in an entity's financial statements, according to Alharasis et al.'s (2023) theory. By boosting

investors' and other stakeholders' trust in the reporting system, an independent auditor's view improves the market. For creditors, investors, and other stakeholders to make an informed investment decision, the financial statements must be accurate, pertinent, and useful. Due to this, an auditor's audit opinion on a company's financial statements must be suitable, effective, and of the highest calibre.

Besides, the effect of client firm size on audit quality was traced to the independence of auditors (David et al., 2020), the appropriate instrument for measuring independence of auditors is the amount of audit fee in relation with audit firms (Yen et al., 2019). Francis (2023) through "Jones (1991) model discretionary accruals" revealed that large audit firms like big 5 firms allow less "accounting discretion" to their significant client because they should protect their reputation; therefore, the client influence is negative.

2.1.4 Audit Tenure Concept

The duration of a firm's engagement with the same auditee is known as the audit tenure (Hartadi, 2009; Nuratama, 2011). The concern over audit tenure is frequently linked to how it affects auditor independence. Sayyar et al. (2014) indicate that the term "audit tenure" refers to "the number of periods-years during which an audit firm, an auditor, or a company employs the same auditor." Increasing skill factors, associated incentives to preserve reputational capital (which improves audit quality), and increased incentives to delight the customer are all linked to increased auditor tenure (which reduces audit quality).

Large and brief audit periods make up the audit tenure. Long audit tenure could reduce the objectivity and level of care. A shorter audit duration, on the other hand, can indicate that the auditors are less familiar with the client, which could result in a lower audit quality. Long audit tenure could improve comprehension of the client's

internal processes, but there is a chance that it could compromise the auditor's independence (Islam, 2016; Feleke, 2017). Negotiating a reduced audit fee with the new auditor, who might offer services at a concession to draw in new clients, is one of the reasons why clients switch auditors (Franken, 2011; Oladipupo & Emina, 2016).

Audit tenure is “the number of periods-years an audit firm, an auditor audits a client or the number of years a company employs the same auditor”. Audit tenure has been dissected into large and short audit periods. Long audit tenure might decrease the independence and professional care. On the other hand, shorter audit tenure reflects that the auditors have less knowledge about the client which may lead to low audit quality. Long audit tenure may increase the knowledge about the client’s internal operations; but, the downside is that the auditor’s independence may get compromised (Islam, 2016; Feleke, 2017). The clients change their auditors for many reasons, one of which is to obtain a reduced audit fee from a new auditor as the new auditor may offer services at a discount to win a new client (Franken, 2011; Oladipupo & Emina, 2016). The auditor tenure may affect the quality of audits in a positive or negative manner. There are two arguments that revolve around this issue: (Short tenure) which reflects that the auditor will less his experience in client's work, (Long period) meaning that the independence of auditor may decline (LIM et al, 2010; Knechel et al, 2012).

2.1.5 Leverage Concept

Financial leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital (Oladipupo and Emina, 2016). Leverage is an investment strategy of using borrowed money specifically, the use of various financial instruments or borrowed capital to

increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets (Sayyar et al., 2014).

Auditors are likely to charge higher fees in response to the higher audit risk associated with agency problems in firms with high Free Cash Flow (FCF). Leverage can alleviate the agency problems of FCF by requiring payments and acting as a monitoring mechanism. Consequently, leverage can mitigate the nonvalue-maximizing activities conducted by managers of firms with high FCF. Thus, the positive high FCF/audit fees association is expected to be weaker for firms with high leverage than for firms with low leverage. Griffin et al. (2010) and Gul and Tsui (1998) find that leverage interacts with high FCF firms to reduce audit fees. The financial leverage effect is often used by companies when they do not have enough equity for an investment and have to borrow money for it. They expect a greater return from the investment than they have to pay back in interest for the loan. Here we show you exactly how the financial leverage effect works and how companies can best use it. Financial leverage is the borrowing of money to acquire a particular asset that promises a higher return than the interest on the loan that must be repaid. Thus, financial leverage is an investment strategy that helps companies grow and expand, for example.

It is important for companies to assess whether a planned investment is worthwhile and will bring in the desired returns so that no deficit occurs. A risk and profitability analysis is therefore necessary for large investments so that the company does not make an expensive bad investment.

The more borrowed money a company has, the greater the financial leverage it uses. The leverage effect is particularly pronounced in the case of start-ups, as they have hardly any equity capital and are financed almost entirely from borrowed capital

2.2 Theoretical Review

Identification of current theories, their relationships, scope of investigation, and development of new testable hypotheses are all aided by a review of the theoretical literature. This study made use of agency theory and resource-dependent theory.

2.2.1 Agency Theory

The inherent contradiction between management and shareholder interests is the central tenet of agency theory (Bhattacharya and Singh, 2019). Mechanisms for corporate governance must be created to lessen this difference in goals. According to Armour and Eidenmuller (2020), concentrated shareholding is perhaps the most frequently seen technique that effectively resolves agency issues even for firms operating under a lax regulatory framework for minority protection.

In conclusion, diversified ownership may create unique circumstances that give birth to varying degrees of agency issues in terms of the expenses involved and the consequent corporate performance. In diffused-owned firms, the extent of agency difficulties as assessed by their associated costs is likely to differ from that in corporations with majority control. We shall therefore investigate how the agency issues impact the financial performance under various forms of ownership in the banking sector of Ghana.

2.2.2 Resource Dependent Theory

Different external resources have an impact on how well companies perform and how well they make decisions. The fundamental idea of the resource-dependent theory was primarily centred on economic considerations, such as trade terms, price volatility, and resource dependency (Davis and Cobb, 2010). Resource-based thinking and the economy have a significant relationship (Lockett and Thompson, 2001). Resource dependency theory gives access to the study of how various external

resources affect organizational behaviours. To operationalize commercial activities, companies need a variety of resources, including financial resources, technology resources, and human resources. Companies cannot advance in their respective fields without using these resources.

In order to communicate with one another, businesses use these resources for a variety of functions. Dependence on resources can occasionally have a negative impact and halt certain progress. Teerikangas and Very (2006) argue that economic output needs to be reorganised to prevent the negative effects of resource dependency on organisational culture. The goal of the policy should be to promote technological advancement in the manufacturing and service sectors while also promoting the growing accumulation of human and physical capital. As a result of the various risks involved, businesses deal with a variety of circumstances. The resource-dependent idea is cited by researchers as having power for organisations. According to the Resource Dependent Theory, there are a number of power interactions among organisations that are dependent on the trade of resources. The idea of the resource-dependent theory in the system of inter-organizational relationships is pretty straightforward: merely take resources from those that you lack and offer surplus resources to others. Evidence suggests that the resource dependence theory is the basic theoretical foundation for the banking industry. The missing component is crucial for the development of connections. Organizations change their current structure, pattern, and behaviours based on their dependencies on others. Typically, these dependencies were caused by resource dependencies.

2.3 Empirical Review

2.3.1 Financial Performance and Audit Fee

The objective of Awinbugri and Prince's (2019) study was to evaluate the effect of the Audit Committee on the financial performance of banks listed on the Ghana Stock Exchange. They used a quantitative research methodology and a descriptive research method. Audit committee meeting frequency, audit committee size, and audit fees were the variables used. Both return on assets (ROA) and return on equity (ROE) were used to analyse financial performance.

The study discovered that audit committee meetings had a negative impact on ROE while audit committee size and audit fees had a favourable impact on listed banks' financial performance as measured by ROA. Although there were negative correlations between ROA, ROE, and several of the Audit Committee characteristics utilized in this study, the regression model showed that the Audit Committee and fees were responsible for approximately 60% of the variability in the financial performance of the listed banks.

The link between audit fees and corporate performance is examined in the Moutinho et al. (2021) study. A fixed effects model is provided to predict company operational performance using a sample of publicly listed, non-financial U.S. companies covering the years 2000 to 2008. Standard control factors including size, leverage, sales growth, and the intensity of research and development were incorporated in the model.

Corporate governance measures were also adopted. This study offers factual proof of the link between audit fees and corporate performance. Particularly, there is a relationship between changes in operating performance and changes in audit fees.

This analysis offers preliminary justification for the indicated association's performance standpoint.

The study by Ugwu et al. (2020) looks at the effect of audit quality on the financial performance of each of Nigeria's 15 listed DMBs from 2011 to 2017. Audit firm size, joint audit, and audit fee are employed as independent variables, while ROA, a proxy's measure of financial performance, is used as the dependent variable. We used secondary data that was taken from the listed DMBs' financial statements. Expost facto and correlational research designs were used in the study, and multiple regressions were used to analyse the data.

The study found a strong and positive correlation between audit firm size and ROA, a significant and negative correlation between joint audit and ROA, and a significant and negative correlation between audit fee and ROA. The study consequently suggests that regulatory agencies aim to make joint audits mandatory and that any businesses that disobey should face sanctions as joint audits show a substantial link with company performance in this respect. Since audit firm size has a favourable and considerable impact on company performance, the study also makes this recommendation. Because the majority of DMBs used the services of the larger audit firm, smaller audit firms should be supported as they are likely to complete an audit assignment in a more comprehensive manner.

2.3.2 Firm Size and Audit Fee

In their 2019 study, Coffie and Bedi sought to determine how the introduction of IFRS and business size affected the setting of auditors' fees in the Ghanaian financial sector. From 2003 to 2014, the writers used the annual reports of 52 public and unlisted

companies. The authors used robust fixed effects panel regression and conditioned audit fees on IFRS adoption and business size in order to test their predictions.

The findings indicate that the implementation of IFRS has a positive correlation with audit fees, indicating that the industry as a whole and banks and insurance companies would certainly pay more audit fees as a result of the adoption of IFRS. The findings support the notion that the implementation of IFRS increases auditor efforts in terms of time and the complexity of some aspects of the standards. Once more, as anticipated, the coefficient of size is considerably and positively correlated with audit fees. This suggests that a key factor in setting audit fees is the size of the auditee.

The purpose of the Sari et al. (2019) study is to examine how accounting firm size, auditor specialization, audit tenure, audit rotation, audit fee, and audit fee structure affect audit quality. Manufacturing businesses registered on the Indonesia Stock Exchange between 2015 and 2017 make up the study's population. 50 businesses were selected as samples using a purposive selection technique.

By utilizing logistic regression, the data were evaluated. According to the study's findings, audit tenure and auditor specialization have a greater impact on audit quality than audit rotation, fee audits, or the size of the accounting firm.

The Gist (2015) research is an early attempt to look at some particular elements that can result in economies of scale for big businesses. The scale opportunities granted to major CPA firms in dealing with the client's regulatory complexity are tested using multiple regression analysis. The difference between audit fees in regulated and unregulated industries is much greater for Big Eight (now Big Six) firms and audit fees charged by Big Eight firms are significantly lower when the auditor is involved

with client security registrations, according to an analysis of the interaction between audit firm size and variables measuring client regulatory complexity.

For non-Big eight businesses working with client registration statements, this connection does not apply. These findings suggest that larger audit companies have more expansion potential than smaller ones due to customer regulation complexity.

The extent to which managerial ownership influences auditor selection and the audit firm's estimated overall risk of audit customers is examined by Shan et al. (2019). In a sample of Australian-listed corporations between 2005 and 2015, we investigate the relationship between management ownership and audit firm size as well as audit fees. The importance and direction of the link are connected to the extent of management ownership, according to prior research on the correlations in the US, UK, and Hong Kong contexts.

The link between managerial ownership and audit firm size and audit fees is negative when levels of managerial ownership are consistent with shareholder interests (also known as "convergence of interests"). In contrast, the connection is favourable when management ownership levels are at odds with the objectives of the shareholders (also known as "entrenchment"). The majority of our findings are in line with other research, however, we provide further detail regarding the ownership levels in the Australian market where the convergence of interests and entrenchment occur.

2.3.3 Firm Leverage and Audit Fee

According to Barua et al. (2019), different forms of leverage should be studied independently since they have varied effects on audit risk and audit fees. Using data spanning the years 2004 to 2016, we discover a positive correlation between

operational liability leverage and audit fees and a negative correlation between finance liability leverage and audit fees.

The findings imply that the advantages of keeping an eye on the impacts of financial leverage exceed the disadvantages related to the risk of financial hardship and financial fraud. In line with theories that auditors are more circumspect in the context of higher estimation risk, the study also reveals that estimated operational liability leverage has a greater impact on audit fees than contractual operating liability leverage. The results emphasize the significance of identifying sources of leverage in audit risk generally and audit fee structures specifically.

Bhatia et al.'s (2015) study investigates the effect of audit fees on capital structure decisions using a large US sample. As a stand-in for audit quality, we employ audit fees. According to our findings, businesses with greater audit fees typically have higher levels of leverage.

The additional finding indicates that companies that pay high audit costs are more likely to issue debt. The study also utilise anticipated audit costs as a proxy for audit quality as a robustness check, and find consistent findings. These results imply that audit fees have a major impact on capital structure.

The goal of the Musah et al. study from 2017 was to investigate the factors that affect audit fees using empirical data from the Ghana stock market. The study specifically looked at the factors that affect audit fees, such as client size, profitability as defined by ROA, loss, client risk as assessed by debt ratio, YEAR (season), and MNC. According to this study's analysis of the Simunic (1980) model, the size of the client's company, its reputation abroad, its association with the Big Four audit firms, and its profitability all significantly influence audit fees in Ghana.

The study's findings point to a weak legal system in Ghana as well as the potential threat that auditors' ignorance of risk factors may pose to the name and reputation of the audit business. The study's findings have important ramifications for Ghanaian enterprises and auditors negotiating audit rates. The results of this study are distinctive since it is the first to thoroughly explore the factors that determine audit fees for Ghanaian-listed companies.

The purpose of Hussaini and Fadjarenie's (2021) study is to ascertain how firm size, audit fees, and leverage affect audit quality. The sample for this study consisted of manufacturing firms in the consumer products industry that were listed on the Indonesia Stock Exchange between 2011 and 2020; utilising the purposive sampling approach, samples from as many as 21 firms were chosen. The information utilised was obtained through secondary research and documentation methods. The Eviews 10 programme was employed as the data analysis technique in this study.

The panel data regression statistical testing used in this study, together with the selected fixed effect model, is used to examine the data. The results of the hypothesis test reveal that while Company Size and Audit Fee have a positive and substantial influence on audit quality, Leverage has a negative and no significant impact.

2.3.4 Audit Firm Tenure and Audit Fee

The purpose of Kamil's (2020) study is to determine and evaluate how audit tenure, audit firm size (KAP), and audit fees affect audit quality. Consumer goods firms (the consumer goods sector) registered on the Indonesia Stock Exchange (BEI) from 2016 to 2019 make up the study's population. Purposive sampling is the method of

sampling used in this investigation. 22 businesses were chosen as a sample based on present criteria.

Logistic regression analysis is used in this investigation. It is anticipated that the study's findings will demonstrate that: (1) Audit fee has a considerably positive impact on audit quality; (2) Audit tenure has a significant influence on audit quality; and (3) KAP size does not have a significantly positive effect on audit quality. Audit quality is unaffected significantly by audit tenure. These findings demonstrate that the duration or briefness of the client's involvement with KAP cannot serve as a benchmark for audit quality.

The research conducted by Wahyuni et al. (2019) intends to investigate three factors that may affect audit quality: (1) audit tenure; (2) audit fees; and (3) auditor independence. Questionnaire data is the sort of data used. All of the auditors who work at Bali's Public Accounting Firm make up the study's population.

The sample is chosen using basic random sampling, which allows for the analysis of up to 87 respondents. Multiple regression analysis was used for the data analysis. According to the test results, audit quality is significantly influenced by three factors: (1) auditor independence; (2) audit fees; and (3) audit tenure.

The primary goal of Bamahros and Wan Hussin's (2015) study is to examine the relationship between profit management in Malaysian publicly listed companies and auditor-provided no-audit services and audit firm longevity. To gauge the effectiveness of earnings management, two measurements—discretionary current accruals based on the performance-adjusted Ashbaugh, LaFond, and Mayhew (2003) model and discretionary total accruals based on the modified Jones model (1991)—are used. For the 2009 fiscal year, 525 firms make up the research sample.

The findings imply that extended employment with an audit firm decreases earnings management. However, the size of non-audit fees makes managing earnings more difficult. Any attempt to mandate audit firm rotation in Malaysia is unnecessary in light of the actual facts. To proceed towards a policy resolution on the limitation of non-audit services in Malaysia, more study is necessary.

According to discretionary accruals, Garcia-Blandon et al. (2020) look at the effects of audit firm tenure, partner tenure, audit fees, fees for non-audit services, and total fees on audit quality. Spanish non-financial public enterprises from the years 2006 to 2013 make up our sample. The findings show that audit quality declines with partner tenure but rises with audit firm duration. Additionally, the amount of money paid to the audit company appears to have a detrimental effect on the quality of the audit, which is mostly determined by payments for audit services. Regarding this, the study found no evidence of a connection between non-audit service prices and audit quality.

The findings also demonstrate that extended tenures with the audit company do not result in a negative association between long partner tenures or high fees and audit quality. Long tenures of audit firms appear to both increase audit quality "per se" and mitigate the detrimental impact of partner tenure and audit fees on audit quality. The study's findings, which hold up to several sensitivity checks, may be pertinent to the ongoing discussions about auditor rotation and the combined delivery of audit and non-audit services.

2.4 Conceptual Framework

To illustrate the connections between these ideas and how they relate to the research question, a conceptual framework is used (Suleman, 2018). The study's conceptual framework is shown in Figure 2.1.

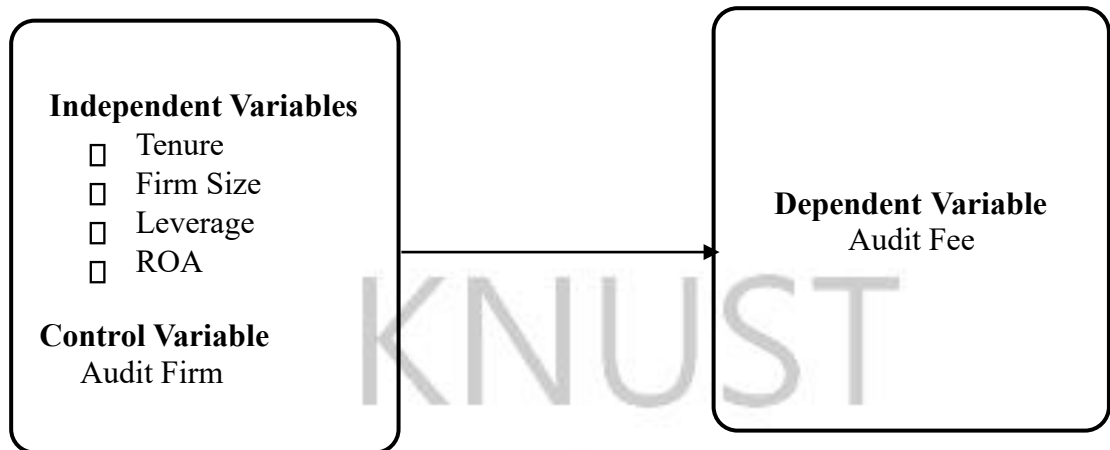


Figure 2.1: Conceptual Framework

Source: Author Construction (2022).

As presented in Figure 2.1, tenure, firm size, leverage and ROA are used as independent variables, also audit firm is used as a control variable. The dependent variable was audit fees. Big 4 auditors participate in an "investment race" that creates a natural oligopoly, but many smaller, lower-quality non-Big 4 auditors continue to operate because they satisfy the needs of customers who cannot afford or do not value Big 4 audits. The goal of the study is to ascertain the association between firm-level variables and audit fees among firms listed on the GSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The methodologies and procedures used to conduct the research are described in this section. In particular, topics pertaining to the target population, sample, and sampling methods are covered. The chapter also covers the data and sources, data collection procedures, the definitions and measurement of variables, as well as the approach to data analysis.

3.1 Research Design

A research design is a method or concept for carrying out the various tasks associated with a research study (Myers, 2013). The goal of research design is to keep the researcher on track and to keep him or her from deviating from the tasks at hand. It is a comprehensive strategy for the entire research process. The study design is a critical aspect of any research project and in terms of time, manpower, and money, a poor research design can bring the entire research project to a halt (Rea & Parker, 2014).

The research employed descriptive-analytic and exploratory. Descriptive analytics was used for analysing and synthesizing historical data of the company's budget statements to recognize the trends and make meaning of them. Exploratory data analysis was the essential phase of initial data investigations such that trends and anomalies can be detected and hypotheses can be checked and inferred using condensed statistics and graphical representations environments. In the study, crosssectional designs were used. To compare subgroups within a population or to

make statistical inferences about the population of interest, data are employed in crosssectional designs (Rea and Parker, 2014).

3.2 Population

As of December 31, 2020, there were sixteen non-financial companies listed on the GSE, making up the study's target population. Non-financial corporations are legally recognised corporate bodies that primarily engage in the production of goods and services for the market. The term "non-financial" denotes that their primary activity is not the provision of financial services but rather the creation of non-financial goods and services.

3.3 Sampling Technique and Sample Size

Between the years 2012 and 2021, seven (7) non-financial enterprises listed on the GSE were specifically chosen using the purposive sample technique. Appendix A lists the chosen companies. The ten-year window was chosen based on the regression axiom that the model is better suited for forecasting or prediction the greater the data in terms of time frame. Furthermore, the data actually spanned a ten-year period.

This method was appropriate because four of the firms were not listed between the period of 2012 and 2021. Inclusion criteria is everything a study must have to be included and exclusion criteria are the factors that would make a study ineligible to be included (Rea and Parker, 2014). The study sample excluded firms without financial statements for the period of the study.

3.4 Sources of Data of the Study

Data for the study were gathered from secondary sources. They are made up of financial statements from the chosen institutions for the years 2012 through 2021.

In order to gather information for this research, comprehensive and intensive library research is also conducted. This gave me the chance to develop a strong critical and analytical framework for the study. Although additional sources were also used, the annual reports and statements of accounts of the selected financial institutions served as the primary source of secondary data. Ghana Banking Survey (2018) and Selected Banks' Annual Financial Statement (2012-2021).

3.5 Model Specifications

The study's general economic model, which is similar to that used by Greene (2012) and Ahmad and Bashir (2013), is described as:

$$Af = \alpha + \beta_1 LEV + \beta_2 Size + \beta_3 AFT + \beta_4 AUF + \beta_4 ROA + \varepsilon \dots \text{Model 1}$$

Where:

AF = Audit fee

LEV = Leverage

Size = Firm Size

AFT = Audit Firm Tenure

AUF = Audit Firm

ROA = Return on Assets

α = the intercept

β = coefficient of independence variables

ε = the error term

3.6 Measurement of Variables

Variables have slightly different meanings and uses in statistics, although they have a little overlap with algebraic meaning, therefore their uses and definitions are vastly different. The elements which include leverage, firm size, Audit Firm Tenure, audit size and audit quality are been conceived as the variables in the study.



Table 3.1: Measurement of Variables

Variables	Description	Measurement	Source
Dependent Variables			
Audit Fees	Costs incurred by companies to pay public accounting firms to audit the company's financial statements.	the natural logarithm of the audit Fee of firm i for year t	Elshafie, and Nyadroh, 2014.
Independent Variable			
Audit Firm Tenure	The period during which an auditor examines a company's financial statements.	Years of auditing a firm i for year t	Carcello, and Nagy, 2004.
Leverage	The strategic endeavour of borrowing money to invest in total liabilities divided by total assets.		Elshafie, and Nyadroh, 2014
Firm Size	the representation of the worth of everything a person or company owns,	the natural logarithm of the total assets of firm i for year t	Elshafie, and Nyadroh, 2014
Profitability	The degree to which a business or activity yields profit or financial gain.	Return on Assets: net income by total assets	Craswell et al. (2002)
Control Variable			
Audit Firm Size	The class of the audit firm employed to undertake an audit	If audited by a big 4 audit firm=1, otherwise 0	Elshafie, and Nyadroh, 2014
Source:	Author's		Construct

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3.7 Data Analysis

STATA 14 and Excel are used to analyse the collected data. The study employs multiple regression to find the relationship between the variables under investigation in the data analysis, cross-sectional and time-series data are combined.

The descriptive and correlational data that were gathered were analysed using linear regression techniques. In the data analysis, cross-sectional and time-series data are combined. The primary performance variables are quantified using descriptive statistics using the mean, maximum, minimum, and standard deviation.

3.8 Validity and Reliability

The validity of research instruments is determined by their ability to measure what they are designed to measure. Internal consistency of the study instrument, once again, contributes to reliability. As part of the validity and reliability assessments, the study also performed the following diagnostic tests: Multicollinearity and Heteroscedasticity. This shows that two independent variables can be used to predict one independent variable in a regression model. When a regression model's residual term, or error term, variance changes widely, the situation is referred to as Heteroscedasticity. A condition is referred to as homoscedastic when the variance of the error term in a regression model is constant.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

The data gathered for the project are presented in this chapter. The chapter extends beyond simply presenting the information to additionally analyse and analyse the results of the research since it aims to respond to the questions raised in the research, as stated in the preface. Descriptive statistics and diagnostic tests, such as the Hausman Test results, and the Breusch-Pagan / Cook-Weisberg test for Heteroscedasticity and correlation, are discussed in the chapter's opening sections.

4.1 Descriptive Statistics

Table 4.1 shows the descriptive statistics of the variables used in the study. The variables include financial performance (ROA), firm size, firm leverage, audit firm tenure, audit firm and audit fee. The results are presented in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Audit fee	100	5.08	0.39	3.99	5.71
Tenure	100	5.58	3.54	1.00	17.00
Firm Size	100	8.12	0.72	6.22	9.32
Leverage	100	0.85	0.78	0.05	2.99
ROA	100	0.06	0.15	-0.44	0.38
Audit Firm	100	0.62	0.49	0.00	1.00

Source: Field Work (2023).

As shown in Table 4.1, the audit fee recorded a mean of 5.08 and a standard deviation of 0.39, with a minimum of 3.99 and a maximum value of 5.71. The audit was measured using the log of audit fees charged for the period recorded. Recording a mean of 5.08 implies that on average the audit firms charge GHS25, 0000.00.

In respect of tenure, it was revealed that the minimum tenure of an audit firm used in the study was 1.00 and a maximum of 17.00. Also, a mean of 5.58 with a standard deviation of 3.54 were recorded. Indicating that on average the audit firms have spent over 5 years with their clients.

In the case of firm size a mean of 8.12, and a standard deviation of 0.72 with a minimum value of 6.22 and a maximum value of 9.32. This indicates that most of the firms have quality assets as the standard deviation was 0.72.

In the case of financial leverage, the minimum value recorded was 0.05 and the maximum value was 2.99. The mean recorded was 0.85 and the standard deviation of 0.78. An average financial leverage ratio of .85 indicates that a company is using a fair amount of debt to finance its assets.

In the case of financial performance which was measured by return on assets (ROA), the mean recorded was 0.06 and a standard deviation of 0.15, the maximum value recorded was -0.44 with a standard deviation of 0.38. The ROA average of 0.5 indicates that the company is not able to make maximum use of its assets to get more profits.

In the case of the audit firm, a mean of 0.62 and a standard deviation of 0.49 have a minimum value of 0.00 and a maximum value of 1.00. Recording a mean of 0.62 indicate that the majority of the firm sampled are audited by the Big Four audit firm.

4.2 Correlation Matrix

Measures of correlation examine the relationship between two variables. A correlation matrix is a table that displays the correlation coefficients for different variables, to put it simply. The matrix displays the correlation between all possible pairings of values in a table. It is a useful tool for identifying patterns in the supplied data and condensing large datasets. Table 4.2 displays the correlation measures for the study's variables.

Table 4.2: Correlation Matrix

	Audit fee	Tenure	Firm size	Leverage	ROA	Audit firm
Audit Fee	1					
Tenure	0.008 0.941	1				
Firm Size	0.608 0.000	0.319 0.001	1			
Leverage	0.337 0.001	-0.251 0.012	-0.133 0.186	1		
ROA	0.102 0.314	0.140 0.164	0.235 0.019	-0.102 0.312	1	
Audit Firm	0.525 0.000	-0.193 0.055	0.237 0.017	0.166 0.100	0.267 0.007	1

NOTE: N=100

Source: Field Work (2023).

The correlation matrix, which shows the direction and strength of the relationship between the research variables, is captured in Table 4.3. Higher correlation coefficient values often indicate a high level of Multicollinearity.

Conversely, smaller correlation coefficient values imply the presence of little to no Multicollinearity, which is sufficient justification for statistical analysis. As demonstrated in Table 2, the correlation coefficients are frequently low. The outcome demonstrates that there is no Multicollinearity, which occurs when two or more independent variables exhibit substantial intercorrelations in a multiple regression model. The intercorrelations are all lower than 0.800.

Also, the results in Table 4.2 indicate that audit fee which is the dependent variable correlates with Firm Size, Leverage and Audit Firm at 0.608, 0.337 and 0.525 respectively. Also, tenure was found to correlate with firm size and leverage at 0.319 and -0.251 respectively.

4.3 Hausman Test Results

The streamlined Hausman test results are displayed in Table 4.3. The Hausman test is used to determine if the outcomes from the fixed effect and random effect models are equal. In the event that the data are statically important, this model dismisses the null hypothesis ($p=0.05$). If the results are insignificant (probability >0.05), a random effect model should be used.

Table 4.3 Hausman Test Results

S/N	Variables	Model 1
1	Chi2	85.66
2	Probability>chi2	0.000

Dependent Variable: Audit Fee

Source: Field Work (2023).

The Hausman test demonstrates that the random effect model is the best choice. This is because the result ($\text{prob}>\text{chi}2=0.000$) is revealed to be significant. The findings of the

Hausman test, which examines the impact of selected company characteristics on the audit fee, are displayed in Table 4.3. Also, The Hausman test was used to see if the random or fixed effect best fits the research's data set when evaluating the impact of the factors chosen on equity utilisation. The outcomes demonstrated that the fixed effect was the most suitable to be applied, much like the audit fee. The outcomes in this regard are shown in Table 4.3.

4.4 Test of Heteroscedasticity

There are several methods of detecting Heteroscedasticity in regression models.

However, the present study resorted to using the Breusch-Pagan Godfrey Heteroscedasticity Test due to its robustness and wide acceptance. The results are shown in Table 4.4.

Table 4.4: Test of Heteroscedasticity

Variables	Chi2	Probability>chi2
Audit Fee	1.98	0.8552

Source: Field Work (2023).

The results are presented in Table 4.4. If the probability of the F-statistics of the test show significance that implies that there is a presence of Heteroscedasticity. As shown in Table 4.4 the models showed significance suggesting that Heteroscedasticity was not a problem in the study.

4.5 Multicollinearity Test

Variance Inflation Factor (VIF) for each independent variable is performed to measure the multicollinearity in the set of multiple regression variables. The higher the value of

VIF the higher correlation between this variable and the rest. Therefore, the result from the Variance Inflation Factor is shown in Table 4.5.

As shown in Table 4.3, the VIF values for all the variables are less than 5, which indicates that Multicollinearity is not a problem in the regression model. Multicollinearity exists when there is a correlation between multiple independent variables in a multiple regression model.

Table 4.5: Multicollinearity Test

Variable	VIF	1/VIF
Tenure	2.16	0.109
Firm Size	2.00	0.111
Leverage	1.48	0.678
ROA	1.34	0.748
Audit Firm	1.33	0.75
Mean VIF	1.662	

Source: Field Work (2023).

4.6 Regression Analysis

As can be observed in Table 4.5, the Hausman test indicates that the fixed effects model is the optimal estimation technique to use. This is because the test yielded a value of 85.66 ($p=0.000$) with 7 degrees of freedom. This result rejects the null hypothesis of an absence of correlation (Adusei, 2016) between the individual firm effects and the explanatory variables.

Table 4.5 presents the results from the regression analysis obtained for both random effect and fixed effect models. The values for coefficient, standard error (which is in brackets) and t-statistics are presented.

Only one variable which is the audit firm was used as a control variable. The study revealed that ($\beta=0.0804$, $t=1.31$, $p>0.05$) has an insignificant influence on the dependent variable which is the audit fee.

Table 4.5: Regression Analysis

Variables	Random	t-	Fixed Eff	t-
	Effect Coef. (Std. Err.)		Coef. (Std. Err.)	
Tenure	0.011 (0.005)	2.15*	0.007 (0.0056)	1.27
Firm size	0.664 (0.059)	11.27**	0.4595 (0.0434)	10.58**
Leverage	0.033 (0.032)	1.01	0.1002 (0.0353)	2.840**
ROA	-0.022 (0.097)	-0.22	-0.2435 (0.1192)	-2.040*
Audit firm	-0.108 (0.071)	-1.52	0.0804 (0.0616)	1.31
_cons	-0.369 (0.470)	-0.79	1.1572 (0.3435)	3.370**
F(5,121)	47.03		51.73	
Prob > F	0.000		0.003	
Number of obs	100		100	

Note: *= $p<0.05$, **= $p<0.01$

Source: Field Work (2023).

The study revealed that three variables which include firm size ($\beta=0.4595$, $t=10.58$, $p<0.01$), leverage ($\beta=0.1002$, $t=2.840$, $p<0.01$), and ROA ($\beta=-0.2435$, $t=-2.040$, $p<0.05$) have significant influence on audit fee but tenure ($\beta=0.007$, $t=1.27$, $p>0.05$) was found to have insignificant influence on audit fee.

4.7 Discussion of Result

Relationship between financial performance and audit fees. Financial performance was measured by Return on Assets. According to Naser et al. (2013), corporate profits are used to appraise the performance of the management in making efficient use of the resources allocated to them. Profits can be determined by looking at the reporter figures in the financial statements.

The study revealed that ROA ($\beta=-0.2435$, $t=-2.040$, $p<0.05$) have a negative and significant relationship with audit fee. This implies that financial performance influence audit fee negatively. This indicates that an increased audit fee leads to a decrease in the firm profitability. The link between ROA and audit fees is not what was anticipated. This demonstrates that auditors don't care about risk concerns and instead base their fees mostly on their client's profitability (Al-hashani, 2007). Similarly to the finding of this study, Awinbugri and Prince's (2019) study discovered that audit committee meetings had a negative impact on ROE while audit committee size and audit fees had a favourable impact on listed banks' financial performance as measured by ROA.

Also, Moutinho et al. (2021) study found that there is a relationship between changes in operating performance and changes in audit fees. This analysis offers preliminary justification for the indicated association's performance standpoint. However, this study's results are contradictory to the assertion that expenses profitable companies would pay high audit fees (Joshi & Al-Bastaki, 2000).

Relationship between firm size and audit fees. The auditing literature generally concludes that the audit quality of Big 4 auditors is superior to that of non-Big 4 auditors (Zhou, 2015). According to Francis and Yu (2009), the size of the accounting company is a good indicator of the competence of the auditor since larger accounting companies are less likely than smaller accounting firms to jeopardise their independence because no one customer is particularly significant to them.

The study revealed that firm size ($\beta=0.4595$, $t=10.58$, $p<0.01$) has a positive and significant influence on audit fees. This indicates there is a relationship between a firm size and the audit fee charged by an audit firm. This means the amount charged by an audit firm depends on the size of the firm. An increase in the size of a firm leads to an increase in the audit fee charged.

In line with this study findings are the study results of Coffie and Bedi (2019), which indicated that the coefficient of size is considerably and positively correlated with audit fees. This suggests that a key factor in setting audit fees is the size of the auditee.

According to Sari et al.'s (2019) findings, audit tenure and auditor specialization have a greater impact on audit quality than audit rotation, fee audits, or the size of the accounting firm.

Also, the study of Shan et al. (2019) on Australian-listed corporations between 2005 and 2015 established a link between managerial ownership and audit firm size and audit fees is negative when levels of managerial ownership are consistent with shareholder interests (also known as "convergence of interests"). Shan et al. (2019) further asserted that the majority of our findings are in line with other research, however, we provide further detail regarding the ownership levels in the Australian market where the convergence of interests and entrenchment occur.

Relationship between firm financial leverage and audit fees. Financial leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital (Oladipupo & Emina, 2016). Sayyar et al. (2014) maintained that leverage can also refer to the amount of debt a firm uses to finance assets. Sayyar et al. (2014) have argued that auditors are likely to charge higher fees in response to the higher audit risk associated with agency problems in firms with high Free Cash Flow (FCF).

The study revealed that leverage ($\beta=0.1002$, $t=2.840$, $p<0.01$) has a positive and significant influence on audit fees. These results indicate that there is a positive relationship between leverage and audit fees. This indicates that the amount of debt a firm uses to finance assets influences the amount of money charged by external auditors. An increase in financial leverage leads to an increase in the audit fee charged by audit firms.

The study results are in line with the assertion of Griffin et al. (2010) that leverage can alleviate the agency problems of free cash flow by requiring payments and acting as a monitoring mechanism. Consequently, leverage can mitigate the non-valuemaximizing activities conducted by managers of firms with high free cash flow. Thus, the positive high free cash flow and audit fees association is expected to be weaker for firms with high leverage than for firms with low leverage (Griffin et al., 2010).

Similarly, Barua et al. (2019), study also reveals that estimated operational liability leverage has a greater impact on audit fees than contractual operating liability leverage. The results emphasize the significance of identifying sources of leverage in audit risk generally and audit fee structures specifically.

Also, Bhatia et al.'s (2015) study that investigated the effect of audit fees on capital structure decisions using a large US sample, found that audit fees have a major impact

on capital structure. Musah et al. (2017) established the association with the Big Four audit firms, and their profitability all significantly influence audit fees in Ghana. On the contrary, Gul and Tsui (1998) find that leverage interacts with high FCF firms to reduce audit fees. Also, Hussaini and Fadjaranie's (2021) study on the Indonesia Stock Exchange between 2011 and 2020, revealed that while Company Size and Audit Fee have a positive and substantial influence on audit quality, Leverage has a negative and no significant impact.

Relationship between audit firm tenure and audit fees. According to Nuratama (2011), the duration of a firm's engagement with the same auditee is known as the audit tenure. Bhatia et al. (2015) argued that the concern over audit tenure is frequently linked to how it affects auditor independence. Oladipupo and Emina (2016) asserted that negotiating a reduced audit fee with the new auditor, who might offer services at a concession to draw in new clients, is one of the reasons why clients switch auditors. The study revealed that audit firm tenure ($\beta=0.007$, $t=1.27$, $p>0.05$), have an insignificant influence on audit fee. This indicates that audit firm tenure has no or little influence on the fees charged by audit firms. The results mean either a firm maintains or charges its audit firm, or there is no significant increase or decrease in the audit fee charges.

But Kamil's (2020) study established that audit tenure has a significant influence on audit quality and audit fee, as Wahyuni et al. (2019) According to the test results, audit fee is significantly influenced by three factors: (1) auditor independence; (2) audit fees; and (3) audit tenure. While Bamahros and Wan Hussin's (2015) findings imply that extended employment with an audit firm decreases earnings management. However, the size of non-audit fees makes managing earnings more difficult. Any attempt to mandate audit firm rotation in Malaysia is unnecessary in light of the facts.

In line with this study, Garcia-Blandon et al. (2020) findings demonstrate that extended tenures with the audit company do not result in a negative association between long partner tenures or high fees and audit quality. Long tenures of audit firms appear to both increase audit quality "per se" and mitigate the detrimental impact of partner tenure and audit fees on audit quality and Very (2006) argues that Evidence suggests that the resource dependence theory is the basic theoretical foundation for the banking industry. The missing component is crucial for the development of connections. Organizations change their current structure, pattern, and behaviours based on their dependencies on others. Typically, these dependencies were caused by resource dependencies.



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the findings obtained from data analysis in chapter four, draws conclusions based on them and makes recommendations. The chapter is, therefore, divided into three sections. The summary of findings is the focus of section one. Section two presents the conclusion of the study. Section three offers recommendations.

5.1 Summary of Findings

5.1.1 Financial Performance and Audit Fees

The first objective of the study was to examine the relationship between financial performance and audit fees. The study revealed that ROA has a negative and significant relationship with audit fees. This implies that financial performance influence audit fee negatively. This indicates that an increased audit fee leads to a decrease in the firm profitability. The link between ROA and audit fees is not what was anticipated. This demonstrates that auditors don't care about risk concerns and instead base their fees mostly on their client's profitability.

5.1.2 Firm Size and Audit Fees

The second objective of the study was to examine the relationship between firm size and audit fees. The study revealed that firm size has a positive and significant influence on audit fees. This indicates there is a relationship between a firm size and the audit fee charged by an audit firm. This means the amount charged by an audit firm depends on the size of the firm. An increase in the size of a firm leads to an increase in the audit fee charged.

5.1.3 Firm Financial Leverage and Audit Fees

The third objective was to examine the relationship between firm financial leverage and audit fees. The study revealed that leverage has a positive and significant influence on audit fees. These results indicate that there is a positive relationship between leverage and audit fees. This indicates that the amount of debt a firm uses to finance assets influences the amount of money charged by external auditors. An increase in financial leverage leads to an increase in the audit fee charged by audit firms.

5.1.4 Audit Firm Tenure and Audit Fees

The fourth objective of the study was to examine the relationship between audit firm tenure and audit fees. The study revealed that audit firm tenure, have an insignificant influence on audit fee. This indicates that audit firm tenure has no or little influence on the fees charged by audit firms. The results mean either a firm maintains or charges its audit firm, or there is no significant increase or decrease in the audit fee charges.

5.2 Conclusion

The main aim of the study is to examine the relationship between firm-level variables and audit fees among firms listed on the GSE. The research employed descriptive analytic and exploratory. Descriptive analytics was used for analysing and synthesizing historical data of the company's budget statements to recognize the trends and make meaning of them. On December 31, 2020, there were sixteen non-financial companies listed on the GSE, making up the study's target population, Ten non-financial enterprises listed on the GSE were specifically chosen using the purposive sample technique. This method was appropriate because four of the firms were not listed between the period of 2012 and 2021.

Although additional sources were also used, the annual reports and statements of accounts of the selected financial institutions served as the primary source of secondary data. Ghana Banking Survey (2018) and Selected Banks' Annual Financial Statement (2012-2021). STATA 14 and Excel are used to analyse the collected data. The study employs multiple regression to find the relationship between the variables under investigation in the data analysis, cross-sectional and time-series data are combined.

The study revealed that ROA has a negative and significant relationship with audit fee, it was also revealed that firm size and leverage has a positive and significant influence on audit fees. But the study revealed that audit firm tenure, have an insignificant influence on audit fee.

Therefore study concludes that the firm-level variables affecting audit fees include profitability (ROA), firm size and leverage but it excludes audit firm tenure. This indicates that firm characteristics that determine the amount charged by audits include the level of profit the firm makes, the size of the firm and the firm financial leverage ratio.

5.3 Recommendations

According to the study's findings, it is advised that businesses put into place a corporate governance framework of principles and procedures by which the board of directors ensures accountability, fairness, and transparency in the consumer goods industry because profitability has a negative relationship with audit fees. This will provide proper board oversight, competent audit committees, and protection for shareholders.

Additionally, organisations that represent accountants, such as ICA-GH, should put in place safeguards to guarantee compliance with legal requirements and technological

specifications. This will compel auditors to take corporate risk into account when accepting audit engagements.

This research offers a number of recommendations for managers in selecting the proper audit fees and audit quality plans. Audit companies should establish a solid reputation, grow their firm size, and carry out processes in response to audit risk, separate audit contract types, and assess the complexity of audit projects and specialisations in order to have a competitive pricing strategy and clients who are prepared to pay.



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