



Impact of Audit Fee Paid to Accounting Firm on Financial Reporting Quality of Listed Insurance Companies in Nigerian

¹SAIDU, Sani Alhaji and ²DANJUMA, Mohammed (PhD)

^{1&2}Accounting Department, Adamawa State University, Mubi

Sanisaidu1987@gmail.com and mohammed509@adsu.edu.ng

ABSTRACT

This study examined the impact of audit fee paid to accounting firms on financial reporting quality of listed insurance companies in Nigeria. The data for the study was collected from annual report and accounts of the thirteen (13) sampled insurance companies out of thirty three (32) listed on the Nigerian Stock Exchange for the period of eight (8) years (2008 to 2015). Empirical analyses were carried out using Pearson correlation and multiple regressions (Ordinary Least Square). The findings from the analysis showed that audit fee paid to accounting firm has positive and significant impact on financial reporting quality with the co-efficient of 0.10224. Base on the findings, the study concludes that the higher the audit fee paid to the accounting firm the better the quality of financial statement audited by such accounting firms. The study therefore, recommends that accounting firms should put more effort in performing their legitimate responsibility in such a way that the firms should give credible opinion on the financial statements of the audited companies so that users will have confidence in the report prepared and this will further straighten the quality of financial statement.

Key words: Audit fee, accounting firms, financial reporting, quality

INTRODUCTION

Auditors are statutorily required by law to audit the financial statements to enhance reliability. This is necessary to minimize conflict of interest between managers on one side, and shareholders. Regulators in several important jurisdictions, including Europe and the U.S., are considering rules that limit auditors' liability because of the concerns about how the audit market would respond to the closure of major firms after the collapse of Enron. However, delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management increases the information unevenness and the uncertainty in investment decisions (Mohamad & Nassir 2010). The principal-audit relationship between shareholders and management is one of the many adduced reasons for engaging the services of external auditors in order to add credibility to the report provided by management and this will increase confidence of the shareholders in the financial reporting of such firms.

Financial reporting is the means of communicating information on the activities of the company to the users of accounting information; and the quality of financial reporting is a function of the quality of accounting standards and the corresponding regulatory enforcement of the standards (Samaila, 2014). Financial reporting quality can be influenced by three variables namely, standard setters' decision; accounting method used by management; and management judgment and estimates in applying the selected substitutes (Kantudu, 2005). Therefore, enforcement is an important mechanism of enhancing financial reporting quality whose absence will make the best accounting standards incapable of providing credible and reliable accounting information to various users (Barde, 2009).



The quality of financial reporting has been an issue of interest among regulatory bodies, shareholders, researchers and the accounting profession itself (Hassan, 2012). This is due to the fact that financial reporting has always been a principal means of communicating financial information to outside users which serve as the basis for assessing the economic performance and financial health of a firm in the quest to monitor management's actions, as well as to be used in taking informed judgments and decisions.

As a response to the need of high quality financial reporting frameworks of International Accounting Standard Board (IASB) and Financial Accounting Standard Board (FASB) issued an exposure draft titled "An improved conceptual framework for financial reporting" in 2008. According to IASB's conceptual framework a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information which comprise of relevance, faithful representation, understandability, comparability, verifiability and timeliness (IASB 2008). This will go a long way in ensuring the quality of financial reporting especially for Insurance companies.

Insurance industry is generally seen as the backbone of any country's risk management system especially in countries like Nigeria, since it ensures financial security, serves as an important component in the financial intermediation chain, and offers a ready source of long term capital for infrastructural projects. Badejo (1998) argues that the insurance industry "mitigates the impacts of risks and positively correlates to growth as entrepreneurs cover their exposures, otherwise risk-taking abilities are hampered". Insurance also promotes the growth of small and large firms as it provides economic stability.

Insurance companies practice would affect economic growth through the channels of marginal productivity of capital, protection, and technological innovations and savings rate. Insurance companies indemnify the ones who suffer a loss and stabilize the financial position of individuals and firms with possibility of transfer of different kinds of risks (Richard & Victor, 2013). However, Nigerians have a negative attitude toward insurance companies which accounted largely for the low patronage of insurance business as this can be attributed to the standard of living, religion and other demographic factors because people living below poverty line are high and per capital income is low as such insurance penetration is bound to be low (Ujunwa & Modebe, 2011). Thus, the foregoing suggests that there might be disparity between the common behavioural response to insurance offerings and strategies, and what obtains in Nigerian business environment. This coupled with recapitalization in 2005/2006 which led to the merger and acquisition of many insurance companies that aimed at increasing the efficiency of the sector and this affected the number of insurance companies by declining from 104 to 29 as at 2009 and later increased to 32 in 2015 (Ujunwa & Modebe, 2011).

The financial reporting quality and its disclosures serve as a basis for determining the level of usefulness and reliance by users to make judgmental business and investment decisions. The quality, completeness, usefulness and reliability of financial reports are geared towards strict adherence to Statutory Laws and Standards in the preparation, formatting and presentation of such financial reports which can be achieved through having accounts audited by an external auditor. However, little was known about the what triggers audit quality especially after the collapse of giant multinational companies both at international and National level such as WorldCom, Enron, Tyco International, Xerox and Wal. Mart stores Holdmark Inc, Pharmalet Plc and the Cadbury Schweppes Confectionary due to audit failures in Waste Management's audit reports by Arthur Andersen in 2002. The issue has raised a lot of questions on the audit work and the quality of financial reporting produced by many organizations especially the financial sector of an economy. Base on the foregoing therefore, there is a need to examine the impact of Audit fee paid to



accounting firm on the financial reporting quality of listed Insurance companies in Nigeria for a period of eight years (2008 to 2015) which covers the period after consolidation and recapitalization in the insurance companies.

LITERATURE REVIEW

External auditing plays an important role in bridging the effectiveness and efficient functioning of business environment by adding credibility to financial statements such assurance is needed to stakeholders of the company (Shareholders, tax authorities, banks, regulators, suppliers, customers and employees). Lee & Ali, 2008 posit that the objective and techniques of auditors have changed significantly over time and can be divided into several phases. Chen and Zhou (2011) as cited from Becker *et al.* (1998) said that “auditing is a form of monitoring that constrains managerial reporting discretion and therefore reduces information risk.” Hence, the quality of auditing is the quality of reporting direction and information risk reduction.

The need for audit began from the monitoring the role of auditor in the relationship between agents and principals as the role of auditor is expected to suppress conflicting interests in moral hazard issues. When there is a conflict of interest between the principal and the agent where the agent is unable to perform in the principal's interest, then to avoid or minimize differences from the agent's interest the principal would establish a monitoring system. One of the monitoring mechanism is audit report, which help decrease information asymmetry and protect the interest of the principal, especially existing shareholders and potential shareholders, by providing assurance under the reasoning that the financial reports presented by the management is free from material misstatement (Watts and Zimmerman, 1986). The audit firm that perform this role and who are legitimate organization that is responsible with the provision of audit services have an attached charges to those services rendered.

The amounts of fees charged by the audit firm for an audit process performed is based on the time spend, the service required, and the number of staff involved in the audit process (El-Gammal, 2012). According to the International Standards on Auditing, an audit fee is viewed as the amount that compensates the financial auditor's activities and qualifications of financial statements (Chersan 2012). The Audit Fee Model is the main theoretical foundation in examining the factors that influence the external audit pricing (Al-Harshani, 2008). The analysis of audit fees volatility requires the need of Audit Fee Model to determine the audit fees level with the presence of International Financial Reporting Standard (Griffin, Lont & Sun, 2009). The Audit Fee Model has been extensively used in different research areas such as investigating the audit fee premium with the effect of Sarbanes-Oxley Act 2002.

Where economic bonding exists between auditors and their clients, there is likelihood that the auditors may compromise their professional independence and the audit quality may suffer abnormal audit fee, which could be under payment (lower audit fee) or over payment (or higher audit fee) and this can cause auditors to compromise their independence and impair audit activities which will further effect on financial reporting quality (Xie *et al.*, 2010). Where the audit fee is exceptionally high (that is, positive abnormal audit fee) the investors would perceive the auditors to be economically bonded to their clients and therefore doubt the credibility of the auditor independence and the quality of the audited financial statements (Hope *et al.*, 2009). On the other hand, where the auditors charge lower audit fees (negative or abnormal audit fees) in anticipation of high audit fees in future the auditors may be vulnerable to client pressure for allowing opportunistic earnings management (Gupta *et al.*, 2009). Whichever way, abnormal audit fee (positive or negative) has way of affecting audit quality together with that of financial statements.



Abnormal audit fee on the other hand is the tendency of an auditor to charge either below or above the normal or average audit fee that would have been charged in the course of audit engagement. It is a measure of audit effort required in an audit engagement. Abnormal audit fee is the difference between actual audit fee, expected and normal level of audit fee (Choi *et al.*, 2010). Abnormal audit fee is often estimated as the residual of the total audit fees using regression technique (Picconi & Reynold, 2013) or finding the difference between the actual audit fee and the average audit fee for the industry (Kim *et al.*, 2005). When the audit fee is higher than the average or normal audit fee, it is positive abnormal audit fee. It is a negative abnormal audit fee if the audit fee is lower than the normal or average audit fee or what the auditor would have charged in the ordinary course of engagement.

Accounting firms do also provide non-audit services jointly with audit service which create a potential perception that auditors might compromise their independence in order to maintain their clients and the respective income (Haniffa *et al.*, 2011; Hay *et al.*, 2006). Although the belief that non-audit services damage the auditor's independence exists, Hay (2006) found no evidence that audit fees and fees for nonaudit services are jointly determined.

Moutinho *et al.* (2012), Martinez *et al.* (2014) and Stanley (2011) showed a significantly influence of spending on audit services in the firm performance. Moutinho *et al.* (2012) developed a model to test this relationship, using a sample of 6000 observations of listed companies and verified a negative relationship between these subjects. On the other hand, Martinez *et al.* (2014) made the distinction between audit and non-audit fees to connect them with a firm value measure and concluded that when the companies spend more in the audit services the performance increases. In contrast, Stanley (2011) provides evidence of an inverse relationship between unexplained audit fees and operating performance.

Authors argue that providing non-audit services jointly with audit services could compromise the auditor's independence in order to maintain their clients (Haniffa *et al.*, 2011; Hay *et al.*, 2006). In other words, the dependency can lead auditors to be less willing to stand up to customers' pressure to keep customers who pay big non-audit fees. Accordingly, there is documentation that the independence of auditors for audit and non-audit activities is related to the performance of firms, which in turn, influences firm value (Hay *et al.* 2006; Martinez *et al.* 2014). In this context, Martinez *et al.* (2014) provided evidence that high relative spending on non-audit services by the independent auditor has a strongly negative effect on stock price. Stanley also finds a significant inverse relation between audit fees and the one-year-ahead change in a measure of clients' operating performance.

Researchers choose to concentrate on the different aspects of nexus between audit quality and audit fees, and thus adopt dissimilar proxies in the process. Besides, Yasina and Nelson (2012) has adopted external audit fee to proxy audit quality. They point out that, a higher amount of audit fees indicates that auditors provide more efficient audit services to the firm compared to lower audit fees, in consistent with the studies above this study utilizes audit fee paid to the accounting firms as a proxy of measuring reputation of accounting firms. The efficient audit service will serve the bases of ensuring the credibility of the published financial report of those companies.

Financial reporting will report financial information about how a company is performing (Drake & Dingler, 2001). Financial reporting is a means to an end which its ultimate outcome is to improve the decision making (Williams, Haka, Bettner, & Carcello, 2010). Financial reporting is considered as a lens to see the whole business (Williams *et al.*, 2010).



In Nigeria, though corporate financial reporting is primarily guided by the provisions of accounting standards issued by the Nigerian Accounting Standards Board-NASB now the Financial Reporting Council of Nigeria-FRCN (Dandago, 2009), pronouncements by professional accounting bodies (ICAN and ANAN) and requirements of statutes such as CAMA, SEC, CBN, among others are largely expected to be complied with in financial reporting (Idigbe, 2007; Asada, 2010 and Fowokan, 2011).

Reporting is one way of demonstrating the accountability and transparency of a company. The annual report is the means of communication between companies and outside parties, particularly on current activities to the user of financial information in making decision (Samaila, 2014). According to Barde (2009), financial reporting entails disseminating accounting information to furnish current and potential users to enable them assess financial position and cash flow potentials of the firm. The objective of financial reporting is to provide financial information on the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers, as a result, the information that is considered high quality can decrease the agency cost problem by means of closing the information asymmetry gap that occurs between shareholders and management (Karamanou & Vafeas, 2005). The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (IASB, 2008; & FASB, 1999). Therefore, providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decision and enhancing overall efficiency (IASB 2008, Beest, Braam, & Boelens (2009).

The International Federation of Accountants (2002) as cited in Barde (2009) attributed financial reporting credibility problems to factors such as managerial incentives, company internal controls, oversight of management by boards of directors, absence of auditor independence, auditors work in relation to fraud, the adequacy and effectiveness of accounting standards, poor financial reporting regulations, unethical behavior of participants in the financial information supply chain (such as management, auditors, lawyers, investment analysts). The aforementioned factors make users to lose confidence in the financial report prepared by the management and certified by the auditor which consequently reduces the informational value of companies. Furthermore, Teets (2002) as cited in Alzoubi (2012) argued that financial reporting quality is influenced by three decisions namely the standard setters, accounting method used as chosen by management; and finally management judgment and estimates in applying the selected substitutes.

Basu (1997) takes another approach and measure the timeliness in financial reporting. He measures timeliness as a reverse earning coefficient regression, ERC model that is, to which extent positive and negative contemporaneous return is incorporated into earnings. Risberg (2005) suggest that informational quality in financial reporting in term of number of items disclosed and the timeliness of the economic income recognition are linked to investors' protection provided by a countries legal institutions and equity market.

Bushman, Chen, Engel and Smith (2000) discovered that the informational content of financial reports varies across different GAAP regimes. The reasons for the variation is that financial reporting can be determined by jurisdictional, institutional and legal cross-country differences or endogenously by firm specific corporate governance structure. Although one should expect that better corporate governance leads to improved financial reporting quality. In 2002, the IASB and the FASB showed their commitment towards developing a common set of high-quality accounting standards, which could be used worldwide. As a consequence of the joint project to converge the



more principles-based IFRS and the more rules-based US GAAP, both boards agreed to develop new joint Conceptual Framework, which includes the objectives of financial reporting and the underlying qualitative characteristics on which accounting standards ought to be based. In May 2008, the FASB and the IASB therefore published an exposure draft of 'An improved Conceptual Framework for Financial Reporting (IASB, 2008; FASB, 2008). This Conceptual Framework represents the foundations of the accounting standards.

According to the Framework providing decision-useful information is the primary objective of financial reporting. Decision-useful information is defined as "information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers" (IASB, 2008). In line with the Framework and recent literature, we define financial reporting quality in terms of decision usefulness (Beuselinck & Manigart, 2007; Jonas & Blanchet, 2000). Jonas and Blanchet (2000) describe two general perspectives that are widely used in the assessment of financial reporting quality. The first perspective relies on the needs of users. Under this perspective, quality of financial reporting is determined on the basis of the usefulness of the financial information to its users, (Baxter 2007). The second perspective of financial reporting quality is focused on the notion of shareholder/investor protection.

Cohen *et al.* (2004) explain that the notion of financial reporting quality remains a vague concept. Financial reporting is another term for financial accounting (Anthony, Hawkins and Merchant 2011). In order to achieve a high quality of financial reporting, the acceptable accounting methods, the amount and types of information to disclose, and the format in which to present it are chosen depend on which alternative provides the most useful information for decision-making purposes (decision-usefulness) (Kieso, Weygandt & Warfield (2014). Regardless of the classification, each qualitative characteristic contributes to the decision-usefulness of financial reporting information (Kieso *et al.*, 2014). Characteristics that make information useful are relevance, reliability, completeness, timeliness, understandability, and verifiability (Azmi & Mulyani 2015).

Mackenzie Coetsee, Njikizama, Chamboko Colyvas and Hanekom (2012) state that qualitative characteristics consist of fundamental and enhancing characteristics, where fundamental qualities encompass relevance and faithful representation, while enhancing qualities encompass comparability, verifiability, timeliness, and understandability. Beyersdoff, Bonham, Chan, Covic, Curtis, Danmola and Davis (2013) also explain that fundamental and enhancing qualities are the most valuable information for capital providers. The qualities that make accounting information useful have been designated its "qualitative characteristics" These characteristics are the attributes that make information useful to users (Gaffikin, 2008). Subramanyam and Wild (2009) call these characteristics as desirable qualities of accounting information. Information with criteria such as relevant, reliable, completeness, timeliness, understandable, verifiable, and accessible is classified as high quality information (Sri Mulyani, 2009).

The usefulness of this high quality information depends on the user (Sri Mulyani, 2009). To assess the quality of financial reporting, various measurement methods have been used in prior literature to assess financial reporting quality among the measurement are accrual models, value relevance models, research focusing on specific elements in the annual report, and methods operationalizing the qualitative characteristics.

The qualitative characteristics methods aim at assessing the quality of different dimensions of information simultaneously to determine the decision usefulness of financial reporting information. Jonas and Blanchet (2000), Lee Strong, Kahn and Wang (2002) and McDaniel, Martin, and Maines (2002) develop questions referring to the separate qualitative characteristics in order to assess



information quality. Although their research indicates that qualitative characteristics can be made operational, their operationalizations are based on the current frameworks of the FASB (1980) and the IASB (1989) rather than on the new reporting Framework (2008). Therefore, some inconsistencies compared to the framework may exist. In addition, some of these operationalizations are not complete and focus solely on relevance and faithful representation (McDaniel *et al.*, 2002). Although understandability, comparability, and timeliness are perceived to be less important than relevance and faithful representation, for a comprehensive assessment it remains important to include them in the analysis Beest *et al* (2009). In addition, the complete annual report has to be taken into account since financial reporting refers to both financial and non-financial information.

The qualitative characteristics methods is aimed at assessing the quality of different dimension simultaneously to determine the decision usefulness of financial reporting which focus on relevance, faithful representation, understandability, comparability, and timeliness. Although understandability, comparability, and timeliness are perceived to be less important than relevance and faithful representation, for a comprehensive assessment, it remains important to include them in the analysis (Barth, *et al* 2001 & Beest, *et al.*, 2009). Based on the above, the complete annual report has to be taken into account since financial reporting comprises of both financial and non-financial information. The application of objectives and qualitative characteristics should lead to high-quality accounting standards, which in turn should lead to high-quality financial reporting information that is useful for decision making” (FASB, 1999; IASB, 2008). Furthermore, the conceptual framework ought to contribute to decision making of constituents, when transactions or events occur for which no accounting standards are available.

This study uses the last approach by operationalizing qualitative characteristics both fundamental and enhancing qualities in consistent with (Beest, Braam, & Boelens, 2009). The fundamental qualitative characteristics (*i.e.* relevance and faithful representation) are most important and determine the content of financial reporting information (Beest *et al.*, 2009). The enhancing qualitative characteristics (*i.e.* understandability, comparability, verifiability, and timeliness) can improve decision usefulness when the fundamental qualitative which include characteristics are established (Beest *et al.*, 2009).

Empirical Review

This subsection covers the review of related literatures on auditors’ reputation and financial reporting quality with the aim of establishing the literature gap.

Stice (1991), Lys and Watts (1994) and Krishnan (1994) recognize that the higher audit fee is likely to be a good qualification for evaluating the firms. In other words, the concern about undermining the independence of auditors by audit fees will turn out empirically. Mutchler *et al.* (1997) find the universal evidence that big four auditors tend to give going concern opinion to companies that face financial distress rather than non-big four auditors. Auditor with big scale can provide better audit quality compared to auditor with small scale, including giving their opinion on going concern.

Lennox (1999) and Craswell (1999) found no significant association between non-audit fees and audit opinions in the UK and Australia respectively, where non-audit services are not banned. According to Rho (2009), such unlawful or at least unethical audits were at issue as well for a long time in Korea. Korea adopted a mandatory audit rotation regime in 2003, since a possible collusion resulting from long term auditor-client relationship could affect auditor independence and therefore audit quality by avoiding accounting scandals.



Maijor and Vanstraelen (2006) study the effect of audit environment, audit firm quality and presence in international capital markets. They found that a stricter audit environment reduces the magnitude of earning management, irrespective of the type of auditor, and no evidence of an international Big Euro audit quality effect in Europe. Boeijink (2011) explored the impact of excess auditor remuneration (abnormal audit fees) on audit quality in 13 countries around the world between 2004 and 2008 using a sample of 2767 firms. The study showed no significant association between abnormal audit fee and audit quality.

Ussahawanitchakit (2011) found that audit experience, audit independence and audit professionalism has the potential to have positive impact on audit performance and audit quality. Tangpinyoputikhun and Thammavinyu (2010) study the effects of professional knowledge and personal ethics towards sustainable reputation through audit quality. Professional knowledge directly affects audit quality, personal ethics is a complement that has a bigger effect on audit quality. Audit quality study in Indonesia generally use the size of Big four accounting firm (Herusetya, 2012), industry specializations (Mayangsari, 2004 & Herusetya, 2009), or audit tenure (Pujilestari & Herusetya, 2013 and Siregar et al., 2011). Francis and Yu (2009) find that big auditors more likely give going concern opinion on audited reports, and the clients of big 4 auditors are proved to have less aggressive profit management.

Asthana and Boone (2012) hypothesized that below-normal audit fees, proxies for client bargaining power, ultimately may influence audit quality, proxied by absolute discretionary accruals. The study showed that audit quality declined as negative abnormal audit fees increase in magnitude. Skinner and Srinivasan (2012), found that "Firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid the capital market consequences of potentially unreliable financial reporting". In such sense, a firm with good reputation is more likely motivated to maintain skilled auditors to further maintain reputation.

Zhang (2014) analysed the relationship between abnormal audit fee and audit quality in a sample of 2126 Chinese manufacturing listed companies from the year 2010 to 2013. The results showed that the positive abnormal audit fee damaged the audit quality as the quality of audit decreased due to the increase of the positive abnormal audit fee.

Krauh *et al.* (2015) examined abnormal audit fees and audit quality in German audit market between 2004 and 2010 using a sample of 841 firms listed on the Frankfurt Stock Exchange. They observed that positive abnormal audit fees are negatively associated with audit quality whereas negative abnormal audit fees have an insignificant or at best, statistically weak positive effect on audit quality. They opined that audit fees premium can lead the auditor to compromise independence and economic bonding whereas audit fees discount can either impair independence or reduce audit efforts.

Junaidi1, *et al* (2015) Studies the effects of auditor reputation, financial condition, and potential intensive economy on artificial auditor rotation in Indonesia. The research uses sample of companies listed in Indonesia Stock Exchange in 2002-2011, by purposive sampling technique. The analysis of the research was done using logistic regression. The results show that auditor reputation affects auditor rotation. Yet, company's financial condition and potential incentive economy do not affect auditor rotation. This research is expected to deepen the concept of audit quality, whereas in practice it is expected to provide inputs for regulating auditor rotation. Auditors are expected to show real auditor rotation.

Fiitriany *et al.* (2016) examined the association between abnormal audit fee and audit quality in Indonesian with high audit market competition and strong client bargaining power because of



regulation on mandatory audit firm rotation. The study revealed that positive abnormal audit fees are negatively associated with audit quality and an indication of compromised auditor independence due to auditor-client economic bonding. However, negative abnormal audit fee could increase audit quality due to the mandatory audit firm rotation and high audit market competition in Indonesia.

Santos, Cerqueira and Brandão, (2016) examines whether audit and non-audit fees are associated with firm performance, in the non-financial firms industries for the period from 2002 to 2014. The study found a significant negative relationship between corporate performance and audit fees. This suggests that the increase (decrease) in corporate performance is related to the decrease (increase) in non-audit fees. The results add to the growing body of literature documenting relations between firm performance and remuneration of audit services, as well as the understanding of the determinants of corporate performance. The study also highlights the possible matter of providing non-audit services jointly with audit services, confine the functions of an auditor and consequently compromise the independence, that ultimately decrease the firm performance.

The study of Zhang, (2016) also examined the relationship between corruption and audit fee premium under the background of China's special institutional environment. Based on firms listed on the Shanghai and Shenzhen Stock Exchanges from 2007-2012, the study compared the domestic accounting firms, the international big four firms charge higher audit fees. The study found that corruption has a positive effect on the relationship between firm size and audit fee premium. In other words, corruption governance will decrease the audit fee premium.

Most of the above studies were conducted in countries other than Nigeria and also centred mainly on audit quality or auditor's reputation without considering its impact on quality of financial reporting of the country like Nigeria. For those studies conducted in Nigeria covers other sectors without considering insurance companies. Base on this study to cover the gap by studying the impact of auditor's reputation on financial reporting qualities in Nigerian Insurance companies.

Theoretical Review

Several theories explaining the study was reviewed which include agency theory, lending credibility theory, positive accounting theory, compliance theory and social cognitive theory. After reviewing such theories lending credibility theory was found to be more suitable for the study. The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements as the auditor's service selling point to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statements users' confidence in the figures presented by the management (Weber *et al.*, 2008).

This theory suggests that reputation capital is a primary factor that motivates auditors to provide high-quality auditing, there is limited evidence on whether or how reputation risk affects auditor-client contracting or auditor decision-making. While auditors risk losing reputation capital when audit market participants perceive that they have allowed misreporting, prior research argues that accounting conservatism acts as a governance mechanism that reduces managements' tendency to misreport; thereby reducing the chances that auditors will fail to prevent misreporting (Watts, 2003). This suggests that conservative clients are likely to impose lower reputation risk on their auditors. If so, we expect this lower reputation risk to be reflected in audit fee negotiations, the audit opinion formulation process, and auditors' client retention decisions. The theory suggests that the primary function of audit is to add credibility to the financial statements. In this view, the auditor's service selling point to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statements users' confidence in the figures presented by the management. Furthermore, by adopting the theory it will aid the study in determining the impact of auditor's reputation on quality of financial reporting.

METHODOLOGY

The study employs non survey research design as the data required were obtained from the published annual reports and accounts of the sampled insurance companies in Nigeria specifically on audit fee paid to accounting firm and that of the qualitative characteristics of financial reporting (relevance, faithful representation, understandability, comparability and timeliness). The entire thirty two (32) Insurance companies listed on the Nigerian Stock Exchange (NSE) as at 31 December 2015 constitute the population of the study (see appendix 1). From the total population thirteen (13) companies were selected as working population using a purposive sampling technique that for the company to be selected as a sample it must be listed on NSE prior to 2005 and it must be delisted within the period of the study. The working population for the study is shown in Table 1

Table 1 Sample Size

S/N	Companies	Type of service	Year listed
1	AIICO Insurance Plc	Composite	1990
2	Guinea Insurance Plc	General	2007
3	IG Insurance Plc	Composite	2005
4	LASACO Assurance Plc	Composite	1991
5	Law Union and Rock Insurance Plc	General	1990
6	Linkage Assurance Plc	General	2003
7	Mutual Benefit Assurance Plc	General	2002
8	NEM Insurance Plc	General	1990
9	Niger Insurance Plc	Composite	1993
10	Prestige Assurance Co. Plc	General	1990
11	Royal Exchange Assurance Plc	Life	1990
12	Standard Alliance Insurance Plc	General	2003
13	WAPIC Insurance Plc	General	2005

Source: NSE Daily Official Listing, 2016.

The data generated were analyzed using Pearson Correlation and Multiple Regression so as to establish the effect of audit fee paid to accounting firm on financial reporting quality of listed Insurance companies in Nigeria

There are two sets of variables covered by this study. These are the dependent and the Independent variable. The dependent variable is the financial reporting quality which is measured using qualitative characteristics (relevance, faithful representation, understandability, comparability and timeliness) as used by Beest et al. (2009), Samaila (2014) and Adamu (2015) (see appendix 2). While the independent variable is the audit fee paid to accounting firm measured using qualitative grading as presented in table 2

Table 2 Audit fee paid to audit firm (AFPAF)

S/N	Range of Audit Fee	Ranking
1.	N35m and above	5
2.	N25m – N34m	4
3.	N15m – N24m	3
4.	N5m – N14m	2
5.	Audit fee no shown on Financial Statement	1

Source: Researcher's Design, (2016)

In line with the study objective this research model was deduced:

$$FRQ_{it} = \beta_0 + \beta_1 AFPAF_{it} + e_{it} \dots \dots \dots (1)$$

Where: FRQ = Financial reporting quality
AFPAF = Audit fee paid to accounting firm
 β_0 = Regression intercept;
 β_1, β_2 = Parameters to be estimated;
e = Error term
 it = company i in year t

4.0 Result and Discussion

This section present correlation and OLS regression result for the dependent and independent variables of the study. The results of the correlation between the dependent variable Financial Reporting Quality (FRQ) and the independent variable of Audit Fee Paid to Accounting Firm (AFPAF) were presented in Table 2.

Table 3 Correlation Matrix of the Dependent and Independent Variables

Variables	FRQ	AFPAF
FRQ	1.000	
AFPAF	0.1474	1.000

Source: Researchers' computation using STATA 12.0

Table 3 shows the correlation coefficients between the dependent variable (qualitative characteristics of financial reporting quality) and the independent variable (audit fee paid to accounting firm). The results show that Audit fee paid to accounting firm has positive but insignificant relationship with financial reporting quality of listed insurance companies in Nigeria as indicated by the coefficient of 0.1474 this is inconsistent with the findings of other studies like Yasina and Nelson (2012). The correlation coefficients on the main diagonal are 1.0 because the variable has a perfect positive linear relationship with itself. Since the independent variable is positively correlated with the dependent variable is the evidence that audit fee paid to accounting firms has a good relationship with financial reporting quality (FRQ) of listed insurance companies in Nigeria.

On the hand, the OLS regression result of audit fee paid to accounting firm and Financial Reporting Quality of the sampled Insurance Companies in Nigeria is presented in Table 4 and the relevant model is restated thus:

$$FRQ_{it} = \beta_0 + \beta_1 AFPAF_{it} + e_{it}.$$

Table 4 Summary of OLS Regression of the Impact of audit fee paid to accounting firm on financial reporting quality of the sampled insurance companies in Nigeria

Variables	Coefficient	Std Error	t	p>/t/
CONSTANT	1.38167	0.35722	3.87	0.000*
AFPAF	0.10224	0.03863	2.65	0.008*
Adjusted R Square:	0.2461			
P Value	0.0007			

*Correlation is significant at 1% level of significant.

Source: Generated by the Researcher from the STATA version 12.0

Table 4 presents the OLS regression results of the dependent variable (FRQ) and the independent variable of audit fee paid to accounting firm. The regression results reveal the cumulative R^2 of 0.2461 which is the multiple coefficient of determination indicating the proportion or percentage of the total variation in the dependent variable explained by the independent variable. The R^2 of 0.2461 implies that about 24.61% of total variation in financial reporting quality of listed insurance companies in Nigeria is accounted for by audit fee paid to accounting firm. This is instructive that the model is fit and the variable were properly selected, combined and used as substantial value of



the financial reporting quality is accounted for by the independent variables. In other word, the finding of the study can be relied upon.

The Table 4 shows that audit fee paid to accounting firm has a positive and significant influence on financial reporting quality of listed insurance companies in Nigeria. The coefficient of 0.10224 and the p-value of 0.008 shows that other variable held constant a one percent increase in audit fee paid to accounting firm will result to 10% increase in the quality of financial reporting for the period. This signifies that the higher the audit fee paid to accounting firm for the accounting year, the better the quality of financial reporting and the result is in line with the expectation.

The finding that audit fee paid to accounting firm significantly impacts financial reporting quality reiterates the findings of Santos, *et al* (2016), Krauh *et al.* (2015), Yasina and Nelson (2012) as they pointed out that, a higher amount of audit fees indicates that auditors provide more efficient audit services to the firm compared to lower audit fees, and the result is in contrast with Hay *et al.* (2006), Martinez *et al.* (2014) finds a significant inverse relation between audit fees and a change in a measure of clients' operating performance.

CONCLUSION AND RECOMMENDATION

Considering the discussion of results and findings of the study, the study concludes that the higher the audit fee paid to the accounting firm the better the quality of financial statement audited by such accounting firms. Based on the study findings and conclusions, the study recommends that to increase on the impact that audit fee has on financial reporting quality, insurance companies need to ensure that the audit fee paid to accounting firm should be a reasonable amount in order to enable the accounting firm perform their work as required as the highly paid accounting firm is expected to perform a thorough work than the less paid firms. The result of the current study clearly indicates that the higher the audit fee paid to the accounting the better the quality of financial statement audited by such accounting firms.

REFERENCES

- Adamu, S. (2015) *Compliance with public finance laws and quality of financial reporting in North Eastern State Nigeria*. (Unpublished Ph.D Thesis) Bayero University Kano.
- Al-Khaddash, H., Al Nawas, R. & Ramadan, A. (2013) Factors affecting the quality of auditing: the case of Jordanian commercial banks. *International Journal of Business and Social Science*, 4(11), 206-212
- Al-Harshani, M. (2008). The pricing of audit services: evidence from Kuwait. *Managerial Auditing Journal*, 23(7), 685-696.
- Alzoubi, E. (2012) Board characteristics and financial reporting quality among Jordanian listed companies: Proposing Conceptual Framework. *Asian Journal of Finance & Accounting*, 4(2), 88-96
- Asthana S. C. & Boone J. P. (2012). Abnormal audit fee and audit quality. *Auditing-Journal of Practice and Theory* 31(3), 1-22.
- Anthony, R. N., Hawkins, D. F. & Merchant, K. A. (2011), *Accounting: text and cases*. 13th Edition, Singapore: McGraw-Hill Companies, Inc.
- Asada, D. (2010), Statutory controls for financial accounting practice in Nigeria, <http://dspace.unijos.edu.ng/bitstream/10485/1458/1/statutory%20controls%20for%20financial%20accounting%20practice%20in%20Nigeria.pdf> [7/05/2013].



- Azmi, F. & Mulyani, S. (2015), Factors that affect accounting information system success and its implication on accounting information quality. *Asian Journal of Information Technology*, 14(5), 154-161.
- Badejo, M (1998). Limitations and scope of insurance *Hybrid Publishers Limited*, Akure, Ondo
- Barde, I. M. (2009). Nigerian oil marketing companies and compliance with the requirements of Statement of Accounting Standard (SAS) 2. In K.I. Dandago (Eds.), *Contemporary issues in accounting, auditing and taxation* (104-125). Kano: Triumph Publishing Company Limited.
- Barth, M., Beaver, W. & Landsman, W. (2001). The relevance of the value relevance literature for financial accounting standard setting: another view. *Journal of Accounting and Economics*, 4(31), 77-104.
- Basu, S (1997): The conservatism principle and the asymmetric timeliness of earning. *Journal of Accounting and Economics*, 24(3), 3-37
- Becker, C. DeFond, M. Jiambalvo, J. & Subramanyam, K.R. (1998) 'The effect of audit quality on earnings management', *Contemporary Accounting Research*, 15(1), 1-24.
- Beest, F. Braam, G. & Boelens, S. (2009), *Quality of financial reporting: Measuring Qualitative Characteristics*. Nijmegen Centre for Economics (NCE) Working Paper 09-108. Institute for Management Research, Radboud University Nijmegen.
- Beuselinck, C. & Manigart, S. (2007). Financial reporting quality in private equity backed companies: the impact of ownership concentration. *Small Business Economics*, 16(1), 18-22.
- Beyersdoff, M., Bonham, M., Chan, W., Covic, A., Curtis, M., Danmola, T., Davies, M., Denton, T., Frykowska, J., Halloum, O., Hamilto, B., Kremp, B., Lloyd, M., Luke, J., Moll, E., Moore, R., O'Leary, V., Pankhurst, M., Qureshi, I., Richards, H., Rogerson, T., Seah-Tan, S. Sirocka, A. Vaidison, S. Waring, T. Williams, M. and Zeller, M. (2013), *International GAAP 2013: Generally Accepted Accounting Practice under International Financial Reporting Standards Volume 1*. United Kingdom: John Wiley and Sons, Ltd.
- Bushman, R. Chen, Q., Engel, E., & Smith A. (2000) *Sensitivity of corporate governance system to the timeliness of accounting earning*. Working Paper. University of Chicago
- Che, Y. & Yi, J. (1993). The role of precedents in repeated litigation. *The Journal of Law, Economics and Organizations*, 9(2), 399-424.
- Choi, J. Kim, C. Kim, J. & Zang, Y. (2010) "Audit office size, audit quality, and audit pricing", *Auditing: A Journal of Practice & Theory*, 29(1), 73-97.
- Cohen, J. Krishnamorthy, G. & Wright, A. (2004). The corporate governance mosaic and financial reporting quality. *Journal of Accounting Literature*, 23(2), 87-152.
- Craswell, A., Francis, J. & Taylor, S. (1995), "Auditor brand name reputations and industry specialization", *Journal of Accounting and Economics* 6(20), 297-322.
- Cushing, B. & Gilbertson, D. (2002). Strategic analysis of securities litigation against independent auditors. *Auditing: A Journal of Practice & Theory*, 21(2), 57-80.



- Dandago, K. & Muktar, M. (2009). Ethics in accounting research: the Nigerian perspective. In K.I. Dandago and A.I. Tanko (Eds.), *Background issues to ethics in accounting* (276- 285). Kano: AIT Computer Services.
- Datar, S. & Alles, M. (1999). The formation and role of reputation and litigation in the auditor-manager relationship. *Journal of Accounting, Auditing, and Finance*, 14(4), 401-428.
- Dees, J. (1992). *Principles, agents and ethics in Ethics and Agency Theory: An Introduction*, edited by N. E. Bowie, and R. E. Freeman (25-58). New York, NY: Oxford University Press.
- Drake, P. & Fabozzi, F. (2012). *Analysis of Financial Statements*. 3rd Edition. USA: John Wiley and Sons, Inc.
- El-Gammal, W. (2012). Determinants of audit fees: evidence from Lebanon. *International Business Research*, 5(11), 136-145.
- FASB (1980). *Statement of financial accounting concepts No. 2. qualitative characteristics of accounting information*. Norwalk.
- FASB (1999). *International standard setting: a vision for the future*. Norwalk.
- FASB (2008). *Financial Accounting Series, Statement of Financial Accounting*
- Fowokan, T. (2011). IFRS adoption in Nigeria-tax implications paper presented at *CITN Seminar on IFRS adoption in Nigeria*. <http://www.docstoc.com/docs/89676635/IFRS-Adoption-in-Nigeria-Tax-Implications-Paper-presented-by-Mrs-Titilayo-Fowokan-ACA-ACTI-CITN-Seminar-on-IFRS-Adoption-in-Nigeria-Overview-%EF%82%97-Introdu> [30/07/2012].
- Francis, J. & Yu, M. (2009). "The effect of big four office size on audit quality", *The Accounting Review*, 84(5), 1521-1552.
- Gupta P. P., Krishnan G. V. & Yu W. (2009). You get what you pay for: An examination of audit quality when audit fees is low. Working paper, Lehigh University. Retrieved from <http://ssrn.edu>
- Gaffikin, M. (2008). *Accounting theory: research, regulation, and accounting practice*. Australia: Pearson Education Australia.
- Griffin, P. A., Lont, D. H. & Sun, Y. (2009). Governance regulatory changes, International Financial Reporting Standards adoption, and New Zealand audit and non-audit fees: Empirical evidence. *Accounting & Finance*, 49(4), 697-724.
- Hassan, S. U. (2012). *Firm characteristics and financial reporting quality of quoted manufacturing firms in Nigeria*. PhD Accounting and Finance Thesis Submitted to the School of Post Graduate Studies, Ahmadu Bello University, Zaria. (unpublished).
- Haniffa, R., Zaman, M. & Hudaib, M. (2011). "Corporate Governance Quality, Audit fees and Non-Audit Fees *Journal of Business Finance & Accounting*, 38 (1&2), 165-197.
- Hay, D., Knechel W. & Wong N. (2006). "Audit Fees: A Meta-analysis of the Effect of Supply and Demand Attributes." *Contemporary Accounting Research*, 23(1), 141-91.
- Hay, D. (2013). Further evidence from meta-analysis of audit fee research. *International Journal of Auditing*, 17(2), 162-176



- Herusetya A (2009). The influence of auditor size and auditor specialization towards earnings quality. *Accounting and Finance J. Indonesia.*, 6(1)46-70.
- Herusetya, A. (2012). An Analysis of Audit Quality towards accounting earnings management: a study of the composite measure approach versus conventional measure. Study approach of composite measure versus conventional measure. *Accounting and Finance Journal Indonesia.* 9(2), 102-125
- Hope O., Kang T., Thomas W. & Yoo K. J. (2009). Impact of excess auditor remuneration on cost of equity capital around the world. Working paper. Retrieved from <http://ssrn.edu>.
- IASB (1989). Framework for the preparation and presentation of financial statements.
- IASB (2008). *Exposure draft on an improved conceptual framework for financial reporting: the objective of financial reporting and qualitative characteristics of decision-useful financial reporting information*. London.
- Idigbe, A. (2007). A review of CAMA 1990: Issues in corporate governance audit committee and auditor independence. Paper Presented at the *Nigerian Accounting Standards Board 4th Annual Corporate Financial Reporting Submit and Dinner*, Lagos 14th November.
- Izedonmi, F. (2001). An evaluation of the level of banks' compliance with accounting standards issued by Nigeria Accounting Standard Board, *The Nigerian Bankers*, 24(4), 12-15.
- Jonas, G. & Blanchet, J. (2000). Assessing quality of financial reporting. *Accounting Horizons* 14(3), 353-363.
- Junaidi, B. (2015) The effects of auditor reputation, financial condition, and potential intensive economy on artificial auditor rotation *Journal of Economics, Business, and Accountancy Ventura* 18(1), 29–300
- Kantudu, A.S. (2005). The impact of auditor's reputation on compliance with accounting standards on employee retirement benefits by listed firms in Nigeria. *Journal of Social and Management Studies*, 10, 71-90. (2006). *An analysis of the impact of pension reform Act in Nigeria*. PhD Thesis Ahmadu Bello University, Zaria, Nigeria.
- Karamanou, I. & Vefas, N. (2005). The association between corporate boards, audit committees, and management earnings forecast; an empirical analysis, *Journal of Accounting research* 43(3), 453-486.
- Kieso, D. Weygandt, J. & Warfield, T. D. (2014), *Intermediate Accounting IFRS Edition*. 2nd Edition. China: John Wiley and Sons, Inc.
- Krishnan, J. & Krishnan, J. (1996). The role of economic trade-offs in the audit opinion decision: An empirical analysis. *Journal of Accounting, Auditing & Finance*. 11(3), 565-586.
- Kim K. T., Kwok S. & Hwang L. S. (2005). Abnormal non-audit fees and income management. *Working paper. Seoul National University*.
- Kraub P., Pronobis P. & Zulch H. (2015). Abnormal audit fees and audit quality in German audit market. *Zeitschrift für Betriebswirtschaft*. 85(1), 45-84.
- Lee, Y. Strong, D. Kahn, B. & Wang, R. (2002). AIMQ: a methodology for information quality assessment. *Information and Management*, 40(3)133-146



- Mackenzie, B. Coetsee, D. Njikizana, T. Chamboko, R. Colyvas, B. & Hanekom, B. (2012), *2012 Interpretation and Application of International Financial Reporting Standards*. New Jersey: John Wiley and Sons, Inc.
- Maijoor, S. & Vanstraelen, A. (2006), Earnings management within Europe: the effects of member state environment, audit firm quality and international capital markets, *Accounting and Business Research*, 36(1), 33-52.
- Mayangsari S (2004). Empirical evidence of industry specialization auditors affect towards earnings response coefficient. *Accounting Research Journal Indonesia*. 7(2)154-178.
- Martinez, A. & Moraes, A. (2014). "Association between independent auditor fees and firm value: A study of Brazilian Public Companies". *Journal of Modern Accounting and Auditing*, 10(4), 442-450.
- McCracken, S. (2003). Auditors' strategies to protect their litigation reputation: A research note. *Auditing: A Journal of Practice & Theory*, 22 (1), 165-179.
- McDaniel, L. Martin, R. & Maines, L. (2002). Evaluating financial reporting quality: the effects of financial expertise vs. financial literacy. *The Accounting Review*, 77(nd), 139-167
- Michaely, R., & Shaw, W. (1995). Does the choice of auditor convey quality in an initial public offering? *Financial Management*, 24(4)15-30.
- Mohamad, S, & Nassir, A. (2010). Auditing firm reputation, ex ante uncertainty and the non-audit services by independent auditors, *Journal of Audit Practice*, 5(2), 55-66.
- Moutinho, V., Cerqueira A. & Brandão E. (2012), Audit fees and firm performance. *Faculdade de Economia do Porto*, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2180020
- Mutchler, J. & Williams, D. (1997). "The relationship between audit technology, client risk profiles, and the going-concern opinion decision." *Auditing: A Journal of Practice and Theory*, 9(3)39-54.
- Oke M. (2012). Insurance sector development and economic growth in Nigeria. *African Journal of Business Management*. 6(23)7016-7023.
- Picconi M. H. & Reynold K. J. (2013). Do auditors know more than the market, *Working paper*. Retrieved from <http://ssrn.edu>
- Pujilestari R, & Herusetya, A. (2013). The influence of audit quality over earnings management of real transaction – strategic income statement. *Accounting and Finance Journal Indonesia*. 15 (2)75-85.
- Richard E. & Victor O. (2013); Analysis of insurance practices and economic growth in Nigeria: *Global Advanced Research Journal of Management and Business Studies* 2(1) 063-070
- Samaila, I.A. (2014). *Corporate governance and financial reporting quality in the Nigerian oil marketing industry*. (PhD Thesis), Bayero University, Kano.
- Setyorini, C. & Ishak, Z. (2012). Corporate social and environmental disclosure: a positive accounting theory view point. *International Journal of Business and Social Science* 3(9), 152-164.



- Siregar, S. Wibowo A, & Anggraita, V. (2011). Audit rotation and audit quality: evaluation of decree of the finance minister of the republic of indonesia number 423/KMK.06/2002 on the services of public accountants rotasi audit dan kualitas audit: *Accounting and Finance Journal Indonesia* 8(1), 146-162
- Skinner, D. & Srinivasan, S. (2012). Audit quality and auditor reputation: Evidence from Japan. *The Accounting Review* 87(5), 1737-1765.
- Sri Mulyani. (2009), *Sistem Informasi Manajemen Rumah Sakit: Analisis dan Perancangan*. Bandung: Abdi Sistematika.
- Santos, C. Cerqueira, A. & Brandão, C. (2016). Audit fees, non-audit fees and corporate performance *Porto Economics and Management Journal* 6(2), 2-30
- Stice, J. (1991), "Using financial and market information to identify pre-engagement factors associated with lawsuits against auditors", *The Accounting Review* 66(2), 242-263.
- Subramanyam, K. & Wild, J. (2009), *Financial Statement Analysis*. 10th Edition. Singapore: McGraw-Hill Education (Asia).
- Tangpinyoputthikhun Y. & Thammavinyu C. (2010). The impact of professional knowledge and personal ethics on audit quality and sustainable reputation of Thai-public accountants. *Journal of Academic Business and Economics* 10(2), 233-254
- Tate, S. & Feng, N. (2013). Perceived quality auditors in the non-profit sector: Evidence from request for proposal choices. *Mustang Journal of Accounting and Finance* 4(2), 65–96.
- Tuta, B.I. (2015). *Audit committee attribute and financial reporting quality of listed money*
- Ussahawanitchakit P (2011). Audit Practice and Audit Performance of CPAs in Thailand, *Journal Acad. Bus. Econ.*, 11(2), 176-198
- Ujunwa, A. & Modebe, N. J. (2011). Repositioning insurance industry for operational efficiency in Nigerian; *Journal of Applied Finance & Banking*, 1(3)15-32
- Watts, R. & Zimmerman, J. (1983): Agency problems, auditing and theory of the firm: Some evidence. *Journal of Law and Economics*, 1226(2), 613–633.
- Weber, J. Willenborg, M. & Zhang, J. (2008). Does auditor reputation matter? The case of KPMG Germany and Comroad AG. *Journal of Accounting Research*, 46(4), 941-972.
- Wild, J. J. Shaw, K. W. & Chiappeta, B. (2009), *Financial Accounting Principles*. 19th Edition. USA: McGraw-Hill Companies, Inc.
- Williams, J. Haka, S. Bettner, M. & Carcello, J. (2010), *Financial and Managerial Accounting: The Basis for Business Decision*. 15th Edition. USA: McGraw-Hill Companies, Inc.
- Wilson, J. Tie, E. & Grimlund, R. (1990). An examination of the importance of an auditor's reputation. *Auditing: A Journal of Practice & Theory* 9(2), 43-59.
- Xie Z., Cai C. & Ye J. (2010). Abnormal audit fees and audit opinion- Further evidence from china capital Market. *Journal Accounting Research* 3(1), 199-209.



- Yasina, F. & Nelson, S. (2012) "Audit Committee and Internal Audit: An Implication for Audit Quality", *International Journal of Economics, Management and Accounting*, 20(2), 187-218.
- Zhang Y. (2014). The empirical research of abnormal audit fee and audit quality based on Chinese manufacturing listed companies. Eastern Academic Forum. Pp. 667-672
- Zhang, L (2016) Corruption, Accounting Firm Size and Audit Fee Premium—Evidence from Chinese Listed Companies *Scientific Research Publishing* 5(2), 93-100

GJGS

Appendix 1

Table 5: Population of the Study

S/N	Companies	Type of service	Year listed
1	African Alliance insurance Plc	Life	2009
2	AIICO Insurance Plc Plc	Composite	1990
3	Baico Insurance Plc	Life	2007
4	Consolidated Hallmark Insurance Plc	General	2008
5	Cornerstone Insurance Plc	Composite	2007
6	Custodian and Allied Insurance Plc	Life	2007
7	Equity Assurance Plc	General	2007
8	Goldlink Insurance Plc	Composite	2008
9	Great Nigeria Insurance Plc	Composite	2005
10	Guaranty Trust Insurance Plc	Life	2009
11	Guinea Insurance Plc	General	2003
12	IG Insurance Plc	Composite	2005
13	International Energy Insurance Plc	General	2007
14	Investment and Allied Insurance Plc	General	2008
15	LASACO Assurance Plc	Composite	1991
16	Law Union and Rock Insurance Plc	General	1990
17	Linkage Assurance Plc	General	2003
18	Mansard Insurance Plc	Composite	2009
19	Mutual Benefit Assurance Plc	General	2002
20	NEM Insurance Plc	General	1990
21	Niger Insurance Plc	Composite	1993
22	Oasis Insurance Plc	General	2007
23	Prestige Assurance Co. Plc	General	1990
24	Regency Alliance Insurance Plc	General	2008
25	Royal Exchange Assurance Plc	Life	1990
26	Sovereign Trust Insurance Plc	General	2006
27	Standard Alliance Insurance Plc	General	2003
28	Standard Trust Assurance Plc	General	2007
29	UNIC Insurance Plc	Life	2007
30	Unity Kapital Assurance Plc	General	2009
31	Universal Insurance Co. Plc	General	2008
32	WAPIC Insurance Plc	General	2005

Source: Generated by the Researcher from NSE Daily Official Listing, 2016.



Appendix 2

Table 6: Measures to be used to Operationalize the Fundamental and Enhancing Qualitative Characteristics (including the Measurement Scales)

Relevance

Q.	No Question	Operationalization
R1	To what extent does the presence of the forward -looking statement help forming expectations and predictions concerning the future of the company?	1= No forward-looking information 2= Forward-looking information not a part of subsection 3= A part of subsection 4= Extensive Predictions 5= Extensive Predictions useful for decision making
R2	To what extent does the presence of non-financial information in terms of business opportunities and risk compliment the financial information?	1= No non-financial information 2= Little non-financial information, no useful for forming expectations 3= Useful non-financial information 4= Useful non-financial information, helpful for developing expectations 5= Non-financial information presents additional information which helps Developing expectations
R3	To what extent does the company use fair value instead of historical cost?	1= Only historical cost 2= Most Historical cost 3= Balance fair value/Historical cost 4= Most fair value 5= Only fair value
R4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?	1= No feedback 2= Little feedback on the past 3= Feedback is present 4= Feedback helps understanding how events and transactions influenced the company 5= Comprehensive feedback

Faithful Representation

Q.	No Question	Operationalization
F1	To what extent are valid arguments provide to support The decision for certain assumptions and estimates in the annual report?	1= Only describe estimations 2= general explanation 3= Specific explanation of estimation 4= Specific explanation, formulas explained etc 5= Comprehensive argumentation
F2	To what extent does the company base its choice for certain accounting principles on valid arguments?	1= Changes not explained 2= Minimum explanation 3= Explained why 4= Explained why + consequences 5= No changes or comprehensive explanation
F3	To what does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?	1= Negative events only mentioned in the footnotes 2= Emphasize on positive events 3= Emphasize on positive events, but negative events are mentioned; no negative events occurred. 4= Balance positive and negative events 5= Impact of positive/negative events is also explained
F4	Which type of auditors' report is included in the annual Report?	1= Adverse opinion 2= Disclaimer of opinion 3= Qualified Opinion 4= Unqualified opinion: Financial figures 5= Unqualified Opinion: Figures + internal control
F5	To what extent does the company provide information On corporate governance	1= No description CG 2= Information on CG limited, not a part of subsection 3= Apart of subsection 4= Extra attention paid to information concerning CG



5= comprehensive description of CG

Understandability

Q.	No Question	Operationalization
U1	To what extent is the annual report presented in a well-organized manner?	Discretionary judgment based on: 1= Complete table of contents 2= Headings 3= Order of components 4= Summary/conclusion at the end of each subsection
U2	To what extent are the notes to the balance sheet and the Income statement sufficiently clear	1= No graphs 2= 1-2 graphs 3= 3-5 graphs 4= 6-10 graphs 5= > 10 graphs
U3	To what extent is the use of language and technical jargon in the annual report easy to follow?	1= Much jargon (industry), not explained 2= Much jargon, minimal explanation 3= Jargon is explained in text/glossary 4= Not much jargons, or well explained 5= No jargon, or extraordinary explanation
U4	Which type of auditors' report is included in the annual Report?	1= Adverse opinion 2= Disclaimer of opinion 3= Qualified Opinion 4= Unqualified opinion: Financial figures 5= Unqualified Opinion: Figures + internal control
U5	What is the size of the Appendices and/or glossary?	1= No Appendix/glossary 2= Less than one page 3= Approximately one page 4= 1 to 2 page 5= Greater than 2 page

Comparability

Q.	No Question	Operationalization
C1	To what extent do the notes to changes in accounting policies explain the implication of the change?	1= Changes not explained 2= Minimum explanation 3= Explained why 4= Explained why + consequences 5= No changes or comprehensive explanation
C2	To what extent do the notes to revisions in accounting estimates and judgments explain the implications of the revision?	1= Revision without notes 2= Revision with few notes 3= No revision/clear notes 4= Clear notes + implications (past) 5= Comprehensive notes
C3	To what extent did the company adjust previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?	1= No adjustment 2= Described adjustments 3= Actual adjustments (one year) 4= 2 years 5= > 2 years + notes
C4	To what extent does the company provide a Comparison of the results of current accounting period with previous accounting periods	1= No comparison 2= Only with previous year 3= With 5 years 4= 5 years + description of implications 5= 10 years + description of implications
C5	To what extent is the information in the annual Report comparable to information	Judgment based on : - accounting policies - structure



	provided by Other organizations?	- Explanation of events In other words: an overall conclusion of comparability compared to annual reports of other organizations
--	----------------------------------	--

Timeliness

Q.	No Question	Operationalization
T1	How many days did it take for the auditor to sign the annual report after book-year end?	Natural logarithm of amount of days 1= 120 – 150days 2= 90 – 120days 3= 60 – 90days 4= 30 – 60 days 5= 1 - 30days

Source: Adopted from Samaila (2014) and Adamu (2015)

Note: This table shows the procedure upon which the qualitative characteristics of financial reporting will be operationalized. The table was used in extracting data on the qualitative characteristics of relevance, faithful representation, understandability, comparability and timeliness, the table was adapted to suit private sector industries (Beest, Braam and Boelen 2009, Samaila 2014, Adamu 2015)