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Audit Fee Determinants: The Influence of Corporate Governance Mechanisms in Nigerian Banking Industry

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ABSTRACT

This study examined the influence of corporate governance on audit fees of the Deposit Money Banks (DMBs) in Nigeria by exploring secondary data. The study population comprised 13 DMBs in Nigeria, of which 12 were purposively selected based on data availability. Data were sourced from the annual reports and accounts of 12 listed DMBs in Nigeria spanning from 2012 to 2023. This study explored multiple regression analysis by using dependent variables (Audit Fees), independent variables (Board Meetings, Board Size, Board Independence, Board female Gender Diversity, CEO Ownership & Female Audit Committee), and control variables (Return on Asset, Firm Size, Asset Growth & Leverage). The findings indicated that Board female Gender Diversity, Female Audit Committee, Firm Size & Asset Growth had positive and significant effects on audit fees, while (Return on Asset & Leverage) had negative and significant effect on audit fees. The result concluded that corporate governance influences the audit fees of DBMs in Nigeria. Given the financial scandals and regulatory reform that is prevalent in the Nigerian banking sector. This study contributes to the literature by providing empirical evidence on how corporate governance affects audit fees within the Nigerian banking sector, reinforcing the need for effective governance policies

Keywords: Audit Fees, Agency Theory, Corporate Governance, Deposit Money Banks
JEL Classifications: M42, G34

1. INTRODUCTION

Amongst the various factors influencing audit fees proposed in the accounting and auditing literature thus far, corporate governance (CG) still constitutes a contemporary issue (Farooq et al., 2018; Xue and O'Sullivan, 2023). However, after the demise of Enron and WorldCom and other public scandals over financial misdeeds around the world, there has been a considerable increase in interest in studies on the internal corporate governance of companies (Olowosegun and Moloi, 2021; Otusanya and Uadiale, 2014). Auditors have also started to place more weight on companies' internal CG assessments. CG is a structure by which powers are exercised and shared by various stakeholders to ensure the achievement of the goals of an entity. It also includes all attempts to improve board members' responsibility to shareholders, as well as ethical efforts and fair play in attaining business success (Akinlo et al., 2023)

Corporate governance is a control mechanism that firms implement to prevent management from taking actions that could jeopardize the firm's well-being (Farooq et al., 2018). According to Otusanya and Uadiale (2014), corporate governance is a framework that guides and manages businesses to maximize shareholder value and satisfy the needs of other interested parties. The Australian Treasury Act of 2002, the Sarbanes-Oxley Act of 2002 (US), the Higgs Report (2003) in the UK, and the King Report on CG in South Africa are a few of the formal laws and procedures that several countries have adopted to promote effective corporate governance. In Nigeria, the Companies and Allied Matters Act 2020 (CAMA, 2020), amended by the Business Facilitation (Miscellaneous Provisions) Act 2022,

is the latest legislation regulating CG. Also, the Nigerian Corporate Governance Code became effective on October 1, 2018. The Financial Reporting Council of Nigeria (FRCN) issued the code, and it serves as a guideline for CG practices for listed companies and others in the private sector. These CG legislation and audit firms aim to protect investors' interests by verifying the accuracy of the financial reporting (Farooq et al., 2018).

The necessity for financial institutions in Nigeria to focus more on corporate governance has been highlighted by developments in the country's financial sector (Ehimare et al., 2013). Any economy must prioritize the financial sector's health since its collapse might impede economic progress and national development (Ogundele et al., 2020). Ogunmakin et al. (2020) note that weak corporate governance and poor consideration for ethical values stimulate poor performance, leading to the failure of several commercial banks in Nigeria. Also, the banking sector is critical to the expansion of the nation's economy through the pivotal role of channelling funds by way of resource allocation to diverse sectors (Akinadewo et al., 2023). The Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) are two regulatory bodies that closely monitor banks in Nigeria. Through the CBN Act of 2007 and the Other Financial Institutions Act (BOFIA 2020), the CBN issued "Corporate Governance Guidelines for Commercial, Merchant, Non-Interest, Payment Service Banks and Financial Holdings Companies in Nigeria." This came after a stress test to assess Nigerian banks' dependability and corporate governance code compliance (CBN, 2023). A critical analysis of the business climate in Nigeria reveals that there have been numerous instances of abuse by the board of directors in various banks, which may be curbed by good corporate governance.

The frequency of excessive fraud, earnings management and other financial crimes in Nigeria has cast doubt on corporate governance practice and their capacity to serve their intended purposes (Ogoun and Perelayefa, 2020). The failure of some financial institutions in Nigeria to monitor the actions of the directors and some other key employees has resulted in poor management and financial distress (Ezu and Oranefo, 2023). In the banking sector, issues with corporate governance might include unstable board tenure, ownership crises, board conflicts and a high degree of insider deals (Sanyaolu et al., 2021).

CG plays a critical role in ensuring that an organisation is effectively and responsibly managed, with accountability to stakeholders, which, in turn, can significantly influence financial transparency and operational performance. In the Nigerian banking industry, CG mechanisms are vital in mitigating agency problems, fostering sound decision-making, and reducing financial misreporting. In particular, audit fees represent a cost for financial institutions, reflecting the perceived level of assurance and complexity of audits required by regulatory frameworks. The relationship between CG and audit fees in Nigerian DMBs has been under-explored, prompting a need to examine how governance structures might influence the cost of audit services in these institutions.

The rest of the study is structured as follows: Section 2: Research Problem and Question, Section 3: Literature Review and Theoretical Framework, Section 4: Methodology, Section 5: Results and Discussion, and Section 6: Conclusion and Recommendations.

2. PROBLEM STATEMENT AND RESEARCH QUESTION

Every country's financial sector serves as a catalyst for economic development, growth and change (Ezu and Oranefo, 2023). This illustrates the Central Bank of Nigeria's (CBN) attempts to restructure the Nigerian banking sector and put it into action to direct economic change. A financial institution's ability to succeed is primarily determined by how well the nation's corporate governance (CG) laws are implemented. An excellent corporate governance practice is one of the key tools for attaining exceptional performance in the Nigerian banking sector. The recent widespread corporate scandals, which resulted in the dismissal of First Bank of Nigeria Holdings (FBNH) Plc's board by the CBN, have cast more doubt on the CG practice in Nigerian banks (Ngwu, 2022). Moreover, bank collapses in Nigeria before and after the consolidation can be traced back to weak or inadequate corporate governance standards. According to the Nigeria Deposit Insurance Corporation (2023), 53 Nigerian banks were closed between 1994 and 2018 following the revocation of their operating licences by the CBN.

The financial landscape of DMBs in Nigeria has undergone significant transformations in recent years, spurred by global economic shifts and local regulatory changes. Amidst this evolving environment, the issue of CG has emerged as a vital component influencing the financial health and transparency of these institutions. CG plays a significant role in determining the decision-making processes within banks, affecting everything from risk management to financial reporting. However, the specific effect of CG on audit fees within the Nigerian DMB sector remains an area requiring in-depth exploration. Understanding how corporate governance practices influence audit fees is crucial for stakeholders, as it not only reflects the level of financial transparency but also sheds light on the efficiency and effectiveness of internal controls within these financial institutions. Corporate governance and audit fees are critical for any firm to ensure effective internal control and financial reporting. It may be argued that a weak corporate governance culture is the cause for the banks' distress. This argument is predicated on the frequently cited explanations for bank failures, which include inadequate capital, poor risk management, and mismanagement, among other things (Olowosegun and Moloi, 2021).

To give a clearer picture of the direction of our study, the study is guided by the following research question:

What is the relationship between corporate governance practices and audit fees, considering the Nigerian banking industry?

3. LITERATURE REVIEW

A company's set of laws, regulations, principles, and management techniques is known as its corporate governance (Ngwu, 2022). Corporate governance (CG) refers to the process by which boards

of directors determine the proper levels of power, responsibility, oversight, guidance, direction, and control over the behaviour and operations of the company and its management. According to Olabisi and Omoyele (2011), CG refers to the systems, procedures, and frameworks employed to guide and oversee an organisation's management.

In order to support strong business performance, a well-established CG framework offers a mechanism for achieving accountability between the board, senior management, and shareholders. It also ensures accountability and transparency, builds trust, and maintains a dependable information-sharing channel. It also sets the foundation by which the organisation's power structure is decided (Otusanya and Uadiale, 2014). Affes and Jarboui (2023) argue that good CG practices play a crucial role in monitoring and regulating the transparent and efficient operation of corporate business processes. Corporate governance entails forming rules, policies, and procedures for effectively managing organisations, including banks (Olowosegun and Moloi, 2021).

The annual general meeting is the theoretical bridge between the board of directors and shareholders, who control the entity (Olabisi and Omoyele, 2011). Unlike small private companies, public corporations usually have a more supervisory board, with certain executive directors (such as a director of marketing or finance) assigned to oversee and manage divisions of the company. According to Ehimare et al. (2013), the division of ownership and management is why corporate governance is necessary. It is implied by this separation that shareholders have lost their actual authority to direct management choices. Corporate governance was introduced in the Nigerian banking industry in 2000 and became effective in April 2003 (Ezu and Oranefo, 2023). This resulted from the corporate managers' fraudulent manipulations, unethical behavior, and the use of organisational resources for personal gain (Ezu and Oranefo, 2023).

Every nation is adopting corporate governance as an acceptable international norm. The SEC and Corporate Affairs Commission (CAC) established a 17-person committee in Nigeria in June 2000 under the leadership of Peterside Atedo after realising the necessity to adhere to global best practices (Olabisi and Omoyele, 2011). The committee's task was to find flaws in Nigeria's current corporate governance procedures. The committee's membership was carefully chosen to represent various economic sectors, including representatives of professional associations, the organised private sector, and regulatory bodies. The group provided a draft corporate governance code focused on Nigeria's Codes of Best Practice on Corporate Governance.

The relevance of transparency and disclosure to a corporation cannot be overstated, as the information gap possibly will lead to both a crisis for the organisation and a conflict of interest between management and its stakeholders (Olowosegun and Moloi, 2021). For stakeholder management to be successful, corporate governance disclosure and transparency are essential. The information that stakeholders have access to regarding a corporation's operations and CG plays a noteworthy role in both the appeal of investors and the organisation's performance.

3.1. Corporate Governance and Audit Fees

An audit fee is what a public accountant charges their customer for. The services include assurance, audits, and reviews of financial statements (Haque et al., 2019). The audit fees charged differ depending on several influences, which include the degree of competence required, the complexity of the service, the assignment risk, the firm's cost structure, and additional professional considerations and terms and conditions.

Previous studies on the relationship that exist between CG and audit fees have reported contradicting results. Madah et al (2021) found that in the absence of good corporate governance, managers and boards may profit privately from their position of control at the expense of the other stakeholders. Therefore, businesses must put in place sound corporate governance practices, such as compensating auditors for their work and keeping an eye on non-audit services, to stop this exploitation. Wu (2012) found that audit fees and CG in Shanghai Stock Exchange-listed companies had a significant negative relationship According to Widani and Bernawati (2020), ownership concentration increased the positive effects of CG effectiveness on audit quality, whereas CG did not affect audit fees or quality.

In their analysis of the CG and audit fees of Nigerian banks, Ogunmakin et al. (2020) observed significant and negative relationships between board composition, board size and firm financial performance. Isaac and Nkemdilim (2016) found board size and return on equity strongly negatively correlated. This suggest that the amount paid as audit fees by the commercial banks in Nigeria is influenced more negatively than positively by the size of the board. Haque et al., (2019) discovered a significant positive relations between the audit fees and CG. According to Hamza (2018), corporate governance regulations significantly impact auditors' independence and audit fees.

This suggests that banks that do better than those that reveal less on corporate governance are more likely to have good corporate governance practices (Isaac and Nkemdilim, 2016). As a result, banks with subpar corporate governance may pay higher audit fees than those with excellent corporate governance. Ajala et al., (2012) found that the corporate governance transparency index and directors' equity interest positively correlate. This implies that those with and managing bank shares have a vested financial interest. This is always expected to result in lower audit fees.

Isaac and Nkemdilim (2016) argue that audit fees can be determined by a firm's financial performance (FP). They found a positive correlation between bank CG disclosure and return on equity (ROE), which is a performance proxy. FP measures how well a company's objectives are achieved (Ogunmakin et al., 2020). A bank's financial performance relates to how efficiently it uses its resources to carry out its primary business function and generate revenues.

3.2. Theoretical Framework

Studies have shown that agency theory forms the basis of corporate governance (CG) study by consulting numerous research publications. Agency theory is the most pertinent theoretical area

to study CG (Jensen and Meckling, 1976; Ross, 1973). When one or more people, referred to as principals, hire another person, an agent, to carry out a service and then grant the agent decision-making authority, an agency relationship is created (Bamber and Klaus, 1987). According to experts, a company's two main agency relationships are between managers and stockholders and between debt holders and stockholders. These relationships aren't always cordial; agency theory addresses issues like CG and conflicts of interest. Isaac and Nkemdilim (2016).

The goal of publicly traded company stockholders is to maximise their investment value. Managers within the organisation, however, might have diverse objectives, for instance, maximising their own earnings or preserving their position of power within the firm (Affes and Jarboui, 2023). The business and its investors might not get the best strategic decisions as a result of this conflict of interest. Agency theory states that, in this case, good CG could assist to align stakeholders' interest and enhance the audit quality and fees charged by the firm. For example, appointing an impartial and capable directors of the board can help in ensuring that CEOs act in the interests of shareholders and that strategic decisions are made.

4. METHODOLOGY

The study primarily focused on Nigerian Deposit Money Banks (DMBs). Thirteen DMBs listed on the Nigerian Exchange Group (NXG) comprise the study's population. Twelve DMBs whose stocks were traded on the stock market within the sample period were chosen for this study, exploring a purposive sampling technique. Appropriate data were readily available. Data spanning from 2012 to 2023 was taken from the audited report and account of the carefully chosen DMBs. The variables used in the paper are presented in Table 1.

Investigation of the effect of corporate governance on audit fees used multiple regression analysis. We construct the relationship below based on earlier research (Miglani and Ahmed, 2019; Onatuyeh and Ukolobi, 2020):

Audit Fee $= f$ (Corporate Governance, Control Variables)

$$AFE_{it} = BMT_{it} + BSZ_{it} + BFG_{it} + BIN_{it} + CEO_{it} + FAC_{it} + FSZ_{it} + ASG_{it} + LEV_{it} + ROA_{it} + \varepsilon_{it} \quad (3.1)$$

5. DATA ANALYSIS AND DISCUSSION OF FINDINGS

5.1. Descriptive Statistics

Board meetings show how many meetings were held overall in the fiscal year. The result showed that the average number of meetings held is 6 times, while the minimum and maximum meetings held in a year are 1 and 16 times, respectively (Table 2). The standard deviation is 2.47, which measures the amount of variation or dispersion. The average size of the board is approximately 13. The maximum and minimum observed board size is 21 and 6, respectively, while the standard deviation is 3.22. The mean and median values are relatively close, suggesting that the distribution is not heavily influenced by extreme values. The board sizes appear to be relatively normally distributed with a slight leftward skew. Result displayed that the average proportion of women that are on the boards of the firms studied is relatively low, at 20%, with some firms having no women and others having up to 50%. The variability is low, and the distribution is approximately normal. The mean CEO ownership is 0.84%, indicating that, on average, CEOs hold less

Table 1: Measurement of variables

Variable	Measurement	Source
Dependent Variable		
Log of Audit Fee (AFE)	Proxied as a log of total audit fees	Griffin et al., (2008); Kuang (2011); Aldamen et al., (2018)
Independent Variables		
Board Meeting (BMT)	Measured as the frequency of board meetings held by board of directors in a year	Griffin et al., (2008); Kuang (2011)
Board Size (BSZ)	Total number of directors of a company	Kuang (2011)
Board Female Gender Diversity (BFG)	Proxied as the number of female directors in relation to total board size	Kuang (2011); Aldamen et al., (2018);
Board Independence (BIN)	Measured as the non-executive board of directors divided by total board size	Kuang (2011)
CEO Ownership (CEO)	Measured as the number of CEO shares divided by the total number of shares	Gotti et al (2011), Harahap and Prasetyo (2018)
Female Audit Committee (FAC)	proxied by dividing female audit committee members by the total number of audit committee members.	Miglani and Ahmed (2019); Aldamen et al., (2018)
Control Variables		
Firm Size (FSZ)	Measured as the natural log of total asset	Coffie and Bedi, (2019).
Return on Assets (ROA)	proxied as the ratio of earnings before interest and taxes to total assets (%)	Lai et al., (2017); Aldamen et al., (2018)
Leverage (LEV)	The Equity to Total Asset ratio is calculated by dividing a company's total equity by its total asset	Kuang (2011); Lai et al., (2017); Aldamen et al., (2018)
Asset Growth (ASG)	measured as current year total assets minus previous year total assets divided by previous total asset	Wang (2020).

Source: Authors' Compilation

than 1% ownership in their firms, while ownership ranges from 0% to 16.13%, with a highly skewed distribution (Skewness = 4.01) and significant deviation from normality (Jarque-Bera P = 0.00).

5.2. Correlation Analysis and Variance Inflation Factor

Tables 3 and 4 display the Correlation Matrix and Variance Inflation Factor (VIF) respectively. In determining the degree of strengths and association of the relationship between the variables, the study engaged in correlation analysis as a preliminary test. Table 3, the asymmetrical matrix, displays the correlation values between the variables during a 12-year period. The figure in Table 3 is the 0.80 threshold (Judge et al., 1988; Bryman and Cramer, 2004). Therefore, multicollinearity between the independent variables is not considered a significant issue. Additionally, Table 4 shows that the total VIF output falls well short of the critical value of 10. Multicollinearity is not a major concern when interpreting the regression's results if the VIF score is less than 10 (Neter et al., 1989).

5.3. Hausman Test and Lagrange Multiplier Tests

The Hausman test, which was used to determine whether to use a random-effects or fixed-effects model, produced a Chi-square statistic of 42.841868 (P = 0.00), which is statistically significant and rejects the null hypothesis that there is no correlation between the random effect and explanatory variables (Table 5). The Lagrange Multiplier tests (Breusch-Pagan, King-Wu, and Honda) provide evidence of significant random effects, especially in the cross-sectional dimension, with P well below 0.05, indicating the suitability of a random-effects model over pooled OLS. Consequently, the fixed-effects model is preferred over the random-effect model for this dataset, as it provides more consistent and reliable estimates. As a result, a fixed effects model was selected for analysis.

The degree to which the independent variables may explain the variance of the dependent variable is indicated by the adjusted R-squared value of 0.840. Approximately 84% of the variance observed in the dependent variable is believed to be caused by the independent variables in the model. The model as a whole has an F-statistic of 29.84 and a statistically significant P = 0.000. With a P = 0.000 and an F-statistic of 29.84, the model as a whole is statistically significant. The output of a fixed-effect model from the regression analysis is the result displayed in table 6.

The Board Female Gender Diversity (BFG) t-statistic of 3.419 and P = 0.001 are below the typical significance level of 0.05.

Table 2: Descriptive statistics

Descriptive statistics	AFE	BSZ	FSZ	ROA	CEO	LEV	FAC	ASG	BIN	BMT	BGD
Mean	5.51	13.00	9.30	1.76	0.84	9.95	19.20	19.30	0.61	6.00	0.20
Median	5.51	14.00	9.32	1.40	0.09	12.57	16.67	17.57	0.58	5.00	0.20
Maximum	7.07	21.00	10.42	8.97	16.13	53.90	80.00	90.02	0.94	16.00	0.50
Minimum	4.81	6.00	6.79	−9.53	0.00	−154.75	0.00	−68.23	0.00	1.00	0.00
Std. Dev.	0.39	3.24	0.50	1.82	2.31	20.80	17.41	18.88	0.15	2.47	0.12
Skewness	0.51	−0.05	−0.81	−1.33	4.01	−5.61	1.01	0.40	−0.50	1.49	0.28
Kurtosis	3.53	2.58	6.29	15.04	20.98	39.57	4.42	7.17	5.93	5.70	2.71
Jarque-Bera	7.76	1.11	79.43	905.3	2293.2	8719.80	35.83	107.40	57.37	94.97	2.39
Prob.	0.02	0.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30

Source: Authors' computation (2025)

Table 3: Correlation matrix

	Correlation										
Probability	AUF	BSZ	FSZ	ROA	CEO	LEV	FAC	ASG	BIN	BMT	BFG
AUF	1.00										

BSZ	−0.04	1.00									
	0.63	-----									
FSZ	0.77	0.07	1.00								
	0.00	0.43	-----								
ROA	0.48	−0.05	0.44	1.00							
	0.00	0.54	0.00	-----							
CEO	0.05	0.20	0.09	−0.18	1.00						
	0.59	0.02	0.31	0.03	-----						
LEV	0.20	0.23	0.24	0.44	0.03	1.00					
	0.02	0.01	0.00	0.00	0.75	-----					
FAC	0.33	0.08	0.16	0.33	−0.05	0.05	1.00				
	0.00	0.36	0.05	0.00	0.54	0.53	-----				
ASG	0.26	−0.02	0.25	0.29	0.07	0.06	−0.04	1.00			
	0.00	0.77	0.00	0.00	0.43	0.51	0.61	-----			
BIN	0.09	−0.33	0.06	−0.12	−0.13	−0.02	−0.17	−0.04	1.00		
	0.27	0.00	0.47	0.15	0.12	0.84	0.05	0.63	-----		
BMT	0.00	0.22	0.13	−0.27	0.30	−0.02	−0.24	0.12	0.02	1.00	
	0.97	0.01	0.11	0.00	0.00	0.79	0.00	0.17	0.85	-----	
BFG	0.33	0.00	0.18	0.25	0.03	0.12	0.33	0.22	−0.06	−0.09	1.00
	0.00	0.95	0.03	0.00	0.70	0.17	0.00	0.01	0.47	0.30	-----

Source: Authors' computation (2025)

This suggests that audit fee are positively influenced by the BFG coefficient, which is 0.007 and statistically significant. According to Onatuyeh and Ukolobi (2020), the presence of female directors on corporate boards in Nigeria tends to drive up audit fees by demanding more audits and thorough monitoring. The presence of gender diversity on the board might lead to increased scrutiny and complexity in financial reporting, which could explain the higher audit fees. Alternatively, companies that proactively seek gender diversity on their boards may also prioritise thorough financial oversight and transparency, leading to higher audit costs. Gender diversity may lead to a broader range of perspectives and priorities within the boardroom. This diversity of viewpoints may contribute to more comprehensive and detailed financial reporting, which could require additional time and resources from auditors.

Table 4: Variance inflation factors

Sample: 2012 2023			
Included Observations: 141			
Variable	Coefficient Variance	Uncentered VIF	Centered VIF
BFG	3.60E-06	4.98	1.22
BMT	8.63E-05	9.69	1.37
BIN	2.85E-06	29.52	1.25
BSZ	4.97E-05	24.43	1.35
FSZ	0.002239	506.51	1.45
ROA	0.000253	4.28	2.21
CEO	8.60E-05	1.35	1.19
LEV	1.27E-06	1.77	1.44
FAC	1.74E-06	3.05	1.37
ASG	1.39E-06	2.61	1.26
C	0.175008	456.7527	NA

Source: Authors' computation (2025)

Table 5: Hausman test and lagrange multiplier tests

Correlated random effects - Hausman test			
Test summary	Chi-sq. statistic	Chi-sq. d.f.	Prob.
Cross-Section Random	30.119	10	(0.0008)
Lagrange multiplier tests			
Test	Cross section	Time	Both
Breusch-Pagan	11.704 (0.0006)	2.74 (0.098)	14.445 (0.0001)
Honda	3.421 (0.0003)	1.655 (0.0489)	3.588 (0.0002)
King-Wu	3.421 (0.0003)	1.655 (0.0489)	3.588 (0.0002)

Source: Authors' computation (2025)

Consequently, the positive coefficient value of 0.004 for female representations in the audit committee (FAC) indicates positive relationship between female representation on the audit committee and the audit fee for the companies studied. The result is in alignment with Miglani and Ahmed (2019) and Aldamen et al., (2018). Put more simply, audit fees typically rise in tandem with the number of women on the audit committee. The audit committee may be more diversified and experienced if there are more women on it. A diverse audit committee may engage in more thorough financial oversight, potentially leading to increased audit fees. In other words, companies that actively promote female representation on their audit committees may be responding to these expectations and may be more inclined to invest in robust audit processes, leading to higher audit fees. In the fixed-effects model, CEO Ownership (CEO) has a negative coefficient (−0.016) and a P = 0.050, indicating significant inverse relationship with audit fees at the 5% level. This suggests that as CEO ownership increases, audit fees tend to decrease. The implication is that higher ownership by the CEO may align their interests with those of the shareholders, reducing agency problems and the perceived risks auditors need to address. It also indicates a potential reduction in agency costs. Consequently, auditors may charge lower fees because the need for extensive auditing due to potential mismanagement or conflicts of interest is perceived to diminish when CEOs have more at stake in the firm's success. The result is consistent with Gotti et al (2011) and Gotti et al (2012).

Table 6: Regression analysis

Dependent variable: AFE									
Variable	Random effects			Fixed effects			Pooled OLS		
	Coefficient	t-Stat	Prob.	Coefficient	t-Stat	Prob.	Coefficient	t-Stat	Prob.
BFG	0.006	3.324	0.001	0.007	3.419	0.001	0.434	2.288	0.024
BMT	0.003	0.388	0.698	0.004	0.508	0.612	−0.001	−0.131	0.896
BIN	0.002	1.107	0.271	0.001	0.843	0.401	0.262	1.549	0.124
BSZ	−0.008	−1.201	0.232	−0.010	−1.358	0.177	−0.008	−1.131	0.260
FSZ	0.300	6.595	0.000	0.172	3.406	0.001	0.515	10.883	0.000
ROA	−0.014	−0.989	0.325	−0.041	−2.632	0.010	0.023	1.423	0.157
CEO	−0.009	−1.086	0.280	−0.016	−1.953	0.050	0.006	0.687	0.494
LEV	0.000	0.334	0.739	0.001	0.901	0.369	0.000	−0.237	0.813
FAC	0.005	3.772	0.000	0.004	3.250	0.002	0.004	2.903	0.004
ASG	0.002	2.339	0.021	0.003	3.301	0.001	0.001	0.776	0.439
C	2.483	5.912	0.000	3.736	7.902	0.000	0.458	1.095	0.275
	R-squared		0.456			0.840			0.674
	Adjusted R-squared		0.414			0.812			0.648
	S.E. of regression		0.190			0.170			0.232
	F-statistic		10.889			29.840			26.822
	Prob (F-statistic)		0.000			0.000			0.000
	Durbin-Watson stat		1.469						1.443

Source: Authors' computation (2025)

The statistical significance of the coefficient for ROA with audit fees is demonstrated by the C = −0.041, t-statistic of −2.632 and the P = 0.010, below the threshold significance level of 0.05. The result agrees with Aldamen et al., (2018). According to Lai et al. (2017), the firm's ROA performance lowers litigation and reputation risks; thus, we anticipate a negative coefficient. This implies that audit fees will potentially be cheaper for businesses with larger returns on assets. Strong financial performance, as demonstrated by greater return on assets, may lead auditors to view a company as less risky and financially stable. This lower perceived risk might lead to reduced audit efforts and, consequently, lower audit fees. Auditors may perceive companies with higher return on assets as less risky. Lower perceived risk can reduce the need for extensive auditing procedures, resulting in lower audit fees. In the fixed-effects model, Firm Size (FSZ) has a positive and statistically significant coefficient (0.172, P = 0.001), indicating that as firm size increases, audit fees also rise. This relationship reflects the higher complexity and scope of auditing larger firms due to their broader operational activities, increased financial data to review, and higher inherent risks. Larger firms typically engage auditors for more extensive scrutiny to meet regulatory requirements and maintain credibility with stakeholders. The result aligns with Wang and Zhou (2018).

In conclusion, Asset Growth (ASG) has a positive and statistically significant coefficient (0.003) with t-statistic of 3.301 and P = 0.001. This suggests that as firms experience higher asset growth, they are likely to incur higher audit fees. The implication is that firms with rapid asset expansion may require more extensive audit procedures due to increased complexity, greater audit risks, or higher reporting demands associated with their growth. Auditors likely perceive firms with significant asset growth as requiring closer scrutiny, which justifies the higher fees.

6. CONCLUSION AND RECOMMENDATIONS

The study reveals that several factors significantly influence audit fees, including firm size (FSZ), business group affiliation (BFG), female representation on the audit committee (FAC), and asset growth (ASG). BFG and FAC show positive relationships with audit fees, suggesting that gender diversity within key corporate governance structures increases financial oversight and auditing costs. Higher CEO ownership is found to decrease audit fees, aligning the CEO's interests with those of shareholders, thereby reducing perceived audit risks. Additionally, higher return on assets (ROA) and firm size (FSZ) are associated with lower and higher audit fees, respectively, as companies with larger returns are perceived as less risky, while larger firms generally require more complex audits due to their operations. Asset growth (ASG) is positively linked to higher audit fees, as rapid growth demands more thorough audits to manage associated risks.

Based on findings, the study, therefore, recommended that the banking sector should consider promoting gender diversity on both their boards and female audit committees. The study indicates that female representation is positively related to audit fee, which suggests that diverse boards may foster enhanced financial oversight and better monitoring practices. This can lead to improved transparency, which can benefit the firm in the long term by reducing risks. Also, banks with strong financial performance, as indicated by higher ROA, face lower audit fees due to lower perceived risks. To reduce audit costs and enhance investor confidence, firms should focus on strengthening internal controls and improving operational efficiency to boost profitability.

Given the positive relationship between asset growth and audit fees, companies should ensure that their asset expansion strategies are well-managed to avoid increased audit complexity. Ensuring that growth is strategically planned with careful attention to financial reporting will help mitigate the higher costs associated with rapid asset expansion. Finally, firms should evaluate the potential benefits of increasing CEO ownership. As the study shows that higher CEO ownership correlates with lower audit fees, a well-aligned ownership structure may reduce agency costs, enhance trust with shareholders, and lower perceived audit risks. Companies should look into incentive programs that allow CEOs to increase their equity holdings.

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