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DETERMINANTS OF ABNORMAL AUDIT FEES: A REVIEW OF LITERATURE

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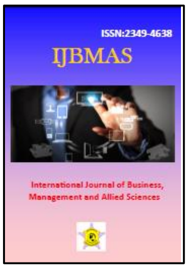

ABSTRACT

This paper is a critical review of studies on abnormal audit fee and a conceptualization of the determinants of abnormal audit fees from the dimension of the auditor-client relationship, based on the economic bonding school of thought. Our motivation is drawn from the desire to contribute to the existing literature on contesting views that the determinants of normal audit fees are likely same as those of abnormal audit fees.

This paper is conceptual in nature and adopted the review design as the method to achieve the set objective. We observed that from prior existing studies, the focus has been on just one dimension of the existing school of thought (auditors effort) concerning the drivers of abnormal audit fees and other determinants as tested in prior studies (i.e. client size, Big4, profitability, joint audit and leverage) are equally related to extra audit efforts. In addition, having conceptualized and discussed the other existing school of thought (economic bonding), we also observed measurement issues and conclude that the variables identified as possible determinants of abnormal audit fees based on the economic bonding school of thought, have not all been tested empirically (length of audit-client relationship, firms earnings management behavior, degree of non-audit service engagement, auditors pricing games, clients bargaining power and audit opinion shopping). Therefore we opine that there is little or no empirical evidence to the best of the researcher's and as such recommend an empirical evaluation of the framework developed in this paper.

1. Introduction

The relevance of the duty of the auditors, being the third party in the agency relationship, cannot be underestimated. So also is the concern about the quality of their engagement amid several corporate and audit failures witnessed in the last decade – majority of which the audit firms were found culpable. The largely publicized cases of some high profile companies such as Enron, WorldCom, and Lehman Brothers in year 2000's are typical cases where the credibility of auditors in discharging their duties has been questioned (Ibrahim & Ali, 2018). Developing countries are equally not left out from large corporate failures and accounting scandals. Those witnessed in the Nigerian financial sector in the early 1990’s also represent scenarios where the role of auditors has been brought into sharp focus. Many investors have suffered severe losses as a result of such company failures, and this leads to loss of confidence in capital markets (Okaro, Okafor, & Ofoegbu, 2018). Sequel to these occurrences, is the issue that have received both regulatory and scholarly attention is that of the fees received by auditors as quasi rents for performing their duties.

Statutorily, publicly listed companies are required to have their annual reports and accounts audited by external auditors (Section 357(1) of Companies and Allied Matter Act 2004 as amended). The essence is to provide reasonable assurance, to the users of the financial information, that the audited financial statements are not materially misstated (Ibrahim & Ali, 2018). The auditors are equally entitled to receive financial reward (i.e. audit fees) from the client as compensation for their effort and to ensure that such fees are sufficient enough to guarantee the provision of a satisfactory audit service (Liu, Kong, San, & Tsang, 2018). While the clients also want the fees they pay to be reasonable, the shareholders and the public in general are equally concerned that the audit fee is not set at such a level that is either too high or too low in order not to undermine independence and confidence in the audit opinion (Walid, 2012). However, regulatory bodies, such as the International Federation of Accountant (2010), which have instituted the standards for negotiating audit services did not categorically specify what fees is deemed appropriate (Ogujiofor, Anichebe, & Ozuomba, 2017). Thus, the audit firms are at liberty to charge what they deem fit as audit fees (Oladipupo & Monye-Emina, 2016).

According to Choi, Kim, and Zang (2010), the audit fees charged by auditors consist of two parts, (i) normal audit fees, and (ii) abnormal audit fees. The former, which reflects a quasi rent for auditor’s effort, is largely driven by the units of audit resources expended and the auditor’s expected future risk arising from the engagement – such as litigation, losses, and government penalties (Asthana & Boone, 2012; Lin, Lin & Chen, 2016). The latter (abnormal audit fees), which could be either high (positive) or low (negative), are usually linked to specific economic bonding between auditor and clients (Choi et al., 2010; Gellings, 2017).

There are two (2) contrasting viewpoints regarding abnormally high audit fees, those based on the theory of economic ties and those aligning with the theory of audit effort. On the former group, some scholars (e.g. Hapsoro & Santoso, 2018; Bruno, Cornaggia & Krishnan, 2016; Kraub, Pronobis & Zulch, 2014; Choi et al, 2010; Choi, Kim & Zang, 2006;) argue that abnormally high audit fees reflects auditor impairment, questionable auditor-client relationship and an incentive to impair audit independence or objectivity. The case of Arthur Andersen in respect to Enron is a typical example. On the latter group, some other researchers (Chakrabarty,Duellman. & Hyman, 2017; Coulton, Livne, Pettinicchio, & Taylor, 2016; Doogar, Sivadasan and Solomon, 2015; Eshleman and Guo, 2014; Hribar, Kravet & Wilson, 2014) relate it to unobserved extra audit (costs) efforts. On the other hand, the abnormally low audit fees was also argued to reflect client bargaining power (Kraub, Pronobis, & Zulch, 2014), while others (e.g. Blankley, Hurtt, & MacGregor, 2014) relate it to signs of compromised audit efforts.

Empirically, the few prior Nigerian studies on abnormal audit fees have focused on its impact on auditor independence and audit quality (e.g. Dabor & Benjamine, 2017; Oladipupo & Monye-Emina, 2016). Not much is known about its drivers and determinants. Even though a lot of research attention have, before now, focused on the determinants of audit fees, both may not be considered as same as those of abnormal audit fees. Based on the recommendations of Doogar et al (2015:2) that future research should elucidate the factors that drive abnormal audit fees which they termed “a promising avenue for future research”, scholars like Ilaboya, Izevbekhai and Ohiokha (2017) have thus examined the concept and determinants of abnormal audit fees in Nigeria. Until now, to the best of this researcher’s knowledge, only Ilaboya et al (2017) have investigated this topic of study. However, the constructs of their determinants (client size, Big4, profitability, joint audit and leverage) appear to emanate from the perspective of audit effort (the time spent in completing an audit job), and did not cover other constructs that could capture the perspective of auditor–client unobserved economic bonding (such as degree of non-audit service engagement, length of auditor-client relationship, firms' earnings management behaviour, auditors pricing games, clients bargaining power and audit opinion shopping) and other engagement attributes (such as busy season and reporting lag). This creates a gap which further researchers can leverage on.

The broad objective of this paper, therefore, is to review the possible determinants of abnormal audit fees from the perspective of auditor-client unbservered economic bonding and other engagement attributes. The study acts as a sequel to the recommendation of Doogar et al (2015) as well as the recent findings of Liu et al (2018) whose evidence supports the view that high audit fees can equally be affected by reasons other than audit effort. The motivation is drawn from the desire to contribute to the existing contesting views of different scholars (see Lin et al, 2016:4; Ilaboya et al, 2017:66) that the determinants of normal audit fees are likely the same as those of abnormal audit fees. The paper argues otherwise and takes its stand based on the outcome of existing conceptual and empirical studies. It is expected that the outcome of this review will initiate new conceptual framework that would further the enquiries into the drivers and determinants of abnormal audit fees. The rest of the paper is organized as follows: section two looked at the concept of abnormal audit fees and it determinant, while section three looked at a review of prior studies on abnormal audit fee, section four considered a methodological/theortical framework and the possible observation, while section five conclude the study.

2.1 Concept of Abnormal Audit Fees

By the nature of their job, auditors have access to firms accounting details. A rational auditor will, to an extent, possibly incorporate this information into the audit work conducted and the pricing of the audit service. Hence, the fees charged may contain an element of private information about the firm which may not be publicly available to stakeholders. To the extent that audit fees reflect this private information, the fees can either be higher (positive) or lower (negative) than would be ordinarily if the information is publicly available, (Picconi & Reynold, 2013). Choi, Kim and Zang (2006) define abnormal audit fees as the difference between actual audit fees and the expected level of audit fee. They also stated that abnormal fees can be separated into positive and negative abnormal audit fees. Abnormal audit fees have been seen as a measure of over payment or underpayment for the service rendered by the auditor. And also can be defined as the difference between the actual and expected audit fees paid to the auditors (Choi, Kim, & Zang, 2010). In line with the study of Choi et al. (2010), audit fees consist of two parts, the first reflect the normal audit fees level and this are determined by factors common within auditors and clients (audit effort and economic bonding). Dickin, Higgs, and Skants, (2008), are of the view that pricing the normal audit part is as a result of three factors: the first estimate the auditor's effort, the second part look at the personnel and the rank required to carry out the audit and thirdly the audit firm perceived risk and the expected rewards (audit effort). This perceived risk includes the company's industry if their stock is publicly traded and the possibility of failing, while the reward include the reputation of the client or the likelihood of being associated with that client could attract new clients (economic bonding). The second component reflects the abnormal audit fees which are particular to an auditor's clients relationship (economic bonding). Proir studies, (Choi, Kim & Zang, 2010; Dickin, Higgs and Skants, 2008 and Xie, Cai & Ye, 2010), have measured abnormal audit fee as the residual from the regression of total audit fee on a number of variables. And it's expected that this variables control for normal audit fees charged by the auditor for some level of effort and risk in carrying out his audit. This is because, there exists an underpayment or overpayment for audit service rendered, and the sign of residual actually matters. Negative residual represent underpayment, while positive residual represent overpayment.

2.2 Abnormal audit fee determinants

Unlike the studies on the determinants and economic consequences of audit fees, which has received a handful of research interest both in developing and developed countries, related researches on abnormal audit fees are just at the initial stage (Zhang, 2017). It is believed that the increased attention towards the drivers of abnormal audit fees may have been triggered by r the demise of some high profile companies on issues relating to auditors compromising their independence due to excess remunerations, among others (Gellings, 2017). Worthy of note are: Enron (2001), Pacific Gas & Electric (2001), Southern Cal Edison (2001), WorldCom (2002), Global Crossing (2002); and Lehman Brothers (2008). The aftermath of these corporate failures led to several regulatory readjustments (such as the Sarbanes-Oxley Act of 2002) which were geared towards strengthening corporate governance as well as the pattern of engaging and remunerating the auditors.

In extant literature, the components of audit fees and those of abnormal audit fees are often times intertwined. Thus, if loosely articulated, one could conjecture that the determinants of audit fees are same with the determinants of abnormal audit fees. The usual assumption has always been that since both (normal and abnormal audit fees) are borne out of the services of the auditor, they are expected to be the same (Ilaboya et al, 2017). Researchers like Lin et al (2016) equally hypothesized that if abnormal and normal audit fees reflect auditor effort, then the association between abnormal audit fees and audit quality should be the same as the association between normal audit fees and audit quality. Their result eventually went against such assumption and showed evidence that abnormal audit fee is more of an incentive to impair audit quality than audit effort, and that cannot be adjudged to be the incentive of audit fees abinitio. Many other researchers have equally found similar empirical evidence, or have argued in that direction, leading to this coherent contention that the drivers of abnormal audit fees cannot be equated with those of normal audit fees.

For example, researchers like Choi et al (2006); Hapsoro and Santoso (2018) claimed that while normal audit fees are majorly determined by factors that are common across different clients such as client size, client complexity, and client-specific risk; abnormal audit fees are determined by factors that are unique or peculiar to a specific auditor-client relationship. This is so because, while the former reflect the cost of auditors' efforts and litigation risk; the latter are specific to unobservable (economic bonding) relationships between auditors and their clients or can be viewed as 'client-specific quasi-rents' (Choi et al, 2010; Dabor & Benjamine, 2017). Even from the constructs of its measurement, where the residual from the audit fee model is widely accepted as a measure for abnormal audit fees (see Hope, Kang, Thomas, & Yoo, 2009; Choi et al. 2010; and Frankel, Johnson, & Nelson, 2002), it is clear that abnormal audit fees goes beyond unexpected auditor effort, rather, more of excessive auditors rents which most likely harbor opportunistic and compromising incentives. Just like Choi et al. 2010.11) asserts that "abnormal audit fees can better capture economic bonding between auditors and clients". Others (Kraub et al, 2014) also concluded that excess fees reflect auditor impairment by citing the case of Arthur Andersen where excess fees represent compensation for certifying misrepresentative financial statements.

In practice, the reason for audit fees is clear and certain (i.e. as a quasi-rent for audit effort) and it is largely driven by the units of audit resources expended and the auditor's expected future loss arising from the engagement – such as litigation losses and government penalties (Asthana & Boone, 2012). However, the reasons for abnormal audit fees are quite different in the sense that it represents another dimension of auditor engagement that can be fueled by management opportunistic behavioural intents, economic bonding between the auditor and the client (often times leading to high non-audit engagements) or for compensations for unexpected audit effort. Bruno et al (2016) corroborate that excess audit fees reflect more of auditor impairment, as a result of specific auditor-client relationship, than extra efforts. Researchers like Dickins, Higgs and Skants (2008) observed it from another dimension by sampling the opinions of audit practitioners on the specific components of the auditor-client relationship. He found factors like: cooperation and work environment of the client, quality and availability of the client's staff, the ability to rely on internal audit, the tone at the top, a client's attitude about controls and risk, and the reputation of the company. Hence, it could be assumed that the incentives as well as the determinants of audit fees and those of abnormal audit fees can be adjudged as distinctive.

In respect to the constructs, the determinants of abnormal audit fees can broadly be categorized into three, (i) auditor effort category, (ii) the economic ties category contractual; and (iii) other engagement attributes such as busy season and reporting lag. The first category consists of firm-level determinants such as client size (log of total assets), client audit complexity (number of segments, size, accruals, ownership, leverage, internal control), client audit risk (level of leverage, profitability, loss, industry type, fiscal year-end), auditor type (the size of the audit firms) – which are equally the traditional audit fees determinant (Fitriany & Anggraita, 2016; Eshleman & Guo, 2014; Liu, Kong, San & Tsang, 2018). The study conjectures that the second category would consist of variables like: length of audit-client relationship, firms' earnings management behavior, degree of non-audit service engagement, auditors pricing games, clients bargaining power and audit opinion shopping. The next sub-sections attempts to link each of the variables (in the second and third category) with abnormal audit fees. The variables in the first category were intentionally omitted - having being studied by the previous identified study.

2.2.1 Non-audit services and Abnormal audit fee

Non-audit services are professional services rendered by a qualified public accountant during the period of an audit engagement that are not related to the auditing of the companies' financial statements. Over the years, regulators have argued that auditor independence can be compromised when the auditor depend on the amount realize from non-audit fees paid by the client. More so, the provision of non-audit services increases the economic bonding between the auditor and the client. There are also widespread beliefs that auditors might sacrifice independence to retain client who pay a higher amount for non-audit service (DeFond, Raghunandan, & Subramanyam, 2002). The Arthur Anderson–Enron case provides a good example of the Economic Bonding hypothesis - where auditors could trade-off their independence in exchange for retaining clients that pay lucratively for consulting and other non-audit fees. It was specifically reported that prior to their demise in 2001, the actual audit fees paid by Enron was 250% higher than the estimated normal audit fees it would have paid to the auditor (Kinney & Libby, 2002).

Sequel to these developments has seen the emergence of several regulatory provisions in some advanced countries in a bid to restricting many non-audit services in order to strengthen auditor independence. Example of such is the Sarbanes-Oxley Act (SOX) of 2002 which require companies to publish both audit and non-audit fees - for which the non-audit service should not exceed 5% of the total auditor's remuneration. Research-wise, studies (Gellings, 2017; Bruno, Cornaggia & Krishnan, 2016), have also argued that non-audit services determine the extents of abnormal audit fees paid to auditors. Researchers like Vieru and Schadewitz (2010) also corroborate that due to the synergy between audit and non-audit fees, auditors can lower audit fee. This means that audit fee can be either/both abnormally high or abnormally low as a result of non-audit service engagement, depending on the underlying incentive of either the auditor or the client. However, the variable of non-audit fee has not received much attention in most prior audit fees studies, especially in Nigeria. The apparent reason is not far-fetched, considering that majority of the listed companies do not segment their reportage of auditor remuneration to reflect the proportion of the fees paid for other consulting services. Considering that the measurement involves the amount of non-audit services provided to auditee by its auditor (as used by Butterwort & Houghton, 1995), a company must disclose the amount paid for non-audit service for it to be captured.

2.2.2 Auditor switching and abnormal audit fee

According to Wahid, Nazri and Hudaib (2006), one aspect of auditor-client relationship is 'auditor switching behavior'. They argue that since lengthy audit tenure may cause the auditors to develop "over-copy relationships" as well as strong loyalty or emotional relationships with their clients, (which on a long run could impair auditor independence), some countries' professional bodies have devised measures to proscribe auditors from having personal relationship and getting "over familiar" with clients. One of such measures is 'mandatory auditor rotation'. Several countries have thus introduced the maximum number of years by which an auditor must be changed. For example, UK introduced seven years, Malaysia introduced five years, Indonesia have effective mandatory audit firm rotation policy, United States (US) have only mandatory audit partner rotation. Nigeria was reportedly considering a four-year mandatory auditor switching regime but currently has none in place. Fitriany & Anggraita (2016) note that audit market competition between large (Big4) and smaller audit firm countries tends to increase in countries where there is rule for mandatory audit firm rotation. If that be the case, then there is every tendency that it would result to a strong bargaining power of clients in the determination of audit fee, thereby causing negative abnormal audit fees.

The conclusion of most previous studies corroborate the above assumptions. Researchers like Wahid et al (2006) argued that frequent auditor rotation and switching would result in high (abnormal) audit fees because an auditee is likely to bear the auditor-switching costs in familiarizing a new auditor with the accounting and information systems of the auditee. This means that the possibility exists for the incumbent auditor to set a fee above the avoidable cost (including opportunity costs) of doing the audit, without the auditee finding it profitable to change to a new auditor. Kealy, Lee, and Stein (2007) find that clients with lengthy audit tenure paid abnormally higher audit fees than clients with short tenure. The study Scott and Gist (2013), which examined the likelihood that clients pay either abnormally high or low audit fee to new auditors' as a result mandatory rotation, found that mandatory audit firm rotation will have costly effect on the audit pricing of larger audit firms auditor.

On the other hand, some older studies support the position of Fitriany and Anggraita (2016). For example, Turpen (1990) found that audit fees for new auditor engagements were abnormally lower than fees for predecessor auditors, and Ettredge and Greenburg (1990) also found a mean audit fee reduction of 25% after auditor switching. Same as the outcome of Schatzberg (1990) which showed evidence of 'low balling' and the presence of price-cutting on initial engagements as a result of auditor switching. The measurement of the variable of auditor switching usually takes a dichotomous form of 1 if client switched audit firm and 0 if otherwise. Irrespective of a mandatory auditor switching regime, majority of the listed companies periodically switch auditors – majorly for strategic reasons (Fitriany & Anggraita, 2016).

2.2.3 Clients' earnings management behavior and Abnormal audit fee

When client pay an auditor an unusually high fees (abnormal audit fees), the auditor can allow such client engage in opportunistic earning management. This is because, when a client pay an abnormally high audit fees to an auditor, such auditor will acquiesce to client pressure for opportunistic earning management which can outweigh the associated cost (cost like increased litigation risk and loss of reputation). Prior studies (Kinney & Libby, 2002; Choi et al., 2010; Choi et al. 2006; Kraub, Pronobis & Zulch, 2014), also argued that excessive high audit fees is not reflection of audit effort but rather an attempted bribe for the auditor to overlook client questionable opportunistic behavior thereby soothing the engagement to its advantage. Liu, Kong, and Tsang (2018), are also of the view that higher audit fees could result from firm's incentive to become more financially important to its auditor by intentionally overpaying his auditor, thereby increasing the chances that the auditor becomes loyal and allow discretionary reporting actions. And there are different measure of earning management we have the discretionary accruals, the Jones model, modified Jones model, Forward-looking Jones-Model, Performance Adjusted Jones Model, Dechow/Dichev-model, Dechow/Dichev/Mcnichols-Model, Restatement, Accounting Enforcement Findings and Modified Opinion all have been used as a measure of earning management, even audit fees have equally been used as a measure of earning management.

2.2.4 Auditors pricing games and abnormal audit fee

It has been observed that audit and non-audit fees are related due to the pricing games in the accounting firms, because most auditors lower their audit fees for most clients so as to get a foot in the door in order to sell non-audit service (that is to retain or gain new client). Be that as it may, pricing game could lead auditors towards reducing audit fees so as to increase that non-audit service fees. Therefore, we assume that pricing game is a determinant factor of abnormally high audit fees. And more so the variable of Auditor pricing game have posed difficulty in measurement.

2.2.5 Clients bargaining power and abnormal audit fee

An auditor possible explanation is that the auditor's engagement and the fees payment depend on the company. Positive audit fees reflect weaker bargaining power of the client, while Negative audit fee reflect stronger bargaining power of client, while lower audit fees may compel auditors to reduce his/her audit effort, control audit cost to achieve certain profit target. We can say that audit fees may be given below normal levels (abnormally low audit fees) when companies have stronger bargaining power. This is consistent with the view of Asthana and Bonne (2012), that abnormal audit fees can be associated with both client bargaining power and economic bonding. Casterella et al. (2004), is also of the opinion that negative abnormal audit fees is associated with proxies for client bargaining power and audit fees earned by industry specialists. Their study suggest that, below normal audit fees (abnormally low or negative audit fees) may reflect billing concessions granted by auditor due to client bargaining power and measured client bargaining power using the percentile rank of bargaining power, defined as the natural log of the firm's sales (revenue) divided by the sum of the natural log of sales (revenue) for all firms audited by the company's auditor for each industry (Eshleman & Guo, 2014).

2.2.7 Busy season and abnormal audit fee

This is the period that corresponds to the time when most companies have their financial year end. And at this period, the demand for audit service is very high. This season follow between January and February. More so, if an audit is perform, this mean that the audit staff will have to do more work, overtime and this can attract more cost to the client. It's also possible that auditors may issue discount for client that have their audit perform outside the busy season to attract a low cost for the client. This can aid client to better distribute the workload over the years. And auditor busy season has been measure as a dummy variable, which is one when an audit is perform during the busy season and otherwise zero (Hay et al., 2006).

2.2.8 Reporting lag and abnormal audit fee

The most important among this variable is the reporting lag. This is the elapsed time between the balance sheet (statement of financial position) date and the date of issuance of the audit report. The larger the reporting lag, which show that there is an indication of little or more problem during the audit as a result of the delay, which can result to difficulties in resolving some issues or an indication of a more complex financial report. Knechel and Payne (2001), observe a positive and significant relationship between audit fees and reporting lag. And therefore we expect reporting lag to have an influence on abnormal audit due to the fact that this period can attract the auditor to charge excess fee. And measured by the number of days from the financial year end to the date of signing of the audit report

3.Review of Prior Studies on Abnormal Audit fees

Hapsoro and Santoso (2018), examined the moderating effect of auditors tenure, abnormal audit fee and reputation of the auditor on going concern opinion in the Indonesia Stock Exchange for the period between 2012 to 2015. The result of the study shows that, auditor tenure, auditor reputation have a positive and significant effect on audit quality, while abnormal audit fees has a negative effect to audit quality, and finally audit quality is said to have a negative effect on a giving going concern opinion. Which show that the condition of any companies does not moderate the effect of audit quality on a giving going concern opinion but the extent of the client bargaining power can influence the auditors opinion. Dabor and Benjamine (2017), examined the moderating effect of client characteristic on the association between abnormal audit fee and audit quality, using a sample of fifty-two companies quoted on the Nigeria Stock Exchange for the year 2001-2015, the study reveal that abnormal audit fees has no significant impact on audit quality. The study also show that those moderating client characteristic has no significant effect on abnormal audit fees and audit quality. Ilaboya, Izevbekhai and Ohiokha (2017), investigated the determinant of abnormal audit fee in Nigerian quoted companies, with emphasis on manufacturing firms as at December 2014, using a sample of 56 quoted companies. The result shows that some variables are positively significant, while other are negatively significant and others are positive but not significant. We also observe in the study that the firms who patronize the service of the Big 4 audit firm seems to pay an abnormally high audit fee.

Soedaryono, (2017), explored the relationship between abnormal audit fees and audit quality in the pre and post IFRS regime in the automobile and transport sectors of listed firms in Indonesia for the period between 2011 to 2015, and found that in the pre IFRS regime the relationship is insignificant, while in the post IFRS the relationship is positive and significant. We observe that in the study audit quality was measured using discretionary accrual, which shows that IFRS enable client to engage more discretion in the choice of discretionary accruals and this will encourage auditors to charge abnormally higher fees in return for such client (economic bonding theory).

Blankley, Hurtt and MacGregor, (2012), ascertain the impact of abnormal audit fees on future restatement. They found that there is negative relationship between abnormal audit fees and future restatement. Which shows that lower audit fee have a way of increasing future restatement when the client have stronger bargaining power. This means that the relationship has a key implication for auditors in terms of the scope of the audit work (including, planning, pricing and how to retain client, which represent audit effort).

Asthana and Boone, (2012), also explore the relationship between abnormal audit fee and audit quality, for the period between 2000 to 2009 in the United State. They observe that audit quality, proxied by complete discretionary accruals and meeting or beating analysts' earnings forecasts, decline as negative abnormal audit fees enhance in size, with the effect augmented as proxies for client bargaining power increase. And concluded that this effect is dampened in years before the Sarbanes-Oxley Act (SOX), which suggest that SOX was helpful in enhancing auditor independence. And shows that before the Sarbanes-Oxley Act (SOX), the economic bonding theory was not as strong as it is now after the act.

Boeijink, (2011), ascertain the association between excess auditor's remuneration and auditor's qualification among listed firm from thirteen (13) listed country between 2006 to 2008. The result shows that excess auditor's remuneration is positively associated with audit quality. The study also show that the possible cost of litigation and possible loss of reputation can offset the likely advantage of compromising the independence of the auditor.

Xie, Cai and Ye, (2010), explore the association between abnormal audit fees and audit opinion in the china's capital market in 2010, using a sample of 7,028 firm for the year, they first of all try to group firms in the china's market on their bases of change in return on assets and the result show that abnormal audit fees improve audit opinions only in firm that local auditors rendered service to and at the same time experience low degree of return on assets but report a higher return on assets, that is when return on asset change result to abnormal accruals. Meaning that, client can pay an abnormally high audit fee to influence the audit opinion.

Choi, Kim and Zang (2006), explored the association between audit quality and abnormal audit fees. They also proxied audit quality using discretionary accrual and they considered abnormal audit fees as the difference between normal fee and auditor expected normal fees. The result shows that the association between abnormal audit fee and audit quality is insignificant for the full sample. And also shows a positively significant result for a sub-sample of client with positive abnormal audit fee and insignificant for client with negative abnormal audit fees. Which suggest that the incentives needed by the auditor to compromise audit quality differs, depending on whether the clients pay a higher or lower audit fees, these in turn lead to audit fees and audit quality association being conditioned by the sign of abnormal audit fees. And finally, that factors that determine a client paying an abnormally high audit fees goes beyond audit effort.

4. Methodology and Theoretical Framework

The paper takes a critical literature review design. It involves assessing the position and direction of previous researches with a view to identifying new areas for further studies. The paper relied majorly on fourty-five (45) published articles sourced from reputable accounting and auditing e-Journals. The paper is anchored on contracting theory. This theory study how people and corporations develop legal agreements in situation with uncertain conditions, unknown factors and information asymmetry. This theory specify the responsibility and requirements of both parties. This theory suggests that a client is seen as a nexus of contracts. According to Coase (1937), the contract is one whereby the factor, for a certain remuneration (which may be fixed or fluctuating), agrees to obey the directions of a client. And looked at the contract as the factor providers (claim-holder) who gives control of the resources in return for a pay-off from the firm in a future period. The responsibility of the auditor is to examine the information provided by the client to determine if the information reflects the true position of the company. At the point of engagement the auditor developed programs that can help him render the service efficiently. Therefore, during the initial stage of the audit, an incoming auditor's systems and procedures may not be perfectly adapted to the task of monitoring the claim holders' ex-ante contracts. Consequently, the client is likely to bear auditor-switching costs in familiarising the new auditor with the accounting and information systems of the client. As a result, such client may not costlessly change auditors to avoid switching cost, but one benefit of auditor change is that the new auditor may offer price cut for initial audit and retain client or attract non-audit service. This has a key implication for the independence of the auditor. Which means that there is every possibility that the incumbent auditor will set a fee above the avoidable cost (including opportunity costs) of doing the audit, without the client finding it profitable to change to new auditor, if such client does not have stronger bargaining power and therefore try to be economically bonded to the auditor to allow some unquestionable accounting practice. That means, such an auditor is able to earn quasi-rents for the service rendered when the client bargaining power is low (De Angelo, 1981). As has been argued that, quasi-rents may lead to the practice by potential auditors of low-balling, the setting of initial audit fees below total audit costs (abnormally low audit fees) (De Angelo, 1981), to attract new client and the fees (including quasi-rents) that may flow from the non-audit service (Butterwort & Houghton, 1995).

4.1 Discussion of the Observations

As observed from the review of existing related studies on abnormal audit fees, it is apparent that none of the existing empirical studies to the best of the researcher's knowledge, except for the study of Ilaboya et al (2017), examined the determinant of abnormal audit fees. A critical examination of the direction of this major existing study revealed its focus on one dimension of the existing school of thought concerning the drivers of abnormal audit fees. The five possible determinants of abnormal audit fees tested in the study (i.e. client size, Big4, profitability, joint audit and leverage) can all be related to extra audit efforts. However, having conceptualized and discussed the other variables that could conform to those other school of thoughts, another issue observed is that of their measurements.

Among all the variables identified to be evaluated as possible determinants of abnormal audit fees, not all have been tested empirically. To this extent, we observed that the issue of measurement can pose a great challenge in testing such variables in future studies, especially in the Nigerian context. As earlier noted in sub-section 2.2 that majority of the listed companies do not segment their disclosure of auditor remuneration to reflect the proportion of the fees paid for non-audit services, a current evaluation by the researcher reveals that majority of the companies have commenced the disclosure of non-audit fees. This appears to have settled the issue of capturing and measuring non-audit fees. The other variables of concern include: i) client bargaining power; and ii) Auditors pricing games. On the former, the study of Kraub et al (2014) attested to the difficulty in measuring client bargaining power directly. However, they later conjectured, in line with previous audit research studies (e.g. Asthana and Boone 2012; Eshleman and Guo 2013), that 'audit fee discounts' (i.e. abnormally low audit fees) are directly linked with the clients' ability to exercise bargaining power. Thus, negative residual value from the traditional audit fee model (i.e. abnormally low audit fees) can be deployed to reflect both client bargaining power and same can also apply for auditors pricing games.

Another observation is the introduction of International Financial Reporting Standard (IFRS), it was observe that, the introduction of IFRS have made financial statement more complex and so auditors need to put in extra effort to carry out their audit assigment and also charge an abnormally high audit fees from their client, and this is consistent with the study of Soedaryono, (2017), who found that, prior to IFRS there was no significant association between IFRS and abnormal audit fee but significant association exist after the introduction of IFRS. Therefor the variable of IFRS can also be tested in the Nigeria contest.

Flowing from the above, the conceptual framework presented in Figure 1 was developed by the researcher in order to incorporate the identified variables which are being projected as possible determinants of abnormal audit fees – majorly from the dimension of auditor-client relationship.

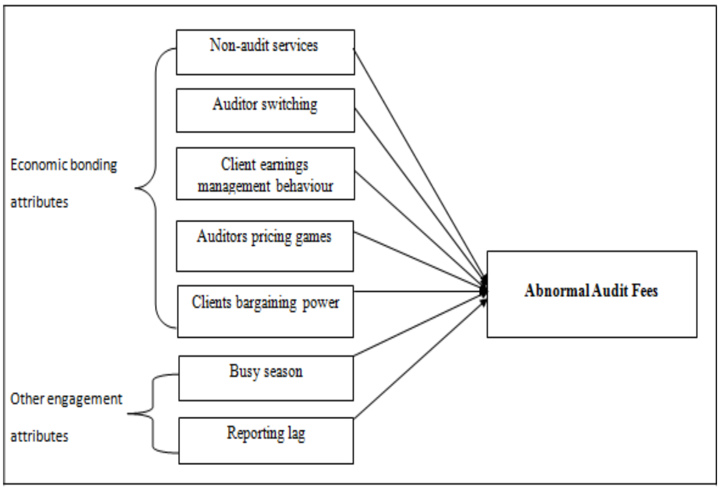

Figure 1: Proposed Framework of the Proposed Abnormal Audit Fee Determinants

5. Conclusion and Recommendation

The issue investigated in this paper is a conceptualisation of the determinants of abnormal audit fees from the dimension of the auditor-client relationship – based on the economic bonding school of thought. In a variety of literature reviewed, the outcome suggests that theoretically, variations in abnormal audit fee could be explained by both variables related to audit effort and those linked with auditor-client economic ties. There is also another dimension of variables related to auditor engagement attributes, such as busy season and reporting lag. While majority of these variables in prior studies (Chakrabarty, Duellman & Hyman, 2017; Coulton, Livne, Pettinicchio, & Taylor, 2016; Doogar, Sivadasan and Solomon, 2015; Eshleman and Guo, 2014; Hribar, Kravet & Wilson, 2014) , especially those in the audit effort school of thoughts, are among the traditional audit fee determinants and have been largely tested in that capacity and recently as possible determinants of abnormal audit fees in Ilaboya et al (2017). Despite the insignificant nature of some of these variables (such as joint audit, profitability and leverage) in the aforementioned study, this paper conjectures that the drivers of abnormal audit fees are more as a result of auditor-client bonding than extra audit effort. However, there is little or no empirical evidence to either validate or refute such assumption. As an avenue for further studies, the paper recommends an empirical evaluation of the framework developed in this paper.

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