

Review Article

**DETERMINANTS OF AUDIT FEES: EVIDENCE FROM COMPANIES LISTED IN THE INDUSTRIAL SECTOR OF MUSCAT SECURITIES MARKET**

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**Abstract**

Audit means a systematic examination of books of account to check the authenticity and accuracy of transactions. It means examining the authenticity with reference to documents, invoices, vouchers, bills and cash memos. This examination is done by the auditors who are paid audit remuneration, which is an amount of money charged by them for the auditing work done. The core objective of the research is to understand some of the important elements which affect the payment of audit remuneration by the Omani companies listed in MSM. This research concentrates on five elements to determine the audit charges such as the size of the firm, profitability, audit risk, type of auditor and audit report lag. For the purpose of the study, samples were collected from 30 audit firms using secondary data for a period from 2015-2018. For this study, correlation tool was used and the results show that there is minimum relation among audit remuneration, firm's magnitude, profitability and types of auditor; and other results reveal a negative correlation between audit risk and audit remuneration.

**Keywords:** Omani Companies,

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**INTRODUCTION**

Audit means a systematic examination of books of account to check the authenticity and accuracy of transactions. It means examining the authenticity of the transactions with reference to documents, invoices, vouchers, bills and cash memos. The audit is the process of independent investigation of the financial statement and transaction of a particular company. An auditor has the responsibility to check and verify the books of accounts and vouchers. Honestly, an auditor must give his opinion of the balance sheet showing a true and fair view of the affairs of a concern.

**Audit remuneration**

The audit remuneration is an amount of fee charged by the audit firm for the auditing work done for the client companies. The audit remuneration is decided based on the agreement between the auditor and auditee (Client Company) based on the time used for conducting the audit process, other services and the number of staff involved in the process. Many studies have shown that there are two dimensions influencing the determination of audit remuneration. The first dimension consists of factors related to the audit firm, and the second those related to the auditee.

Many research studies have been conducted in the area of the characteristics of the audit company and the client company. The auditor factors which affect the audit remuneration are the size and reputation of the audit company, competition, the reputation of the auditor, industry-specialization, etc. The client company factors which affect audit remuneration are its size, complexity, profitability and risk. Many studies have presented empirical evidence on the relationship between the two dimensions and the determination of audit remuneration.

The external audit services and audit fees given by companies to their auditor's area unit are purely based on the interests of each sector and the auditors. It is mandatory that companies have

their accounting statements audited and pay a reasonable fee; auditors need to offer facilities to make sure that the fee they charge is adequate to allow an acceptable service.

Besides, company auditors and the stockholders are alerted that the audit remuneration is not a specific amount (the mentioned amount is either high or low); it may neutralize self-assurance in the audit opinion. Moreover, the point of audit remuneration and how the aspects are revealed are important matters of accounting figures. The costs which have to be quoted by an audit company and the aspects have to be taken into consideration when defining the audit remuneration. The current research on the identification of factors has to be considered for the determination of the audit fee. Several research developments have focused on the trade for audit business and facilities in emerging countries, but some have been conducted only in the Arabic countries. It is shown that there is a break between the accounting job and teaching due to the absence of theoretical publications. The insufficiency stimulated the researcher to do more research on this issue. In addition, the research has possible inferences for applicable countries, which have resemblances in statutory outline and governmental omission.

The audit remuneration is offered by all the companies detailed in Muscat Securities Market because auditing is a legal requirement for all the companies. Auditors perform the verification of books of accounts of the company along with various other audit services like taxation etc., as it is required by the client company. So, there should be an audit remuneration model which helps to understand all factors that are to be considered to pay the audit remuneration to the auditors. Various studies provide different types of attributes which disturb the payment of audit remuneration. The current research tries to understand certain important factors which affect the

payment of audit remuneration by the Omani companies listed in MSM. This will help the companies as well as various students to identify the main factors that will have to be considered to decide upon the amount to be paid as audit remuneration.

#### Objectives of the Study

1. To understand the attributes that significantly affect audit remuneration.
2. To influence the payment of audit remuneration through these factors.
3. To understand the client company attributes that are responsible for variations in audit remuneration paid by Omani companies listed on MSM.

#### LITERATURE REVIEW

Joshi, P L & ALBastaki, Hasan (2000), studied the audit remuneration of 38 concerns in Bahrain listed on the Bahrain Stock Exchange (BSE). Audit remunerations are pointedly connected with the magnitude, risk, gain, and complications of customer processes.

Dinh Ha Thu Vu (2012) brought out facts regarding the factors affecting the payment of audit remuneration for Swedish companies listed in NASDAQ OMX Stockholm. The study found the magnitude of the company was completely correlated with the audit charges. So, it might be assumed that the audit charges were adversely correlated to the audit team. Meanwhile, the study could not answer whether the audit risk, audit industry, and auditor branch name had any significant association with audit remuneration or not. The result of this study revealed that the complication of the audit, the year-ended date and tenancy of the auditor had no relation with the audit remuneration paid.

Kimeli Elkana Kiptum (2013) conducted a study on the determinants of audit remuneration for listed firms in Kenya. This study showed that the factors which determined the audit remuneration were auditor familiarity and rank, Big 4 status, customer corporation size, complication and also audit report lag. The research discovered an undesirable correlation among audit remuneration paid and the client profitability and the audit company's magnitude. Also, there were no other relationships found between audit remuneration paid and the client company.

Gan Pei Ling, (2014) examined the determinants of audit remuneration among enrolled industrialized companies in Malaysia. The research discovered positive relationships among audit remuneration, company's magnitude, the difficulty of the customer company, status of the auditor firm and audit risk. The study also showed that there was a negative relationship between the audit remuneration and the profitability of the client company. These factors identified by the research help to define the audit remuneration appropriately.

P. J. Baldacchino, Miriam A and F Cassar (2014) investigated the factors influencing the external audit remuneration in Malta. This study was focused on the relationship between audit remuneration and factors such as the size and complexity of the company and audit risk. The result of the study was that the audit remuneration was determined by the customer company's magnitude, difficulty, audit risk, ownership control and auditor status.

Prem Lal Joshi et al. considered audit remuneration as an important variable that influenced the top 100 listed concerns in Malaysian stock exchange. The result showed that customer concern and the profitability and ownership structure of the client concern were the main variables that affect audit remuneration in Malaysia. There was an adverse correlation between audit remuneration and gainfulness. The research discovered audit remunerations were adversely correlated with the Big 4 position of the audit company.

Toto Rusmanto & Stephanus Remond Waworuntub (2015), conducted a study to find the attributes affecting audit fee in companies which had good corporate governance. The research found that assets (company size) played a significant role in determining audit remuneration paid by the client company to auditors, while other factors such as profit, business complexity and the number of subsidiaries were not significant in determining audit fees.

Elkana Kiptum Kimeli (2016), proposed an analysis to identify the determinants of audit remuneration in Kenya. The result of the study suggests that there was a positive association among the audit remuneration and factors such as an audit company's experience, reputation, Big 4 position, and the magnitude of the Customer Company, complexity and audit account lag in Kenyan registered company. But there was a negative correlation among the audit remuneration and auditor magnitude, customer gainfulness and customer risk.

Getachew Lechu Kistana (2016), investigated the factors affecting audit remuneration in the private commercial banking industry. The findings revealed that all board characteristics, audit committee characteristics, audit excellence, audit company magnitude, audit risk and bank size were understood to be the major attributes influencing the changes in audit remuneration in the Ethiopian commercial banking industries. Moreover, the audit remunerations were directly affected by the audit risks, audit firm's size, audit complexity and bank size. Based on the result, the study suggests that private commercial banking industries provide better focus on factors that are deemed to have a significant effect on audit remuneration.

R. Ali Ahmed H. Ahmed Abdullah (2016), investigated the variables which influenced the elements of audit remuneration in the Kurdistan region/ Iraq. The researcher investigated the importance of three major groups of attributes that affected audit remuneration, namely audited firm attributes, auditor attributes, and market attributes. The results showed that all these three attributes affected the determination of audit remuneration.

Hamid birjandi, Alireza Mansoorabady and Zahra Fathi (2017) investigated attributes on Audit remuneration with an emphasis on audit costs. The research discovered that the audit remuneration was determined by the customer company's magnitude.

By analyzing previous research studies, it can be understood that revealing the size of organization, profitability, risk, audit report lag and audit risk influence the audit fee and its payment. After having an insight into the review of literature, it is found that no previous studies have been conducted in the Muscat stock market related to factors that significantly affect Audit remuneration. Hence, this research work is very important to know whether these factors influence audit fee payment in companies listed under the Muscat securities market.

#### RESEARCH METHODS

This study is based on an Inductive approach. This study adopts a descriptive research design. The dependent variable of the study is audit remuneration. Independent variables are divided as auditee /client attributes and audit attributes. The company features chosen for this study are the size, profitability and risk of the company, auditee attribute or types of the auditee and audit report. This study is using secondary data for analyzing the relationship between the dependent variable audit remuneration and five independent variables such as the size of the client company, audit risk, profitability of the client company, auditor size and audit report lag. The data about various variables under study such as audit remuneration, total assets, net income, total debts, types of auditee, audit report lag, etc. were collected from the financial statements of 30 companies listed in Muscat

Securities Market (MSM). A random sampling method has been used to select companies. There are 41 companies listed in the industrial sector of MSM. The study was conducted on a small sample of 30 companies listed in the industrial sector of MSM for a period of 2015-2018. The random sampling method was used to select the sample companies. In this study the attributes are measured as follows:

1. Audit remuneration paid by the company retrieved firm the note of the financial statement.
2. Size of the firm = Total Assets of the company
3. Profitability = Net income
4. Risk of the firm = Total assets to total debt ratio
5. Type of the Auditor = Domestic (0) international (1)
6. Audit report lag = deference between the date of financial statement and date of the audit report

	Audit fees	Size of the firm	Audit Risk	Profitability	Auditor Type	Audit Report Lag
Audit fees	1					
Audit fees	0.095890073	1				
Audit fees	0.095890073	0.105995894	1			
Audit fees	0.095890073	0.105995894	-0.04770379			
Audit fees	0.095890073	0.105995894	0.070399744	-0.241178579	14	
Audit fees	0.095890073	0.105995894	-0.263337891	0.227906957	0.126655187	1

### The correlation analysis results

From the above table showing correlation, it can be understood that a relationship exists among audit remuneration, the magnitude and profitability of a firm, audit report lag and auditor size. But the amount of correlation is not strong enough to prove the relationship, whereas the audit remuneration is negatively correlated to the audit risk. Here also, the amount of correlation is not strong enough to prove the relationship. So, the present study could not provide robust proof that the five independent factors, which were studied here, are the determinants of the audit remuneration of companies listed in MSM.

The present study can be taken as a base for further research by including different factors (independent variables) and also other sectors of MSM.

### CONCLUSION

The study was conducted to realize the elements of audit remuneration with support of literature review on five different factors chosen, which might normally affect the audit remuneration. Audit remuneration was taken as a dependent variable, whereas the size of the client company, its profitability, audit risk, type of the auditor and audit report lag were taken as independent variables. For the study, 30 sample companies were randomly chosen from the industrial sector of MSM for a period ranging from 2015 to 2018, thereby studying 90 observations. The result of the correlation show that the size of the company, type of auditor, profitability and audit report lag are positively correlated to audit remuneration, but with relationships, whereas, audit risk is a factor that is adversely correlated to the audit remuneration with a weak relationship. In short, the study cannot be considered as strong evidence for the factors which affect the payment of audit remuneration due to its weak correlation.

### Equation of correlation

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n(\sum x^2) - (\sum x)^2][n(\sum y^2) - (\sum y)^2]}}$$

### DATA ANALYSIS AND INTERPRETATION

The data pertaining to a period ranging from 2015-2018 were collected from the 30 companies listed under the industrial sector in MSM. Thus 90 observations were studied. Correlation examination helps to recognize the connection between the dependent variable (audit remuneration) and the self-governing variables (client company magnitude, profitability, audit risk, type of the auditor and audit report lag).

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