

Corporate Governance and Audit Fees Evidence from Bangladeshi Listed Banks and NBFIs

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Received: October 19, 2019 Accepted: November 18, 2019 Published: November 25, 2019

doi: 10.5296/jcgr.v3i1.15638 URL: <https://doi.org/10.5296/jcgr.v3i1.15638>

Abstract

The study examines influence of corporate governance mechanisms on audit fees in listed Bangladeshi banks and non-bank financial institutions (NBFIs) with Dhaka Stock Exchange. Data have been collected from published annual reports of the 46 firms covering the period of 2013-2017. Among them 30 firms are banking companies the remaining firms belong to NBFIs. Using fixed-effect model, the study finds that board independence, female member representation in board, board diligence as well as audit committee diligence have positive influence on audit fees. As opposed to previous literature, the study reports that in the context of Bangladeshi banks and NBFIs board size, audit committee size, audit committee independence are negatively associated with audit fees.

Keywords: corporate governance, audit fees, Bangladeshi, banks, NBFIs

1. Introduction

Corporate governance is the system by which companies are directed and controlled to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company (FRC, 2012). The numerous scandals at the global level, especially the high-profile cases like Enron, Parmalat, Tyco, AIG, WorldCom, Lehman Brothers, Waste Management, Olympus, etc., eroded the credibility of financial reporting (Paltrow, 2002). As a result, the area of corporate governance has turned into a center of attention to the researchers around the globe. For the purpose of ensuring good corporate governance practices many countries officially implemented different laws and procedures such as Sarbanes-Oxley Act (2002) in USA, Australian Treasury Act (2002) and Higgs Report (2003) in the UK, SEBI's corporate governance guidelines in India. In Bangladesh, BSEC has published official 'Corporate Governance Code' in 2018 in order to enhance corporate governance in the interest of investors and the capital market and has made the following of Code mandatory for every listed companies with any stock exchanges of Bangladesh.

For financial and economic entities corporate governance is considered as an important topic. Because in developing-economy financial systems, capital market is comparatively weak as a result the banks are the major source of finance for most of the firms. It allows banks to hold a dominant position and considered as extremely important engines of economic growth (King & Levine, 1993a, b; Levine, 1997; Levine, 2004).

In Bangladesh perspective, numerous research activities have been conducted on various issues of corporate governance mostly like corporate governance practices in Bangladesh (Hossain & Rahman, 2013; Mahmud & Ara, 2015; Shamsuddoha, 2003), history of it (Biswas, 2015), problems and prospects in Bangladesh (Huq & Bhuiyan, 2012; Wise et al., 2014) impact of it in various factors like performance (Alam & Akhter 2017; Ahmed et al., 2008), NPL (Saha & Ghosh, 2019) and CSR (Khan, 2010) etc. Similarly, the research activities regarding audit fee in Bangladesh have mostly centered on finding the determinants of it (Karim & Moizer 1996; Karim and Hasan, 2012; Safiuddin and Mohsin, 2016).

However, very few studies have scrutinized the possible association between audit fee and the factors of corporate governance in Bangladesh. Haque et al. (2019) examined 40 listed insurance companies with Dhaka Stock Exchange to observe the relationship of corporate governance with audit fees. The study was conducted by using a composite score of four dichotomous corporate governance variable and found a positive relationship between CG variables and audit fees.

Although the research evidence from different countries shows mixed results regarding this issue. Bortolon et al. (2013) examined the sample of 131 companies in Brazil and concluded that a negative relationship exists between corporate governance and the cost of the independent audit. Similarly, Wu (2012) used data of listed companies with Shanghai Stock Exchange and found a significant negative relationship between corporate governance and audit fees.

On the other hand, Harris (2007) sampled 100 publicly traded corporations drawn from the

2005 Fortune 500 list and concluded that a significant positive relationship between expertise (audit committee financial experts and the average number of outside directorships held by board members) and audit fees. In the same vein, Urhoghide & Izedonmi (2015) examined Nigerian Stock Exchange data from 2007–2012 and concluded board diligence, board expertise, board size, board independence, and audit committee independence, all have a positive and significant impact on audit fee. Hassan et al. (2014) used 37 publicly traded firms listed at Karachi Stock Exchange (KSE) and found corporate governance, firm size and leverage have a positive relationship with audit fee. Likewise, Farooq et al. (2018) examined five years data of KSE-100 and found effective board quality has positive association but audit committee effectiveness reduces the external audit fee.

Husnin et al. (2013) scrutinized internal corporate governance mechanisms with audit fee in Malaysia and found that the Malaysian Code of Corporate Governance influenced the determinants of audit fee. Hamza (2018) studied 26 Jordanian insurance companies and found significant impact of corporate governance principles on the auditor's independence and audit fees.

In this situation, this paper attempts to examine factors of corporate governance and scrutinize the possible association between corporate governance and audit fees in the context of Bangladeshi listed banks and non-bank financial institutions (NBFIs) with Dhaka Stock Exchange (DSE). The aim of this paper is to find out the association between the studied variables and compare it with the international evidence.

2. Literature Review and Statement of Hypothesis

Good corporate governance is said to be the most valuable practice for the success of any business. Corporate governance first came into vogue in the 1970s in the United States. Within 25 years corporate governance had become the subject of debate worldwide by academics, regulators, executives and investors (Cheffins, 2013). However, in emerging economies studies on corporate governance have not gained the same momentum as in the developed markets (Shleifer & Vishny, 1997; Gibson, 2003; Denis & McConnel, 2003).

2.1 Board Size

Beiner et al. (2004) suggested the size of the board of directors is an independent corporate governance mechanism. The literature on the effectiveness of board size on its monitoring efficiency is mixed (Farooq et al., 2018) some argue smaller board size is more effective (Simpson and Gleason, 1999; Belkhir, 2006; Altunbas et al., 2001) while others argue the opposite scenario (Lipton & Lorsch, 1992; Jensen, 1993). However, in relation to audit fee studies suggest that there is a positive association between external auditor fees with board size (Kikhia, 2014; Karim et al., 2015; Jizi & Nehme, 2018). Larger and classified boards seek better monitoring from external auditors which leading to increased audit fees (Jizi & Nehme, 2018). Thus, the hypothesis to be empirically tested is as follows:

H₁: There is a positive relationship between the board size and audit fees in Bangladesh

2.2 Board Independence

For listed companies the appointment of independent directors is essential in order to ensure good corporate governance. One of the main reasons behind appointing independent directors is to ensure objectivity so that they can evaluate the performance and wellbeing of a company without having any conflict of interest or undue influence (Sattar, 2018). Even though empirical findings on the board independence and performance is mixed in the literature (Saha & Ghosh, 2019), the previous studies suggest a positive relation exist between board independence and audit fees (Jizi & Nehme, 2018; Bozec & Dia, 2017; Kikhia, 2014; Carcello et al., 2002). Carcello and Neal (2000) argued that the existence of independent directors leads to greater concern about audit quality in comparison to the presence of executive directors. As a result, companies with more independent directors and effective audit committees assign higher-quality auditors (Abbott & Parker, 2000). These findings support the notion that, independent board members try to avoid any mishaps before they occur by trying to ensure high quality external audit because their reputation is at stake and which in turn increases audit fees paid for external auditing. So in alignment with above arguments the following hypothesis can be drawn:

H₂: There is a positive relationship exists between the board independence and audit fees in Bangladesh

2.3 Board Diligence

An important facet of corporate governance that has gained prominence of late has been the board of directors of the firm (Hermalin, 2005). Vafeas (1999) has argued, board meeting frequency is an important dimension of board operations and unless the board is diligent the independence or size of the board cannot in themselves lead to effectual in the monitoring role. Regular meeting attendance is considered a hallmark of the conscientious director (Sonnenfeld, 2002). Because regular meeting attendance is it likely to inform the members about the relevant performance of the company and direct the appropriate action to address the current issue. Carcello et al., (2002) argued a board that demonstrates greater diligence by the number of board meetings may seek an enhanced level of oversight of the financial reporting process. Harris (2007) noted boards that meet more often can interact with the audit committee, and thus may influence audit activity and coverage during various stages of the audit. As a result, a diligent board will demand proper scrutiny of the reporting process by high quality auditors and thus it will ultimately lead to an increase of audit fees. Form the above discussion the following hypothesis can be drawn:

H₃: There is a positive relationship exists between the board diligence and audit fees in Bangladesh

2.4 Female Members Representation in Board

Recent studies has confirmed that gender diversity may have important implications for corporate governance. For example, Carter et al., (2003) noted board diversity is associated with an improved financial value. Erhardt et al., (2003) suggested board diversity is positively associated with financial indicators of firm performance. Adams & Ferreira (2009)

suggested that gender-diverse boards allocate more effort to monitor. The literature also suggests that women are more sensitive to ethical issues than men in decision making. Say, Bernardi & Arnold, (1997) concluded female managers are at a significantly higher average level of moral development than male managers. However, literature in terms of board's gender diversity and auditor selection exhibit mixed results. Lai et al., (2017) examined how female audit committee members affect audit quality on the basis of data from U.S. firms and concluded that firms with gender-diverse boards pay higher audit fees and are more likely to choose specialist auditors compared to their peers. Huang et al., (2014) also studied U.S. firms and found an association between firms with female CEOs and higher audit fees. Ittonen & Peni (2012) found the same result using a sample of public firms from the NASDAQ OMX exchanges in three Nordic countries. Hardies et al., (2015) studied Belgian firms and concluded higher audit fees for female audit engagement partners. Likewise, Khlif & Achek (2017) studies dealing with gender issues in accounting literature over the period of 1994-2016 and found findings shows that female representation on the board, audit committee, CFO or CEO leads to higher audit fees along with more conservative reporting, higher level of social and environmental disclosure, less tax aggressiveness. In line with the above literature, it is argued that as female members are more cautious about the firm's performance and ethical issues, they tend to ensure higher audit quality given by specialist external auditors and thus audit fees increase.

H₄: There is a positive relationship exists between the female member representation in the board and audit fees in Bangladesh

2.5 Audit Committee Size

As stated by CFA(note 1) Institute, the primary purpose of a company's audit committee is to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations. Crişan & Fülöp (2014) stated that the role of the audit committee is crucial and plays a major role in corporate governance regarding the organization's direction, control, and accountability (Al-Baidhani, 2016). The size of the audit committee is considered a measure for audit quality. The size itself provides an indicator of an effectual discharge of committee duties (Chartered Institute of Management Accountants, 2000). Stewart & Kent (2006) found the relation of higher audit fees with the existence of an audit committee, committee meetings and increased use of internal audit. Ali et al., (2018), also found that audit committee effectiveness has a positive significant impact on both audit fees and non-audit fees. In the same vein, Azmi et al., (2013) after analyzing Malaysian listed companies opined audit committee size is significant and has a positive association with audit fees. The presence of an audit committee should ensure that audit hours are at a level that does not compromise the quality of the audit, which may lead to an increase in audit fees (Collier & Gregory, 1996). As the results of previous literatures supports positive association, therefore following hypothesis has been tested:

H₅: There is a positive relationship exists between the audit committee size and audit fees in Bangladesh

2.6 Audit Committee Independence

In recent years the interest in firm's internal audit committee as a part of overall corporate governance has increased dramatically and emphasis is being given on member independence, experience, and knowledge (Rahim et al., 2015; DeZoort & Salterio, 2001). Smith Committee (2003) had recommended four criteria of a good audit committee of which the first criteria recommended that all members of the committee should be independent non-executive director. Similarly, the Para 5.2 (b) of Bangladesh Corporate Governance Code (BCGC) stated that the board shall appoint members of the audit committee who shall be non-executive directors of the company excepting Chairperson of the board and shall include at least one independent director. Audit committees with independent directors can be regarded as better equipped to maintain the integrity of company financial statements (Klien, 2002; Vera-Munoz, 2005) thus more cautious regarding the occurrence of fraud in financial statements (Beasley et al., 2000). Abbott et al., (2003) and Carcello et al., (2002) found that the more independent audit committees demand a higher quality audit service thus will result in higher audit fees. In line with the above discussion the following hypothesis has been developed:

H₅: There is a positive relationship exists between the audit committee independence and audit fees in Bangladesh

2.7 Audit Committee Diligence

Prior studies have identified diligence as one of the most important measures in quantifying the effectiveness of an audit committee (Kalbers & Fogarty, 1993; Willekens et al., 2004; Méndez & García, 2007; Sharma et al., 2009; Greco, 2011). However, the number of audit committee meetings is considered as the most quantitative signal about the diligence of audit committees (DeZoort et al., 2002; Raghunandan & Rama, 2007; Méndez & García, 2007; Sharma et al., 2009; Greco, 2011, Yin et al., 2012). A diligent internal audit committee can ensure strong internal control system, reliability of financial reporting, improve transparency and thus contribute to the overall enhancement of the firm's value. By performing the activities diligent audit committees can reduce the risks associated with financial fraud (Beasley, 1996) and improve the information environment (Fakhari & Pitenoai, 2017) which leads to lesser external audit effort and thus result in lower audit fees. However, it is interesting to see that a bunch of studies has developed a hypothesis on that argument, but none of them managed to prove a negative association between audit committee diligence and audit fees (Farooq et. al., 2018; Jizi & Nehme, 2018; Yatim et al., 2006; Stewart & Kent 2006; Abbott et. al., 2003). Only Azmi et al., (2013) found a negative relation by examining 120 observations of year 2008 of Bursa Malaysia listed companies. Surprisingly Yatim et al., (2006) used the same listed companies, but a larger observation of 736 firms of the year ending 2003 and found straight opposite result. In this problematic situation it is really confusing to state a hypothesis. But due to the recent study results the following hypothesis has been drawn: **H₆:** There is a positive relationship exists between the audit committee diligence and audit fees in Bangladesh

2.8 Audit Fee and its Determinants

Simunic (1984) defined the audit fee as a cost associated with the audit services which are demanded by client. Audit fee is the economic remuneration for auditors who provide audit services (Liu, 2017). The preponderance of research activities has been conducted to unveil determinants of audit fee over the years. Studies based on developed economies include but not limited to Rubin (1988); Chan et al., (1993); Brinn et al. (1994); Moizer (1997); Langendijk (1997); Taylor & Simon (1999); Mellett et al., (2007); Gonthier-Besacier & Schatt (2007); Bedard & Johnstone (2010). Similarly, amongst the studies of emerging economies Karim & Moizer (1996); Naser & Nuseibeh (2008); Karim & Hasan (2012); Hassan & Naser (2013); Kikhia (2015); Haq & Leghari (2015) studied the determinants of audit fees in developing countries around the world.

Urhoghide & Izedonmi (2015) opined it will be misleading to assume the findings regarding audit fee determinants in the developed countries can exactly be the same as in the developing economies. However, this study the purpose of which is to find the impact of corporate governance variables on audit fee include a couple of variables common in the prior literature and test them as control variables.

3. Methodology of the Study

3.1 Data Source

The prime purpose of this study is to investigate the association between audit fee and corporate governance variables with the presence of control variables that reported significant association with the dependent variable in prior studies. To test the hypothesis, data has been gathered from following listed firms with Dhaka Stock Exchange (DSE).

Table 1. Sample Description

Firm Type	Population	Sample	Percentage	Period (Years)
Bank	30	30	100%	2017-2013
Non-bank financial institute (NBFI)	23	16(note 2)	69.5%	
Total sample size =	53	46	86.79%	2017-2013

The published annual reports of each observed organization have been collected from the respective website of it. For analysis purpose the study used EViews 9 along with Gretl.

3.2 Measurement of Variables

Table 2. Estimation of Corporate Governance Variables and Audit Fees

Variable Name	Symbol	Operational Definition
Audit Fees (Dependent Variable)	LnAUDFEE	Natural log of audit fees
Board Size	BODSIZE	Number of members in board
Board Independence	BODIND	Proportion of independent director (ID) to total number of directors
Board Diligence	BODDILI	Total number board meetings held in the financial year
Female Members Representation in Board	BODFEM	Proportion of female members in board
Audit Committee Size	ACSIZE	Number of members in AC
Audit Committee Independence	ACIND	Proportion of independent director in AC
Audit Committee Diligence	ACDILI	Total number AC meetings held in the financial year

Table 3. Estimation of Control Variables

Variable Name	Symbol	Operational Definition	Source	Exp. Sign
Firm Size	LnFSIZE	The natural log of total asset	Chan et al. (1993); Karim & Moizer (1996); Naser & Nuseibeh (2008)	+
Profitability	PROFIT	Ratio of profit after tax (PAT) divided by total assets	Haq & Leghari (2015); Jizi & Nehme (2018)	-
Complexity	ComX	Number of subsidiaries the firm has	Langendijk (1997)	+
Loss	LOSS	Dummy variable; assigned 1 (one) if firm experienced a loss during the year.	Haq & Leghari (2015)	+
Big 4	BIG4	Dummy variable; assign 1 if firm's external audit has Big 4 affiliation	Karim & Moizer (1996); Haq & Leghari (2015)	+

Table 4. Big 4 Affiliated Firms in Bangladesh

Global Name of Big 4	Local Names	Year of Local Firm's Establishment	Affiliation Status with Big 4	Length of Affiliation (since)
KPMG	Rahman Rahman Huq	1962	Member	2006
PwC	A. Qasem & Company	1953	Correspondent	1978
Deloitte(note 3)	Hoda Vasi Chowdhury	1972	Correspondent	1998
Ernst & Young	S.F. Ahmed & Co.	1958	Correspondent	1975

Source: Belal et al., (2017)

3.3 Model Specification

The study uses the following regression models to test the hypothesis

i) Model 1:

$$\text{LnAUDFEE} = C + \beta_1 \text{LnSIZE}_t + \beta_2 \text{PROFIT}_t + \beta_3 \text{ComX}_t + \beta_4 \text{LOSS}_t + \beta_5 \text{BIG4}_t + \mathcal{E}$$

ii) Model 2:

$$\text{LnAUDFEE} = C + \beta_1 \text{BODSIZE}_t + \beta_2 \text{BODIND}_t + \beta_3 \text{BODDILI}_t + \beta_4 \text{BODFEM}_t + \beta_5 \text{ACSIZE}_t + \beta_6 \text{ACIND}_t + \beta_7 \text{ACDILI}_t + \beta_8 \text{LnSIZE}_t + \beta_9 \text{PROFIT}_t + \beta_{10} \text{ComX}_t + \beta_{11} \text{LOSS}_t + \beta_{12} \text{BIG4}_t + \mathcal{E}$$

Here,

C = intercept;

β_1, \dots, β_n = regression coefficient;

t = period indicator; and

\mathcal{E} = error term;

Model 1 estimates the association between dependent variable and control variables only however in Model 2 all the experiment variables have been added along with Model 1 variables.

As it is a panel data study, Breusch–Pagan test have been applied to finding out if there is any possibility of having heteroskedasticity in the model. The results ($p=0.000$) confirmed the rejection of the null and infer the presence of heteroskedasticity. To choose between random effect (REM) and fixed effect (FEM) model the Hausman test is conducted. The results ($p=0.01$) confirmed that the difference in coefficients is systematic and consequently, the FEM should be used. Both models have been examined using fixed-effect panel linear regression more specific, one-way fixed *time effect* model with robust standard errors.

4. Results and Discussion

4.1 Descriptive Statistics

Table 5 reveals the descriptive statistics of all the variables used in the study. Starting from audit fees (AUDFESS) it has been observed that the average amount of audit fee in Bangladeshi banks and NBFIs is BDT 1.095 million. The observed minimum amount is BDT 75,000 while the highest amount for the period is BDT 6.811 million. Board size (BODSIZE) ranges from 22 members to 6 while the average is 13 members approximately. Board independence (BODIND), on the other hand, scores 0.193 which means on average 19.3% of the directors of board are independent. While the highest percentage of independence in board is 57.1 while the lowest is zero, meaning non-existence of independent director on board. The study finds, the average number of board meetings (BODDILI) is 17 (approx.) but the number of board meetings can reach up to 51 per year. The proportion of female members

on board (BODFEM) has a mean value of 0.111 meaning that on average 11.1% directors are female. While the proportion can be reached up to 37.5%, some companies have no female directors at all.

Table 5. Descriptive Statistics (N=230)

Variable	Mean	Standard Deviation	Minimum	Maximum
AUDFEES (Million)	1.095	1.091	0.075	6.811
BODSIZE	13.19	3.536	6.00	22.0
BODIND	0.193	0.080	0.00	0.571
BODDILI	16.82	8.017	4.00	51.0
BODFEM	0.111	0.098	0.00	0.375
ACSIZE	4.57	0.821	3.00	7.00
ACIND	0.389	0.165	0.000	1.00
ACDILI	8.17	4.787	4.00	26.0
FSIZE (Million)	154,607.28	137,356.17	4223.00	899,599.00
PROFIT	0.011	0.007	0.00	0.036
ComX	2.00	1.664	0.00	7.00
LOSS	0.05	0.214	0.00	1.00
BIG4	0.35	0.479	0.00	1.00

However, the average size of the audit committee (ACSIZE) is 5 persons approximately while the largest audit committee is constituted with 7 individuals and smallest committee are 3 persons only. The study reveals that, some audit committees are fully independent (ACIND) meaning none of the members are shareholder directors while opposite scenario is also true. But on average, almost 39% members of the audit committee are non-shareholding or independent directors. Data regarding, audit committee meetings (ACDILI) reveal that on average audit committee members meet 8.17 times. The numbers of meetings range between 26 to 4 times each year. The study finds that, the average total assets of the sampled firms is BDT 154,607.28 million, while the highest reported TA is BDT 899,599 million. It is noted that, the average ratio of profit to total assets is 1.1%, meaning that the average profit of sample firms is 1.1% of total assets. The descriptive statistics also reveal that, the highest number of subsidiaries in the sampled companies is 7 and on average 35% of the 230 sampled annual reports are audited by Big 4 affiliated auditing firms.

Table 6. Pearson Correlation Matrix

	VIF	Ln AUDFEES	BOD SIZE	BOD IND	BOD DILI	BOD FFM	AC SIZE	AC IND	AC DILI	Ln PROFIT	PROFIT	ComX	LOSS	BIG4
Ln		1.000												
AUD FEE														
BOD SIZE	1.99	.276***	1.000											
BOD IND	1.91	-.047	-.426***	1.000										
BOD DILI	2.34	.470***	.373***	-.197***	1.000									
BOD FFM	1.2	.088	-.241***	.252***	-.141**	1.000								
AC SIZE	1.8	-.183***	.227***	-.176***	-0.005	-.169**	1.000							
AC IND	2.34	.318***	0.067	.400***	.238***	0.051	.507***	1.000						
AC DILI	2.15	.463***	.417***	-.155**	.682***	-.163**	-0.005	.212**	1.000					
Ln FSIZE	3.84	.765***	.437***	-.116*	.599***	-0.076	.299***	.508**	.546**	1.000				
PROFIT	2.87	-.408***	-0.132	.137**	-0.301	-0.1	0.15	-0.174	-0.295	-0.398	1.000			
ComX	1.69	.669***	.279***	-0.039	.301***	0.035	-0.032	.271**	.200**	.584***	-0.179	1.000		
LOSS	3.14	-.047	-.203***	-.139**	-.183***	0.041	0.042	-.213**	-0.106	-.261***	-.370***	.209***	1.000	
BIG4	1.13	.174***	-.115*	0.035	-0.077	.220***	-0.083	0.047	-0.02	0.107	-0.082	0.044	0.005	1.000

Note: * indicates significance at 10% level; ** indicates significance at 5% level; *** indicates significance at 1% level.

4.2 Correlation Analysis

Table 6 shows the Pearson correlation matrix among explanatory variables. All of the experimental variables except BODIND and ACSIZE have positive associations with LnAUDFEE. In the case of control variables LnFSIZE, ComX and BIG4 have positive correlation with LnAUDFEE while the PROFIT and LOSS both show negative relation. The maximum pair-wise positive correlation exists between LnFSIZE and LnAUDFEE. While maximum pair-wise negative correlation exists between ACSIZE and ACIND. It indicates that there is no potential multicollinearity problem in the regression model as suggested by Hair et al. (2010).

4.3 Multivariate Regression Results

The results of the regression analysis appear in Table 7. To clearly illustrate the effects of experimental variables the study runs two separate models. Model 1 regresses LnAUDFEE on only the five control variables derived from extant literature and finds that each of the control variables are statistically significant. As expected, audit fee is positively associated FSIZE, ComX, LOSS and BIG4 and negatively associated with PROFIT. The value of adjusted R² is 0.696 which indicates that only control variables explain 69.6% of the variation in audit fees of Bangladeshi banks and non-bank financial institutions.

Table 7. Summary of Regression Output

Variable	Sign Exp.	Dependent Variable = LnAUDFEE			
		Model 1		Model 2	
		Coeff.	P-value	Coeff.	P-value
C	?	2.719	0.000***	3.092	0.000***
BODSIZE	+	-	-	-0.005	0.248
BODIND	+	-	-	1.192	0.000***
BODDILI	+	-	-	0.002	0.581
BODFEM	+	-	-	0.791	0.000***
ACSIZE	+	-	-	-0.051	0.036**
ACIND	+	-	-	-0.919	0.000***
ACDILI	+	-	-	0.033	0.000***
Ln FSIZE	+	0.409	0.000***	0.394	0.000***
PROFIT	-	-5.389	0.001***	-4.064	0.087*
ComX	+	0.211	0.000***	0.224	0.000***
LOSS	+	0.543	0.000***	0.569	0.000***
BIG4	+	0.188	0.000***	0.158	0.000***
N =		230		230	
R-squared =		0.708		0.745	
Adj. R-squared =		0.696		0.726	
F-statistic =		59.231		38.98	
Prob(F-statistic) =		0.000		0.000	
Marginal Contribution (F ratio:		4.498			
Model 2 vs. Model 1)(note 4) =		(P-value= 0.000***)			
Durbin-Watson statistic =		0.486		0.578	

Note: * indicates significance at the 10% level; ** indicates significance at the 5% level; *** indicates significance at the 1% level.

On the other hand, Model 2 tests LnAUDFEE on seven experimental variables and the five control variables jointly. The study finds that, BODIND, BODFEM and ACDILI have significant positive influence on audit fees and the result is consistent with prior literature. Therefore, hypotheses H₂, H₄ and H₇ are supported.

H₂ predicts that board independence has a positive relationship with audit fees, and it is supported by the result consistent with prior literature (e.g. Jizi & Nehme, 2018; Bozec & Dia,

2017; Kumar, 2014; Kikhia, 2014; Carcello et al., 2002).

Result relating to H₄ suggests that a positive association exists between female member representation in board and audit fees. The result of this study is consistent with prior literature (e.g. Lai et al., 2017 ; Khlif & Achek, 2017; Hardies et al., 2015; Huang et al., 2014).

H₇ predicts audit committee diligence has a positive influence on audit fees and the result is also consistent with prior literature (e.g. Jizi & Nehme, 2018; Yatim et al., 2006; Stewart & Kent 2006; Abbott et. al., 2003)

It should be noted that, the coefficients of both ACSIZE and ACIND are statistically significant but shows negative associations with LnAUDFEE which is inconsistent with prior literature. However, BODDILI shows a positive association, with no statistical significance and another important variable, BODSIZE, found to have negative associations with LnAUDFEE and it is also statistically insignificant. The value of adjusted R² of Model 2 is 0.726 suggesting that 72.6% of the variation in audit fees is explained by the experimental and control variables.

The study compares the value of R² of the two models and finds that the incremental F-statistic associated with testing Model 2 against the Model 1 is significant at $p < 0.01$.

5. Sensitivity Test

Considering the possible difference between the sampled companies in terms of their managerial philosophy, competence and other firm specific factors. The study tested one-way fixed group effect model (LSDV) by including dummy variable for each 46 companies. The result showed that the overall model fit increased significantly but almost all of the variables lost statistical significance because of having high multicollinearity issues in newly added dummy variables. Additionally, in this short panel having 46 cross-sections (entity) covering only five years data, one-way fixed group effect model includes a large number of dummy variables and creates incidental parameter problem therefore returns less efficient estimators.

To address the potential industry effect on audit fees the study introduced additional two dummy variables for banks (1) and NBFIs (0). The result of the regression confirmed that the results for experimental variables remained qualitatively unchanged.

In the presence of heteroskedasticity and significant outliers, the study employs White's heteroskedasticity-corrected standard errors also known as robust standard errors.

In Table 6 the results of variance inflation factor (VIF) tests for multicollinearity have been presented. As suggested by Greene (2008), when VIF is greater than 10, it is considered as the existence of high multicollinearity. The highest VIF among all the variables tested is 3.84 (LnFSIZE) and the lowest is 1.13 (BIG4). It suggests that multicollinearity problems are unlikely in the regression models of the study.

The study used natural log of audit fee to test the variables. For sensitivity analysis, audit fee

is defined as deflated by assets (Simunic, 1980). In line with the methodology of Simunic (1980), LnAUDFEE is regressed on FSIZE and the resulting coefficient associated with FSIZE, 0.56, is used to scale total assets in computing a new dependent variable DFAUDFEE. Then DFAUDFEE is computed as Audit Fees/Total Assets^{0.56}. Finally, LnAUDFEE has been replaced by DFAUDFEE to run the Model 2 again (removing FSIZE from the equation). The (unreported) results confirmed the value of adjusted R² decreased to 71.6% along with DW statistics to 0.36 however, among experimental variables BODSIZE shows significant positive influence but BODIND lost its statistical significance. It is interesting to note that, ACIND's significant negative association with LnAUDFEE changed in significant positive association with DFAUDFEE. Exactly, opposite scenario takes place in relation to BODFEM.

Bangladesh Securities and Exchange Commission (BSEC) issued the first draft Code of Corporate Governance (See Note: 2) during late 2012 and all the sampled listed companies started to comply with them from 2013. The study tests data starting from 2013 to 2017 which confirms that the study has no chance for structural break leading to unreliability of the models.

6. Conclusion

The study examines 230 observations from Bangladeshi listed banks and non-bank financial institutions (NBFIs) in order to find out the relationship between various corporate governance variables and audit fees in Bangladesh. The study tests a total of twelve different variables of which seven belong to corporate governance and the rest of the variables are included as control variables. From Bangladesh perspective, a good number of research activities have been conducted on corporate governance issues, however, very few prior studies examine the link between corporate governance mechanisms and audit fees. This study extends the literature by testing the impact of each corporate governance variable separately as opposed to the methodology used by Haque et al. (2019) by examining composite score of CG variables only.

The variables have been studied in two different models. In Model 1, only firm-specific controlled variables, namely firm size, profitability, loss, number of subsidiaries and the affiliation of firm's external auditor with Big 4 have been examined. Results show that all the control variables are statistically significant and each of them depicts the similar association with audit fees as supported by prior literature. The value of adjusted R² shows of the model confirms that 69.6% of the variation in audit fees is measured by the control variables of this study.

Finally, the Model 2 includes all of the twelve variables and regress to find out the possible impact of corporate governance variables on audit fees. Among the variables tested, board independence, female member representation at board and audit committee diligence has a significant positive influence on audit fees thus the results confirm the prior literature. Board diligence also has a positive impact on the dependent variable, but the result is not

statistically significant. However, rest of the corporate governance variables, namely board size, audit committee size, audit committee independence has negative associations with audit fees which is contrary to the expectation of the study and previous literature as well. The overall model fit measured as by adjusted R^2 shows 72.6% of the variation in audit fees is measured by the corporate governance variables along with control variables of this study. In addition to that, the study measures the incremental/marginal contribution of the Model 2 over Model 1 and concludes its significance at $p < 0.01$.

The paper is subject to several limitations. Firstly, the sample is limited to banks and NBFIs only as a result it is difficult to confirm the extent to which this result applies in other settings. Secondly, the study ignores the potential endogeneity issues between audit fee and the variables of corporate governance. Finally, the study covers only the period, which after introducing comprehensive corporate governance codes by BSEC which leaves the scope for studying audit fees by comparing data before the code was introduced.

The result of this research adds to the growing body of literature that finds a connection between corporate governance and various facets of the financial reporting and audit processes around the world.

Notes:

1. Bangladesh Securities and Exchange Commission. 2018. Corporate Governance Code. (No.BSEC/CMRRCD/2006-158/207/Admin/80). Available at: www.sec.gov.bd/slaws/Corporate_Governance_Code_10.06.2018.pdf; Accessed: 25 June, 2019

2. Bangladesh Securities and Exchange Commission. 2018. Draft Corporate Governance Code. (No. BSEC/CMRRCD/2006-158/134/Admin/44), Available at: https://www.dsebd.org/pdf/Notification_on_20CG-070812-Amended.pdf; Accessed: 25 June, 2019

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Notes

Note 1. Audit Committee Role and Practices. Available at: <https://www.cfainstitute.org/en/advocacy/issues/audit-committee-role-practices>

Note 2. The remaining 7 non-bank financial institution's annual report has incomplete or inconsistent data as well as data from entities to which BSEC has granted exemption of CG codes.

Note 3. *Nurul Faruk Hasan & Co.* has become the part of Deloitte on 31 December, 2018. But the effect of this affiliation has no impact on this study because it only considers data up to year 2017. (Available at: <https://www2.deloitte.com/bd/en/pages/about-deloitte/articles/deloitte-enters-bangladesh.html>)

Note 4. Gujarati et al., (2014):

$$\frac{(R^2_{Model2} - R^2_{Model1})}{\text{Number of new regressors}} \div \frac{(1 - R^2_{Model2})}{(n - \text{number of parameters in Model}_2)}$$

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