

A THEORETICAL APPROACH TO AUDITOR INDEPENDENCE AND AUDIT QUALITY

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Abstract

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Auditor independence and the quality of audit report is of growing concern to regulators, institutional investors and stakeholders as a series of accounting scandals have undermined the professionalism of auditors. The findings from this study produced an insight of how auditor's independence improve audit quality and that abnormal audit fees is as a result of additional effort for auditor to carry out rigorous audit engagement as a result of wider audit scope; that mandatory audit firm rotation will enhance auditor independence, and that audit committee with nonexecutive independence will promote audit quality. The study also finds that in terms of auditor size, smaller audit firms that belong to professional bodies will provide higher audit quality. The main conclusion of this research is that where an auditor is fully independent in carrying out audit engagement with strong resistance to fees pressure will enhance audit quality. This research provides insight into the impact of IFRS adoption on audit fees.

Keywords: Audit Fees, Auditor Tenure, Board Composition, Auditor Size, Non-Audit Services, Audit Quality, IFRS

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1. INTRODUCTION

Auditor independence is gaining a lot of attention from researchers, regulators and public observers. This has been described to have a major significant impact on audit quality. Several reasons have been given for the crucial importance of auditor independence to audit quality and this has formed a longstanding debate among academics, regulators and market observers on how best to protect auditors and mitigate concerns from users of the financial report (Tepalagul & Lin, 2015). The accounting scandals of publicly listed entities ignited the scrutiny and criticism by market regulators and independent observers on the credibility of audit reports, and also industry experts' reactions to Enron scandal prompted the passage of Sarbanes-Oxley (SOX) Act of 2002 (Dattin, 2017; Tepalagul & Lin, 2015; Velte & Loy, 2018).

Most important, the earliest research to investigate the impact of auditor independence on

audit quality was greatly attributed to DeAngelo (1981). According to DeAngelo (1981), audit quality greatly depends on auditor independence and has been defined as the probability that the auditor will uncover and report any breach in the accounting system. The concern to auditor independence is highly imperative, because of its magnitude to financial credibility and this has been the reason why market regulators are more concern about the independence of auditor to provide high audit quality that meets the international standard and that can be relied upon by the users of financial statements (Dattin, 2017; Tepalagul & Lin, 2015; Velte & Loy, 2018).

The accounting fraud and the collapse of major companies such as Enron, WorldCom, Satyam, Cadbury in Nigeria; Olympus in Japan dent serious blow to audit profession and the aftermath of global financial crisis provide another avenue for market regulators and practitioners in questioning the independence of auditor (Wood & Small, 2019; Velte

& Loy, 2018; Zhang, Hay, & Holm, 2016). However, auditors' independence on audit quality was questioned after the post-Enron scandal. Much of the criticism came from shareholders, regulatory bodies and market observers who argued on the independence of auditors. In line with this development, there are key attributes or dimensions suggested by regulators to safeguard auditors in providing high audit quality and promote independence (Tepalagul & Lin, 2015). One of such attributes to safeguard auditor independence in line with SOX Act and the EU audit reform of 2014 is to restrict auditors from providing most non-audit services (NAS) to their clients (Tepalagul & Lin, 2015; Velte & Loy, 2018). Additionally, Tepalagul and Lin (2015) state that SOX imposed a 1-year cooling-off period for former auditors gainfully employed at their clients; and also that the Act requires 5 years of audit partners rotation. Dattin (2017) is of the opinion that mandatory rotation of auditors or audit firms serves to safeguard auditor independence. Meanwhile, Velte and Loy (2018) posit that SOX prescribed only mandatory audit partner rotation.

A sound audit report is of high quality if, it is free from material errors or fraud and the auditor gives the true and fair view of the report. The auditor must carry out a systematic review of the client's accounting system and ascertain the degree at which the financial report can be trusted by investors, and also communicate the area that needs greater attention to the management. The independence of the auditor and the services rendered is seen as a cornerstone of audit quality. However, an area of consistent concern is to look at all the variables that can impair auditor independence taking into consideration the quality of audit report issued.

The International Federation of Accountants (IFAC) reveals five threats to auditor independence: self-interest, self-review, advocacy, familiarity, and intimidation; all this shaped the engagement of auditors. Similarly, there is awareness put in place by different regulatory and professional bodies such as the International Auditing and Assurance Standards Board (IAASB) for quality control and Association of Certified Chartered Accountants (ACCA) code of professional conduct for members. Auditors are expected to comply with these standards and comply with the code of conduct throughout audit engagement.

As financial reporting served as the basis for making an economic decision, shareholders and creditors make investment and credit decisions based on this report. These accounting scandals have led to regulatory reform in audit practices (Zainudin & Hashim, 2016). Furthermore, these regulations had formed part of academics discussed such as mandatory audit firm and audit partner rotation in order to safeguard auditor's independence and promote audit quality (Alzoubi, 2017; Krishnan & Zhang, 2019; Mali & Lim, 2018). However, there exist debates among scholars whether mandatory audit firm rotation (MAFR) or mandatory audit partner rotation (MAPR) will strengthen the independence of the auditor in providing quality audit reports (Mali & Lim, 2018). Mali and Lim (2018) found that MAFR has a negative effect on audit quality when the company switches from Big 4 to non-Big 4.

Another crucial threat linked to impair auditor independence that has attracted the attention of regulatory bodies, researchers and industry experts is NAS fees. As observed by Singh, Singh, Sultana, and Evans (2019), abnormal NAS fees are positively associated with earnings management when partner tenure is short. In the Chinese context, Ji, Lu, and Qu's (2018) research is aimed to determine the effect of internal control weaknesses (ICW) on audit fees. The authors found that companies with internal control risks pay higher audit fees. Similarly, Yen, Lim, Wang, and Hsu (2018) found that firms with internal control breach pay higher audit fees. Previously, Yang, Yu, Li and Wu (2018) also report a significant increase in audit fees paid by the high risked firm. MohammadRezaei, Mohd-Saleh, and Ahmed (2018) used data of firms listed on the Tehran Stock Exchange to examine whether highly ranked audit firms in Iran charged higher fees and provide quality audit services. The study revealed that highly ranked audit firms charged higher audit fees than lower-ranked firms. Meanwhile, on quality audit services provided, the study documented no significant difference between the highly ranked audit firms and non-highest ranked firms.

Based on this, auditor and client relationship has a significant effect on audit quality. According to Soltani (2007), independence exists where the auditor can make an objective decision throughout the audit process. Thus, auditor independence depends on the relative importance of the clients, not on the type of services provided. Furthermore, researchers, practitioners and market observers have contributed to the auditing profession by providing cutting edge research on how best to protect auditors' independence and enhance audit quality.

The aim of this research is to gain an understanding of the impact of auditor independence on audit quality. However, in order to understand auditor independence, it is necessary to gain insight into certain elements that have been previously identified by researchers as paramount to audit quality, also to explore other barriers than can impair audit quality within the context of auditor independence. It would be difficult to understand how the auditor can attain full independence without knowing the drivers or potential barriers both strategic and operational behind audit engagement, and it is also important to clarify those barriers to auditor independence and audit quality. Further, this research will assess existing frameworks supporting auditor independence; explore relevant theories and guidelines from practitioners in regard to audit matters.

The following objectives have been identified of paramount importance in helping to achieve the aforementioned aim within the context of auditor independence; the specific objectives of this research is to identify the relationship between auditor fees, auditor tenure and new regulatory reforms to protect auditor independence, non-audit services, board composition and auditor size on audit quality.

The above objectives focus on emerging issues in the field of auditing and where the research will make key contributions. The stated objectives should not be seen as separate or unrelated activities rather they are necessarily interlinked. The

first objective is to look at the effect of audit fees on audit quality. For example, when audit firm charges their client abnormal fees, will that impair independence and make auditor give biased opinion especially where the client contribute large significant of the audit firm income, which in turn, can influence some decision that will be taken on the financial report. Second, this article will focus more on relevant regulatory reform on audit tenure/rotation in the best interest of quality report. Third, this article will further answer the question whether non-audit services, board composition and auditor size have any significant effect on audit quality. Finally, this article will provide recommendations and practical implications from the review of relevant literature.

2. BACKGROUND OF THE STUDY

Auditors play a very crucial role in capital market development, as some investors rely on the audit report, a scenario where auditors express the true and fair view of the financial statements. This role goes beyond reviewing the financial statements, it also involves providing support to market regulators and the audit committee in supervising management (Velte & Loy, 2018). More important, Sikka and Willmott (1995) posit that professional accountants, auditors and regulatory bodies should devise the best strategy to promote the principle of independence in order to defend, define and protect the image of the accounting profession. The professionalism of auditors has not really being criticised as far back 1980s when audit profession is known to promote the principle of accountability, integrity and transparency for appropriate judgement with well support fact during the audit process, which in turn, help users of the capital market make investment decisions (Zainudin & Hashim, 2016). It is pertinent at this stage to gain an understanding of the motive behind financial reporting fraud by management (Zainudin & Hashim, 2016). There is an increasing number of studies that have explained the consequences of audit rotation/tenure, audit fees and non-audit service on audit quality (Mitra, Jaggi, & Al-Hayale, 2018; Velte & Loy, 2018; Zainudin & Hashim, 2016).

Conceptually, Some observers have linked audit quality to the fees charged by audit firm, that is, the effect of audit fees on audit quality, and it is said to represent amount required by the auditor to conduct a proper audit agreed between audit firm and its client (Alhadab, 2018; Mitra et al., 2018; Zainudin & Hashim, 2016). Meanwhile, Alhadab (2018) documented a positive relationship between abnormal audit fees and audit quality. Accordingly, the author revealed that abnormal audit fees represent an additional amount of audit fees charged by an audit firm based on client relationship not necessarily on the size and complexity of its client audit work. Shan, Troshani, and Tarca (2019) study utilised sample of Australian-listed companies between 2005 and 2015 to test the association between managerial ownership and audit firm size and audit fees. The study documented for companies that are located in the entrenchment region, there is a positive association between managerial ownership and audit firm size/audit fees, and negative association for

companies whose managerial ownership is located in the convergence of interest regions.

Auditor integrity is a key component in audit engagement and auditor independence is fundamental to the public confidence, particularly in the aftermath of corporate failures, this makes way for regulatory frameworks to safeguard capital markets, shareholders and other stakeholders who rely on audit report for economic decisions (Fearley, Beattie, & Brandt, 2005). The financial regulators have put in place standards and declared their opinion on the state of auditor independence, and also whether the auditor poses the necessary skills to meet the needs of their clients and other stakeholders. In Iran, Zahmatkesh and Razazadeh (2017) examined the effect of work experience, professional competence, motivation, accountability and objectivity of the auditor on audit quality. The authors concluded that apart from motivation all other identified attributes enhanced audit quality. There are a serious concern to auditor independence and the quality of audit report. Most issues raised are more on possible impairment to auditor independence. For example, there have been concerns over audit fees (Blankley, Hurtt, & MacGregor, 2012; DeAngelo, 1981; Huang, Raghunandan, & Rama, 2009; Menon & Williams, 2001; Yao, Percy, & Hu, 2015), audit tenure (Dopuch, King, & Schwartz, 2001; Kwon, Lim, & Simnett, 2014; Myers, J. N., Myers, L. A., & Omer, 2003), and the need to ensure efficient and effective board composition (Wan Abdullah, Ismail, & Jamaluddin, 2008; Bryan, 2017; Dhaliwal, Lamoreaux, Lenox, & Mauler, 2015; Ghafran & O'Sullivan, 2017; Wu, Hsu, & Haslam, 2016). The identified attributes will form a major focus of this research.

Although auditor independence and audit quality are gaining attention from academics, practitioners and other market commentators due to its impact on capital market development. For this important reason, this research work will also contribute to the development of auditor independence in a number of important ways by adding more evidence to available research.

3. RESEARCH METHODOLOGY

This research work will contribute to the existing literature on the effect of auditor independence on audit quality by identifying different research findings from scholarly articles and explores various theoretical frameworks to support audit quality and make a generalization.

The research strategy that will be used to implement the identified objectives is a systematic literature review (SLR) approach. This involves the study of various manuscripts, government publication and other relevant materials that are imperative in forming and exploring the research objectives. SLR has been identified as the best approach for reviewing scholarly researches because of the 'clarity, equality, transparency, accessibility, originality and unified' (Pittaway & Cope, 2007; Sirelkhatim & Gangi, 2015). This approach has its roots in health-related research, however, in the past decades and because of its importance, another discipline within business management begins to adopt this approach (Saunders, Lewis, & Thornhill, 2016). Furthermore, SLR gives an opportunity to

openness and attention to details as it helps to analyse and synthesise relevant research studies for the purpose of clarity and understanding of policy and practical implication in order to give an overall picture of the research evidence (Saunders et al., 2016).

In other words, academics and various market commentators on auditor independence continue to call for regulating frameworks that are proactive in monitoring how audit firms carry out their engagement in order to avoid another Arthur Andersen. Several studies have documented audit fees, audit tenure, audit size and board composition as likely factors to impair audit quality (Blankley et al., 2012; DeAngelo, 1981; Kwon et al., 2014; Menon & Williams, 2001; Myers et al., 2003; Yao et al., 2015). There is a need to carry out a cross-country review of each identified variable that will form the research objectives on auditor independence and make meaningful opinions and recommendations on the subject matter. This research is timely as it will contribute to the current debate rocking the mandatory auditor rotation in Europe by extensively reviewing related literature of similar studies carried out in other countries that have implemented almost the same policy on mandatory rotation and the impact on audit quality.

This SLR will provide an insight into the academic debate on auditor independence and also provide a recommendation that will serve as a guide for policymakers in enacting future laws that aim to improve audit engagement. Further, to gain a meaningful picture of how auditor independence improves audit quality, it is imperative to consider those variables associated with auditor independence with a good support literature review. For example, auditor tenure, auditor fees, auditor size, non-audit services and board composition. With the above-identified attributes, SLR will be conducted using some search engines and manuscripts published in refereed peer-reviewed journals *Business Source Premier*, *Science Direct*, *Elsevier*, *Google Scholar*, *Wiley Online Library*, *Springer Link*, *Sage Premier* and *Emerald Insights*. The following search term included: "audit quality", "audit fees", "tenure/rotation", "independence" and "corporate governance".

4. INTRODUCTION TO A REVIEW OF THE LITERATURE

This literature review will examine the main issues surrounding the impact of auditor independence on audit quality, attributes and drivers of audit quality and regulatory frameworks that are available to support auditors when carrying out audit engagement. The review of related literature on this study focuses on audit fees (low and abnormal fees), auditor tenure, non-audit services, board composition and auditor size on audit quality.

A significant contribution will be made to this research, by considering the above areas of literature in details. Similarly, barriers to quality audit reports will be examined. In effect, the value of studying the aforementioned literature will be to provide a meaningful discussion of auditor independence, importantly, regulatory frameworks to support this research in a structured way, and to facilitate a

critical understanding of key issues in these areas and a clear justification in the field of auditing.

There are the different methodologies used in conducting research on auditor independence, they are usually analytical, archival, experimental, questionnaire and survey-based. Analytical deals with critical thinking that require statistical inference with cause-effect relationships through meta-analysis or mathematical modelling to prove a hypothesis. Archival research is more of panel data that are usually held in archives. It has been proved to be more complex but improves the validity and data generated is more reliable. On the other hand, experimental research also concentrates mainly on the causal relationship and in an attempt to maintain or manipulate control over variables to achieve the required objective and explain the real phenomena.

Given the nature of this research, it is primarily qualitative in nature with an in-depth review of the literature using a systematic literature review (SLR) approach and necessary interpretation of results to give true meaning in their natural setting within the theory of auditor independence and audit quality. Adequate attention will be given to each objective to bring out the real context of the study. These objectives are inter-related and will be well reviewed to provide an insight on how auditors' engagement with management is perceived by stakeholders, regulators and the general public as many investors used the published financial statement to make an investment decision.

4.1. Review of the empirical literature

This study build on the previous research to auditor independence and audit quality by Tepalagul and Lin (2015) where their research work was structured based on four threats to auditor independence, namely client importance, non-audit services, auditor tenure and client affiliation with audit firms and Velte and Loy (2018) work on the impact of auditor rotation, audit firm rotation and non-audit services on earnings quality, audit quality and investor perceptions. The study of relevant literature revealed that auditor independence to audit quality is complex and requires a thorough investigation because most of the available findings to audit quality are mixed (Velte & Loy, 2018). There is no agreed definition of auditor independence; different observers have highlighted different opinions. According to Tepalagul and Lin (2015) auditor independence has a great impact on audit quality and could be affected by the length of time the auditor works for a client. This research reviews existing literature related to auditor independence and audit quality in line with stated objectives: auditor fees, auditor tenure, non-audit services, board composition and auditor size.

4.2. Audit fees

The 2008 global financial crisis (GFC) played a major role in audit pricing (Climent-Serrano, Bustos-Contell, Labatut-Serer, & Rey-Martí, 2018). Accordingly, the authors stressed that the crisis significantly affects audit firms, leading to high competition among auditors and reduction in audit fees. Conceptually, it is imperative to note that GFC

raised issues in the audit industry where stakeholders have different opinions on how the crisis may have a great impact on auditors' independence, audit fees, and audit quality. Audit fees popularly defined as an amount required by the auditor to conduct a proper audit agreed upon by an audit firm and its client (Yao et al., 2015). Chen, Krishnan, and Yu (2018) found no significant difference in audit quality of audit firms that charged lower fees during GFC and audit firms with no fees cut. Meanwhile, Larcker and Richardson (2004) acknowledged that the relation between audit fees and non-audit fees paid to auditors have a negative impact on auditor independence. In China, Mao, Qi, and Xu, (2017) examined the association between audit firm membership on audit fees and audit quality. The authors found that member firms charged high audit fees than non-member firms, but could not conclude whether it has an impact on audit quality. However, their findings are in line with Bills, Cunningham, and Myers (2015). Sultana, Singh, and Rahman (2019) reported a positive association between joint audits and higher audit fees, but find no significant impact of joint audits on abnormal accrual.

When considering the high demand for quality audit services and determining fees charged by auditors, it is essential to note that auditor's proximity to their clients played a major role. Beck, Gunn, and Hallman (2019) study focused on the geographical decentralisation of audit firms and audit quality. The main aim of the research was to determine the impact of audit firm office proximity with their clients on audit quality. The study revealed a positive relation between audit office proximity and audit quality. Furthermore, the authors found that decreased proximity between offices leads to reduced inter-office audit quality spillovers. Choi, Kim, C., Kim, J. B., and Zang (2010) also document an association between office size and audit quality, as measured by abnormal accruals and audit fees. Lesage, Ratzeinger-Sakel, and Kettunen (2016) report a positive association between joint audits and higher audit fees, but find no significant impact of joint audits on abnormal accrual.

4.3. Low and abnormal audit fees

Although there is little evidence to show the relationship between lower audit fees and audit quality. Simunic (1980) audit fee model shows that the additional remuneration paid to the auditor is as result of future engagement to its client. However, Eshleman and Guo (2013), Higgs and Skantz (2006), Mitra, Deis, and Hossain (2009) found a positive association between abnormal audit fees and audit quality. Blankley et al. (2012) found that clients paying abnormal audit fees are less likely to subsequently restate their earnings and where auditors consistent in doing a better job by preventing accounting irregularities from taking place throughout the audit process. The economic intuition is that auditor independence is paramount to the credibility of financial statements as shareholders and other creditors make investments decision based on the published audit reports.

The earliest report by Dopuch and King (1996) experimental evidence on quality report reviewed

that a high degree of lowballing decreases audit quality in non-competitive market settings. However, the work of Gul, Fung, and Jaggi (2009) found no relationship as to whether lowballing reduced earnings quality. Climent-Serrano et al. (2018) also found no evidence as to whether low audit fee reduces audit quality. Meanwhile, a review by Doogar, Sivadasan, and Solomon (2015) stressed that the evidence associated with audit fees' negative impression on audit quality is an indication of additional effort/engagement by the auditor rather than an effort to subvert independence. In Uganda, Kaawaase, Assad, Kitindi, and Nkundabanyanga (2016) documented that higher audit fees charged are as a result of quality audit work and additional audit effort. Cho, Ki, and Kwon (2017) explained the effect of accrual quality on audit fees by concluding that auditor spends more time on a company with a high level of cash flow risk which led to high audit fees. Mazza and Azzali (2018) analysed the impact of information technology (IT) control quality on audit fees. They concluded that IT compliance firms pay low audit fees.

There are recent studies that explain the effect of tournament incentives (pay gap) on audit fees (Bryan & Mason, 2017; Jia, 2017). Their studies acknowledged that audit risk and audit business risk likely to occur as a result of tournament incentives which may cause the audit firm in charging high audit fees (Bryan & Mason, 2017; Jia, 2017). Previously, Ding and Jia (2012) found that top-tier auditors may use their increased market power to charge high audit fees; nevertheless, with total independence, such auditors will be able to provide high-quality audit services. The support mechanism highlighted by Ronen (2003) related to audit quality is the provision of Financial Statement Insurance (FSI) which suggest that an insurer would hire auditor to assess the probability of a misstatement and eliminate inherent conflict of interest and that the firm will provide premium and coverage to protect its shareholders and signal direct investment towards better project.

Regarding the pre- and post-SOX, Charles, Glover, and Sharp (2010) found that the magnitude relationship between financial reporting risk and audit fees more doubled between the pre-SOX and post-SOX, suggesting for a better way in which audit firms priced risk. Meanwhile, Hribar, Kravet, and Wilson (2014) found that a negative association between fee residual and that audit quality reflects greater auditor's effort in response to lower financial statements quality. In relation, Quosigk, Krauß, and Zülch (2014) research on competitive audit market documented that low-balling fees cutting practices do not impair auditor's independence. Khan, Muttakin, and Siddiqui (2015) examined the relationship between family firms and non-family in terms of fees paid to auditors using Bangladesh listed companies. They confirmed that family firms pay higher audit fees and hire specialist auditors than non-family firms.

Using Indonesia setting, Veronica and Anggraita (2016) found that abnormal audit fees have a negative effect on audit quality and that the economic bond between the auditor and the client as well as audit premium is a significant threat indicator to auditor independence. Interestingly, very similar results were found in an earlier study of

Choi et al. (2010) which posit that abnormal audit fees are negatively associated with audit quality when relating to positive abnormal audit fees. Alhadab (2018) documented a positive relation between abnormal audit fees and audit quality. In Tehran, Salehi, Farhangdoust, and Vahidnia (2017) found no empirical evidence that abnormal audit fees are associated with firms restating their financial statements using panel data of 930 firm-year observations from companies listed on the Tehran Stock Exchange during 2009-2014. In Korea, Jung, Kim, and Chung (2016) examined the impact of International Financial Reporting Standards (IFRS) adoption on abnormal audit fees and audit quality using empirical data from 2008-2013. The authors report a positive relation between abnormal audit fees and discretionary accruals in the post-IFRS period. In Malaysia, Yaacob and Che-Ahmad (2012) found a significant increase in audit fees in the post-IFRS adoption using panel data during 2004-2008. In New Zealand, Redmayne and Laswad (2013) documented a substantial increase in audit fees and audit effort in the first year of IFRS adoption. Similarly, Raffournier and Schatt (2018) found that Swiss firms applying IFRS pay higher audit fees. In China, Lin and Yen (2016) documented positive relation between audit fees and IFRS adoption for audit firm with IFRS experience prior to 2007, and that audit client with previous IFRS experience pay low fees in the initial years of IFRS adoption. In Australia, De George, Ferguson, and Spear (2012) report a positive relation between audit fees and transition to IFRS. Kim, Liu, and Zheng (2012) report that mandatory IFRS adoption by EU countries increases audit fees. Meanwhile, Kharuddin, Basioudis, and Hay (2019) linked fee premium to audit firm industry expertise. Ettredge, Fuerherm, and Li (2014) found no evidence as to fee pressure differential between larger auditors and audit offices, and that the financial report misstatement of 2008 likely occurred due to fee pressure from management.

On whether audit committee gender has effect on audit fees, Aldamen, Hollindale, and Ziegelmayr (2018) examined the impact of female member audit committee using 624 Australian companies, the authors report that a female member among the audit committee would require additional services from the audit firm and in turns have significant impact on audit fees, and this also supported by Lai, Srinidhi, Gul, and Tsui (2017). In terms of audit partner gender to audit quality, Al-Dhamari and Chandren (2018) found that female audit partner from Big 4 audit firms provide high audit quality report and enhance investors' confidence in making investment decision, Montenegro and Bras (2015) acknowledged positive female-dominated audit partner on audit quality in Portuguese audit market, and Garcia-Blandon, Argiles-Bosch, and Ravenda (2019) findings also support female partner to provide quality audit services. Habib, Hasan, and Al-Hadi (2018) found that audit fees charged by an external auditor to U.S. companies are a result of the high rate of money laundering records.

The review of related literature has mixed reactions as to whether auditor fees lead to audit quality or impaired auditor independence during the audit engagement. Much of the research documented that abnormal audit fees are as a result

of additional efforts by auditor rather than to subvert its independent, while others have shown that where auditors are overpaid this will impair audit quality and allow the client to engage in opportunistic earnings as such auditors would like to maintain a longer relationship with their clients. Meanwhile, André, Broye, Pong, and Schatt (2016) could not ascertain whether higher audit fees charge by auditor improves audit quality. No doubt, audit fees play a big role in auditor independence especially where the audit market is highly saturated; the likelihood of opinion shopping and management discretion is high. Chiang and Lin (2012) researched audit-client relationships of Taiwan listed companies comparing pre- and post-Enron. They found a threat to auditor independence before Enron which is greatly influenced by management decisions and the likelihood of auditor compromised. Furthermore, that post-Enron evidences a great awareness on the side of the auditor when making a decision on the audit engagement, working to a maximum level of professionalism and become more conservative in their audit work.

In terms of gender on audit fees and audit quality, most of the findings revealed that female-dominated audit partner and audit committee works towards achieving high audit quality (Al-Dhamari & Chandren, 2018; Cameran, Francis, Marra, & Pettinicchio, 2013; Lai et al., 2017; Montenegro & Bras, 2015). Furthermore, available findings document an increase in audit fees when firms switch to IFRS (De George et al., 2012; Raffournier & Schatt, 2018; Redmayne & Laswad, 2013).

4.4. Auditor tenure

After the accounting scandals involving Enron and WorldCom in 2000 which led to the passage of SOX Act of 2002 preventing auditors from providing some specifics NAS and also the 2008 financial crisis paved way for regulators calling for the mandatory audit firm/partner rotation. The proposition that extending auditor's tenure is associated with a decrease in audit quality and impaired auditor independence calls for serious concern. However, Myers et al. (2003) found that financial reporting quality does not deteriorate with auditor tenure elongation, also supported by Garcia-Blandon and Argiles-Bosch (2016) using samples from Spanish companies. Mansi, Maxwell, and Miller (2004) supported mandatory audit rotation as this according to the author will have a positive impact on the capital market. However, Carey and Simnett (2006), Chi and Huang (2005), Liu and Wang (2008) both confirmed the likelihood of long audit partner tenure leads to diminishing audit quality when issuing GCOs. Meanwhile, Zhang et al. (2016) found no evidence of loss of independence for lengthy tenure. Ghosh and Moon (2005) reported a more likely influence of the increase in future earnings as auditor tenure increases. Azizkhani, Daghani and Shailer (2018) documented lower misstatements in financial statements of firms in the first two years tenure of auditor-client relationship compare to longer tenure; however, their study could not find evidence of misstatements in the year preceding audit firm rotation.

4.5. Auditor rotation

Specifically, insight to auditor rotation by Raiborn, Schorg, and Massoud (2006) found that where new auditor lacks the knowledge of the company's accounting information system, operations that revolve around the financial statements and also lack financial reporting practices will drastically reduce audit quality. In Italy, Cameran et al. (2013) opposes mandatory auditor rotation and support longer auditor tenure as it will enhance audit quality. On the other hand, Bryan and Reynolds (2016) believed that mandatory auditor rotation would only enhance audit quality of small audit firms who are not industry specialists.

There has been a long-standing debate on the mandatory auditor rotation. The proponent side suggested for audit partner rotation while the opponent called for audit firm rotation. There are assertions that auditor rotation will improve audit quality and enhance auditor independence while others believe firms pay more fees to hire new auditors and the new auditors' lack of accounting system of the client results in audit failure. Regarding mandatory rotation, Choi, Lim, and Mali (2017) reported low audit quality for mandatory audit firm rotation than mandatory audit partner rotation, while Big 4 firm provides high audit quality than non-Big 4 if audit firm is rotated. Meanwhile, Sayyar, H., Basiruddin, Zaleha, Rasid, and Sayyar, L. (2014) found that there is a positive relationship between partner rotation and audit firm rotation to audit quality and that financial reporting transparency will increase as a result of high audit quality. Chen, Lin, C. J., and Lin, Y. C. (2008), Chi, Huang, Liao, and Xie (2009), Ionescu (2014), Kaplan and Mauldin (2008) documented a negative association between audit partner rotation and audit quality. Accordingly, Bamber, E. M. and Bamber, L. S. (2009) found no evidence that audit partner rotation improved audit quality in Taiwan. Jackson, Moldrich, and Roebuck (2008), Shafie, Hussin, Yusof, and Hussain (2009), Wang and Tuttle (2009) suggested that only audit firm rotation enhanced auditor independence and audit quality. Meanwhile, Daugherty, Dickins, Hatfield, and Higgs (2013) found that mandatory partner rotation increases the workloads and the likelihood of re-location, and that partner would rather venture into a new industry than to relocate. In addition to auditor tenure, there were findings that low audit quality and audit failure is as a result of short audit firm-client relationships and they could not relate longer audit tenure to low audit quality (Geiger & Raghunandan, 2002; Johnson, Khurana, & Reynolds, 2002; Manry, Mock, & Turner, 2008; Myers et al., 2003). Bamahros, Wan-Hussin, and Abdullah (2015) confirmed that long audit tenure reduces earnings management in Malaysia. However, Bell, Causholli, and Knechel (2015) reported that tenure elongation reduces audit quality. Previously, Wan-Hussin and Bamahros (2013) documented that extending audit firm tenure does not anywhere impair audit quality, and it will be unwarranted in legislating audit firm rotation in Malaysia. In support, Bratten, Causholli, and Omer (2019) reported a positive association between longer audit firm tenure and financial reporting quality for a bank with a more complex scope. Ernst and Young (2013b) cited in Bamahros et al. (2015)

believe mandatory partner rotation will be more effective than mandatory audit firm rotation in strengthening auditor independence and improve audit quality. Further, Fargher, Lee, and Mandé (2008) found that mandatory audit partner rotation of different firms will enhance audit quality and reduce manager discretionary power. Meanwhile, in China, Bandyopadhyay, Chen, and Yu (2019) have mixed findings on mandatory partner rotation (MPR).

Thus, Rainborn et al. (2006) reported that if knowingly in the future that another audit firm would be reviewing the auditor's reports made by the current audit firm this would greatly generate some internal pressure to be less amenable to potential client's manipulation. Ruiz-Barbadillo, Gomez-Aguilar, and Carrera (2009) examined the impact of mandatory audit firm rotation in Spain testing two competing hypotheses of pre and post mandatory rotation period and could not ascertain any likelihood that mandatory rotation requirement is associated with firm issuing higher GCOs. Further, as for equity risk premium, there is no relation between audit firm tenure and shareholders' perception of independence (Boone, Khurana, & Raman, 2008). In Jordan, Baker and Al-Thuneibat (2011) reported a negative association between longer audit firm tenure and audit quality but increase in equity risk premium. In Italy, Corbella, Florio, Gotti, and Mastrolia (2015) reported lower audit fees for Big 4 auditors of firms that implement rotation, while audit fees remain the same for firms audited by non-Big 4 who do not rotate audit firm.

Since the passage of SOX in 2002, the auditor has been more conscious in carrying out their audit engagement. The law also led to PCAOB which many believed to have enhanced audit quality. PCAOB carries out four primary functions such as registration, standard-setting, inspection and enforcement on audit firms to improve financial reporting quality. PCAOB monitoring teams posit that auditors must be "intellectually" honest to restore public confidence and avoid any audit deficiencies throughout their engagement. Many scholars have conflicting opinions on whether PCAOB inspections improve audit quality or rather it increases the cost of auditing and drives many small firms out of the audit market (DeFond & Lennox, 2011; Read, Rama, & Raghunandan, 2004). Meanwhile, PCAOB inspection process has been seen by other researchers to improve audit quality (Gramling, Krishnan, & Zhang, 2011; Krishnan, J., Krishnan, J., & Song, 2017; Lamoreaux, 2013; Nagy, 2014). There is also a new EU law called mandatory audit tendering that requires companies to rotate their auditor. This law was enacted in April 2014 but effective from 2016 requiring mandatory rotation for its members' nations (Horton, Tsipouridou, & Wood, 2018). Dattin (2017) is of different opinion whether mandatory audit firm rotation will improve audit quality in France. Horton et al. (2018), however, find that investors in Europe react positively to mandatory audit rotation as proposed by the EU audit reform. In the US, Reid and Carcello (2017) found that there are negative reactions to mandatory audit rotation in the US stock market for a company currently receiving high audit quality. Garcia-Blandon, Argiles-Bosch, Castillo-Merino, and Martinez-Blasco (2017) assessed the provision of EU

Regulation No 537/2014 on NAS and audit firm tenure in Spain. The study revealed that tenure elongation of more than ten years and NAS fees charged if greater than 70% (70% as the cap rate) will not reduce audit quality. Rickett, Maggina, and Alam (2016) found that the EU mandatory auditor rotation will enhance audit quality of firms in Greece. Wan-Hussin, Bamahros, and Shukeri (2018) are of the opinion that changing partner engagement may lead to the new partner providing low audit quality as they may have limited knowledge about the client's accounting systems.

Much of the research that opposed mandatory rotation happened before the 2008 financial crisis. It was during the crisis that different regulatory bodies, professionals and academics called for mandatory rotation to prevent future audit failures and enhanced auditor independence. From the review of literature, it can be ascertained that mandatory audit firm rotation will eliminate the familiarity threat of auditor-client relationship, boost investors' confidence and send a positive signal to the capital market. However, when considering the mandatory rotation of audit firms, a specialist and highly experienced audit firm will charge higher audit fees than a non-specialist. Jackson, Moldrich, and Roebuck (2008) supported mandatory audit firm rotation as this will boost investor confidence and enhance financial reporting quality. Other literature also confirmed that lengthy auditor tenure does not impair audit quality and affect auditor independence and that PCAOB inspection has also improved audit quality. Shahzad, Pouw, Rubbaniy, and El-Temtamy (2017) examined investors' perception of audit quality during the global financial crisis (GFC) and the authors found that irrespective of auditor size and audit fees charged, investors reacted positively to the quality of audit report received during GFC.

4.6. Non-audit services, board composition and auditor size

This research review available literature on auditors providing Non-Audit Services (NAS) to their clients and the effect on audit quality. Over time, the economic bond between auditors and management increases, and also resulted in lengthy relationships as more NAS are provided. The provision of NAS has been debated by professionals and regulators as to the effect on auditor's independence and audit quality. Regulations to limit NAS provision by audit firms are in countries such as the US and UK etc. The SOX Act of 2002 stands as the most enforceable legislation prohibiting auditors from providing management advisory services, internal audit and other services as specified by the act. However, many commentators asserted that the provision of NAS by audit firms provides more income than an ordinary audit. The question raised by researchers is to how this service provided by the auditor will not impair their independence and reduce audit quality. The provision of NAS by audit firm as suggested may increase the knowledge spillover of auditors to understand the accounting framework of its clients. However, issues were raised during Arthur Anderson scandal in regards to audit firms engaging in NAS and still could not improve the financial reporting quality rather it led to the collapse of Enron. There

are different methodologies researchers have adopted in the course of their research to determine the effect of NAS on audit quality and the likelihood of auditor compromising independence. A meta-analysis by Habib (2012) suggested that financial regulators should relax the restriction placed on audit firms as to the provision of NAS as this will have adverse on the knowledge base of the accounting system of their clients. In support, Wahab, Gist, and Majid (2014) revealed that the provision of NAS will lead to knowledge spillovers and which in turn, improve audit quality. Meanwhile, regulators have been advised to look at the environment where the auditors operate in determining the level of restriction they will place on auditors from providing NAS (Causholli, Chambers, & Payne, 2014). The restriction placed on auditors from providing NAS took different dimensions after post-SOX as more attention is on auditor independence and audit failures.

Specifically, many of the empirical studies believed where auditors develop expertise in the client's accounting system this will improve the financial reporting quality. Before SOX Act, audit firms provide NAS for clients especially the Big 4 where financial reporting quality and auditor independence have not really been criticised. There were concerns that auditors may compromise independence in regard to NAS, and meaningful guidelines were identified as paramount to avoid any familiarity threats between auditor and management. The main support mechanism highlighted by SOX is to limit or prohibit an auditor from carrying out internal audit and management advisory services. The regulatory requirement prohibiting audit firm from providing tax advisory services have improved auditor independence in appearance (Aschauer & Quick, 2018). The authors advise the regulatory body in the EU that these two measures placed on audit firms, that is, audit firm rotation and restriction on tax advisory services may not lead to higher audit quality rather; it may lead to high audit fees. Public perception of auditor's expertise and the quality of financial statements is important considering the accounting scandals that have occurred in the past. As long as the relationship between the audit firm and management in providing NAS is lengthy and there is a likelihood of less pressure from management audit quality will greatly suffer. In Bahrain, Al-Ajmi (2009), Khasharmeh and Desoky (2018) found that the provision of NAS affects auditor's independence and the likelihood to impair audit quality. Van Liempd, Quick, and Warming-Rasmussen (2018) contend that joint audit services and NAS may result in impairment of perceived auditor independence. Meuwissen and Quick (2019) postulated that the provision of NAS and audit service negatively affect auditor independence using data from the perception of German supervisory board members.

Meanwhile, Bleibtreu and Stefani (2015) found that the provision of NAS by auditor improves audit quality as audit firms develop more expertise in the client's accounting system and that this is will not in any way impair auditor independence. Furthermore, Lim and Tan (2008) documented that a specialist auditor who provides NAS to management will improve audit quality than a non-specialist auditor. Another analytical research using Korean accounting

firms by Lee (2015) found that the revenue-based on auditing firms increases with the provision of management advisory services than the provision of tax consultants as a measure of productivity. In Malaysian, Bamahros et al. (2015) for instance, used discretionary accrual in relation to NAS to measure earnings management of 525 firms for the period 2009. The study revealed that NAS fee for that period leads to high positive discretionary accrual and the likelihood of auditor compromising independence.

However, available findings from SLR could not relate provision NAS to impaired independence and reduced audit quality. Further, some findings documented that knowledge spillovers of auditor's expertise of clients' accounting systems will enhance audit quality. Walker and Hay (2013) suggested that knowledge spillover might not enhance audit quality immediately but gradually as auditors develop expertise from clients' accounting systems in subsequent years. Also, Zhang and Emanuel (2008) used NAS as a surrogate for earnings quality in New Zealand. The authors revealed that auditors still maintain independence even with a high level of NAS provided to management, and also that this could not be related to earnings conservatism reduction. In Spain, Castillo-Merino, Garcia-Bladen, and Martinez-Blasco (2019) study revealed evidence of (a) negative association between future other NAS fees and audit quality (proxied by restatements, earnings surprises, meeting or just beating earnings benchmarks and audit opinion) and (b) no significant evidence that tax service fees and audit-related services impair audit quality. Zhang et al. (2016) examined the effect of NAS on auditor independence in the Norwegian audit market. The study found no association between auditor providing NAS and loss of independence of mind and appearance.

4.7. Board composition

The relationship between auditor and board member is crucial to financial reporting quality and the independence of the auditor. Where audit firms enjoy full support from management and auditor independence not impaired will enhance audit quality. There are concerned regarding an auditor-management relationship, a series of accounting scandals in the past has led to professionals and regulators devising an appropriate mechanism to prevent future audit failure and safeguard independence. The existing mechanism used by researchers to explain the managerial role and board independence as a proxy for audit quality is known as agency theory. The theory explains the relationship between auditors, management and shareholders.

Although corporate governance is more concerned about how companies are controlled and run by management. The rules are set out to stand as a guide that must be followed in everyday activities of the organisation. Sultana et al. (2019) called for improved corporate governance that accommodates audit committee experience for better financial reporting quality. Amin, Lukuviarman, Suhardjanto, and Setiany (2018) report a positive association between audit committee independence, experience and size on earnings quality in Indonesia context. Agency theory

demands total maximization of organizational goals from managers and prevents them from engaging in a futuristic increase in earnings management. O'Sullivan (2000) examined the impact of board composition on audit quality using audit fees as a proxy. The author revealed that the support giving to the auditor by non-executive will result in audit quality. Yang, Liu, and Mai (2018) study analysed 9861 samples of audit firm-year observations from Chinese A-share listed companies from 2011 to 2015 in order to determine whether female auditors provide higher audit quality than male auditors. The study found, among other things, that male auditors provide higher audit quality than female auditors.

As for audit committee expertise, Ghafran and O'Sullivan (2017) examined the impact of audit committee expertise on audit quality and the effect on audit fees paid by FTSE 350 companies. They revealed that high audit fee paid by these companies is a result of audit committee member that possess a higher level of financial knowledge (non-accounting). Lisic, Myers, Seidel, and Zhou (2019) found that audit committee with accounting knowledge help auditor to detect and report internal control weaknesses. Bilal, Chen, and Komal (2018) report a positive relation between audit committee financial expertise and earnings quality. Sultana et al. (2019) report a significant impact of increasing monitoring role that auditor and audit committee experience has on audit quality. Meanwhile, Zaman, Hudaib, and Haniffa (2011) report that the audit committee's effective monitoring of the audit process leads to wider audit scope and higher audit fees, which in turn enhances audit quality. Wu, Hsu, and Haslam (2016) also revealed that board independence and financial expert selection of auditor will improve audit quality.

In sum, SOX Act excludes management from auditor selection, that is, management has a great influence on auditor which may result in audit failure. Meanwhile, Dhaliwal et al. (2015) suggested that management exclusion from auditor selection and appointment is unwarranted as there is no evidence to support their involvement has a negative impact on audit quality. Abdullah et al. (2008) found that board independence and institutional ownership will both improve financial statement decisions and promote auditor independence in Malaysia audit market. Bryan (2017) revealed that audit firms with a well organised and coordinated labour union provide high audit quality.

4.8. Auditor size

Professional competence and expertise are key attributes to be considered when appointing an auditor. Management will prefer an audit firm with a high reputation and size as this will greatly enhance financial reporting quality. Bills, Cunningham, and Myers (2015) could not relate firm size to audit quality. They suggest that a small audit firm that belongs to a professional association provides higher audit quality as a large audit firm. However, Choi et al. (2010) revealed that audit size and auditor expertise have a significant impact on audit quality. PCAOB inspection laid more emphasis on smaller audit firms and the likelihood of audit failure and impairment of auditor independence. Al-Ajmi (2009) found that Big 4 auditors are more

likely to provide quality audit reports than non-Big 4. Bae and Lee (2013) confirmed that larger audit firm provides higher audit quality. Similarly, Hu (2015) postulated that auditor size has a positive impact on audit quality. Beardsley, Lassila, and Omer (2018) documented misstatement in the client financial statements audited by large audit offices. Their findings revealed that misstatement occurs from auditors providing NAS to their clients in the presence of audit fees pressure. Minutti-Meza (2013) does not find any evidence as to financial reporting quality differentials between specialist and non-specialist auditors as well as audit firm size. Nevertheless, a professional auditor with industry experts will provide higher audit quality than non-professionals.

The review of literature on NAS provision and NAS fees on audit quality and auditor independence produced mixed findings. Most studies show that the provision of NAS lead to knowledge spillover and that auditor expertise of the client's accounting system enhances financial reporting quality. As for board independence, if the auditor is appointed and selected by non-executive, management and audit committee auditor will be more transparent and diligent throughout audit engagement. However, some articles find that where management has a significant influence on the auditor, and where audit firms economically depend on their client this might have a negative impact on audit quality. Furthermore, in terms of audit size, most studies documented that larger audit firms and the specialist auditor will provide higher audit quality than smaller audit firms and non-specialist. Meanwhile, there is evidence that where smaller audit firms belong to professional bodies they will provide a quality audit report. Hohenfels and Quick (2019) used a 2567 sample of firm-year observations from German listed firms between 2006 and 2013 to test the association between the level and type of NAS fees pay to the auditor on audit quality. The study revealed that NAS fees pressure negatively affect audit quality (proxied by earnings management).

5. CONCLUSION AND RECOMMENDATIONS

Research on auditor independence reached its heights of dominance in academic circles after accounting scandals involving top corporate organisations such as Enron, WorldCom, Cendant, Adelphia, Parmalat and Satyam (Zainudin & Hashim, 2016). This research work examines the relationship between auditor independence and audit quality. There are concerns from various researchers, professionals, regulators, and stakeholders on how auditor independence so crucial in driving the financial market as creditors and institutional investors relied on the credibility of financial statements and the quality of audit reports. Nonetheless, there is also a question of the reliability of using auditor's opinion in making the investment, particularly when a series of accounting scandals have tarnished the professionalism of auditors.

The most important part of this research was the review of various studies on auditor independence and audit quality. The study was designed to identify the main threats to auditor

independence and the need to provide academic findings in the field of auditing. The SLR focused on the following objectives: auditor fees, auditor tenure, non-audit services, board composition, and auditor size. After a thorough review of the literature, it is evident that auditor independence must promote financial reporting transparency and the audit report must be completely free from material misstatements.

Meanwhile, the first objective addressed the relationship between audit fees and audit quality. Much of the review is on an archival study to determine the effect of the fees on auditor independence and audit quality. The archival research documented that higher audit fees come from additional efforts by auditors and could not relate whether fees pressure from management impaired auditor's independence to give modified audit opinions. Analytical research by Mironiuc and Robu (2012) found that below audit fees resulted in a high risk of financial reporting fraud of companies listed on the New York Stock Exchange between 2001 and 2002.

The second objective evaluates auditor tenure and relevant regulatory frameworks to promote auditor independence and enhance audit quality. The analytical study by Ghosh and Moon (2005) revealed that longer auditor tenure may likely increase future earnings manipulation. Furthermore, the study found that, among other things, the long relationship between the audit firm and client will improve audit quality. Vanstraelen (2000) called for mandatory auditor rotation as this will prevent auditors for compromising independence and provide audit quality. Cameran, Prencipe, & Trombetta (2016) study is aimed to assess the audit quality during the auditor engagement period using abnormal working capital accrual (AWCA) as a proxy. The study revealed that audit quality greatly improves during the last period of auditors' engagement than the initial year of the audit process as the auditor has developed high-level expertise of the client's accounting system. Most of the archival studies on auditor tenure could not relate tenure elongation as the factor that could impaired auditor independence and reduced audit quality (Bamahros et al., 2015; Carey and Simnett, 2006; Myers et al., 2003). Some studies proposed for mandatory partner rotation while others called for audit firm rotation as a way to improve audit quality and prevent the auditor from engaging in opinion shopping. For experimental research, Daniels and Booker (2011) explored a loan officer's perception of auditors' independence. The study found that auditor independence and quality audit is perceived by loan officers only when there is a rotation of audit firm rather than auditor tenure. In a similar study of public perception towards auditor independence and audit quality, Gates, Jordan Lowes, and Reckers (2006) found that audit firm rotation increases public confidence in financial statements quality and boost auditor independence. Meanwhile, on a survey and questionnaire-based research by Said and Khasharmeh (2014) using Bahrain setting of rotation effect on audit quality, 102 questionnaires were distributed to auditors in Bahrain audit market to ascertain their perception of mandatory rotation and tenure elongation. The authors found that audit quality improve when the

audit firm is rotated, and that partner tenure elongation impaired auditor independence and reduce financial reporting quality. Mardini and Tahat (2017) distributed a questionnaire to 43 Qatari listed firms to determine the advantages and disadvantages of auditor rotation on audit quality. The authors revealed that there is the enhancement of audit quality and positive investors' reaction to auditor rotation, and Alzoubi (2017) documented the positive impact of auditor tenure, auditor size, industry specialist and independence on audit quality in Jordan.

The literature clearly shows that auditors must display a high level of professionalism, accountability and transparency when reviewing the financial statements of their clients. The auditor must not work under any form of pressure as this may likely impair independence especially where decision making is highly influenced by management. There are situations where the auditor will receive a threat from its client, this normally occurs when the audit firm economically depends on such a client and prevent the auditor to express the true and fair view of the financial statement. This act calls for a regulatory approach prohibiting auditors from providing certain NAS, where there is a high risk of familiarity threats between auditor and management which may end up in auditor compromising independent or a conflict of interest between both parties. However, where the auditor has absolute power to make a decision without management interference and where auditors develop a high level of skills in the accounting system of the clients in regards to the provision of NAS will greatly improve audit quality. Thus, increased workload of auditors can also be detrimental to audit quality unless where adequate provision and relevant techniques to manage such pressure is in place. To seek more explanation to NAS, it is common among audit firms especially in the area of consulting to audit clients prior to Enron scandals. However, the most literature review that the magnitude of NAS provided by Arthur Anderson resulted in impaired independence.

In terms of board composition, most studies documented a strong working relationship between auditor and board committee result in higher financial reporting quality. Lee, Mande, and Ortman (2004) revealed that both the audit committee and board of director independence promote auditors' independence and enhance audit quality. They further state that where the auditor has the support of the audit committee and board of directors this will limit any mitigating factors that can lead to auditor's resignation when carrying out audit engagement. Karamanou and Vafeas (2005) used a management earnings forecast as a proxy for both the corporate board and the audit committee. The study found, among other things, that strong board composition and corporate governance lead to high financial reporting disclosure and accurate earnings forecast by managers. However, Bliss (2011) postulated that independent boards with CEO duality will negatively affect audit quality and compromised the independence of its members. The bottom line of this is that for financial reporting quality to be achieved the board of directors and audit committee must be independent especially when taking decisions relating to financial

economics of the firm. Auditors should be given adequate support when exercising opinions without bias and intimidation.

More important, evidence from a systematic review of literature on audit fees could not relate higher fees as factors that will impair auditor independence and reduce audit quality. In addition, most studies conclude that abnormal audit fees charged resulted from an additional effort from auditors to carry out a rigorous audit process in its client accounting system. Some researchers relate abnormal audit fees as bargaining power due to auditors' expertise and market-dominant to carryout proper audit quality (Ding & Jia, 2012; Yao et al., 2015). Furthermore, other studies suggested that auditors will charge lower audit fees where the market is highly saturated and that the fees reduction does not in any way impair auditor independence. On the contrary, Asthana and Boone (2012) revealed that lower audit fees may influence auditor independence and affect audit quality, especially where management has strong negotiating power to influence the fees to pay to the audit firm. Although much of the research provide better documentation that abnormal audit fees result in auditor providing high audit quality and maintaining independent throughout the audit process. However, auditors should ignore any fees pressure that may likely impair their judgement and reduce financial reporting quality that provides room for opinion shopping.

Furthermore, the recent EU regulations on mandatory auditor rotation also form the basis for this academic research. The result so far is mixed, however, there are few scholarly contributions to determine the effect on audit quality. Dattin (2017) could not ascertain whether mandatory audit firm rotation will improve audit quality in French context, Garcia-Blandon, et al. (2017) also differed in opinion about the new EU regulations on auditor tenure and NAS in Spain, as the authors revealed that longer tenure more than as required by the law and NAS greater 70% will not reduce audit quality. Rickett et al. (2016) posit that EU mandatory auditor rotation will enhance audit quality, and also supported by Horton et al. (2018) as their finding revealed that investors in Europe reacted positively to mandatory audit rotation. This information is pivotal for countries that are planning to introduce mandatory audit rotation. However, adequate care should be taken in implementing this policy and geographical location should also be put into consideration.

Similarly, regulators have been advised to relax the law prohibiting auditors from providing NAS to their clients. This is believed to result in knowledge spillovers that produce high audit quality. Chu and Hsu (2018) found that the provision of NAS before SOX impair earnings quality but could not ascertain its effect on earnings quality after the SOX Act has been enacted. However, the authors supported the Act as it has strengthened the independence of the auditor. Further, auditors' expertise in the accounting system of their clients reduces earnings management and enhances financial reporting quality. After Arthur Anderson saga and the post-SOX Act, most studies conclude that the provision of NAS does not impair auditor independence and reduce audit quality.

In terms of board composition, it is recommended that the audit committee, non-executive independence and strong corporate governance policy will protect auditor independence. Mitra et al. (2018) are of the opinion that strong board composition and monitoring increase high demand for audit quality. In essence, where auditors are selected and appointed by board consists of audit committee and shareholders this will reduce future audit failures. Zalata, Tauringana, and Tingbani (2018) found that a high proportion of female financial expertise on audit committee board reduce earnings management in US and Aldamen et al. (2018) found that female member committee affects the fees charged by audit firm as they demand more services from auditors. Lai et al. (2017) report higher earnings quality for firms with board gender diversity.

In short, a smaller audit firm that belongs to professional bodies will provide audit quality the same as a larger audit firm. The demand for big audit firms is high, nevertheless, management should look beyond size effect when selecting and appointing an auditor. After Arthur Anderson saga the opinion of many commentators is shifted to competence and expertise rather than the size of the firm. As stated earlier, specialist and professional auditors will promote transparency and provide better audit quality than non-specialist. Specifically, auditors should restore public confidence by displaying a high level of professionalism and promote accountability throughout audit engagement. Their independence should provide high-quality audit reports that can be relied upon by investors.

This research work contributes to the existing literature by extending on the study Tepalagul and Lin (2015) where the authors called for more studies on lower audit fees as a factor that can impair auditors' independence. From the review of literature, there are more studies on abnormal audit fees as a proxy for audit quality than lower audit fees. In addition, more empirical studies should be conducted on auditor independence and audit quality by generating data at a cross-country level to compare the relationship between abnormal fees and lower fees effect on auditor independence and audit quality. Alhadab (2018) showed that a higher level of abnormal audit fees enhanced audit quality

in the UK using sample from FTSE 350 proxied by earnings management. Alzoubi (2017) suggested that audit quality attributes (auditor tenure, size, specialist and independence) and debt financing (low debt) reduces earnings management in Jordan. Similarly, Alareeni (2019) found that the following audit firm attributes (size, NAS, audit client tenure, industry specialization) enhanced audit quality.

This systematic review strongly recommends that researchers should explore developing countries in the context of audit fees, auditor tenure and board composition as much of the studies are from developed and emerging countries.

6. MANAGERIAL IMPLICATION

This research is more of a literature review, and it cannot be said to represent the total generality of academic findings, so adequate caution must be exercised in interpreting the reliability of this study within the context of auditor independence. In fact, from the manuscript review, it could be ascertained that audit fees charged by professional member firms are higher than non-member firms and, that highly-risked client pays high audit fees.

In terms of gender effect on audit fees and audit quality, there is evidence that a female member either as a member of audit committee or audit partner influence the audit fees charged and in turn lead to higher audit quality (Aldamen et al., 2018; Al-Dhamari and Chandren, 2018; Lai et al., 2017).

The study underlines the need for regulators, policymakers and different accounting bodies should enact future laws based on existing findings from researchers, professionals and stakeholders in the field of auditing. This research also calls the attention of policymakers to relax the law prohibiting auditors from providing certain NAS to their clients. While the push for mandatory audit rotation continues to generate debate among market commentators and particularly for countries preparing to enact the law, this research has provided insight by presenting evidence from different countries. PCAOB inspection has also been said to improve audit quality, however, the perceptions of scholars are that it increases audit cost.

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