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INDEPENDENT DIRECTORS INFLUENCE ON AUDIT FEES OF QUOTED INSURANCE FIRMS IN NIGERIA: AN ANALYTICAL APPROACH

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Abstract

Debate has been ongoing on the factors that determine audit fees particularly at board level as audit fees has been linked to auditor independence and auditor switches which can negatively affect operations of an organization. The objective of this study is to determine if independent director is a factor that affects audit fees of insurance companies listed in Nigeria. Causal and expo facto research design were employed and a sample of 21 companies selected from 27 quoted insurance companies for the period 2009 to 2015, after a filtering process. Secondary data were collected from the annual reports of the companies for the period. The Audit fees is the dependent variable and Independent Director proxied by number on board, is the independent variable, the variable of interest. Company size proxied by total Assets, Company risk Proxied by Debt/Equity ratio, Auditor size proxied by either a Big4 Audit firm or not and firm age are control variables Data were analyzed using multiple regression model aided by the use of computer statistical package – STATA – to run the regression. Findings showed that the existence of independent director on the board is insignificant in the determination of audit fees. The study concludes that existence of Independent director on the board does not influence the audit fees of Nigerian listed Insurance Companies. The study recommends that regulatory authorities should make the appointment of independent director on the board on voluntary basis since they have no financial stake in the company. Furthermore greater emphasis should be placed on improving the effectiveness of non-executive directors on the board to enhance auditor Independence.

Keywords: Audit fees, Independent Director, Corporate Governance, Audit Market, and Auditor Independence.

Concerns have been raised by regulators, accounting profession and researchers on how to improve corporate governance. Within the last two decades, corporate scandals and failures around the globe especially the collapse of Enron and worldcom in USA in 2001 necessitated improvement in corporate governance mechanisms especially at board level. The board of directors has been seen and is the highest decision making organ of a company (S.244.CAMA 1990 as amended). Following these corporate failures, the US promogated the Sarbanes Oxley Act of 2002 which among other things require directors especially Chief Executive Officer (CEO) and Chief Finance Officer (CFO) to sign financial statements and ensure that adequate internal control system is in place. The Act further requires that a company must have at least two independent

directors (appointed solely on merit) on the board all towards improving corporate governance. The financial statements are the documents which are subjected to external audit.

External Audit is therefore another governance mechanism that adds credibility to financial statements prepared by the directors. The appointment and remuneration of auditors are the responsibility of the shareholders but in most cases they delegate these functions to the board. It is the board that fixes the remuneration (audit fees) of external auditors. The concern about audit fee is whether audit services are priced using factors that make for efficient production of audit. If factors that influence audit pricing are not adequately captured it could lead to inefficiency in production of specific audit. This inefficiency motivates companies to switch auditors (Kiptum, 2013). Auditors who charge abnormal fees are more likely to loss audit market share, while audit fees can also compromise auditor's independence. Studies have shown that auditors that earn high level of fees from a client can economically be dependent on that client making in difficult to report observed accounting irregularities and breaches (Francis, 2004). However, many stakeholders may also perceive low audit fees as sign of poor quality audit as the auditors may not carry out extensive efforts and detailed checks. Such perception may make them see audit as a mere annual ritual. This calls for the understanding of factors that influence audit fees in a company.

Audit fee determinant has been a subject of several researches such as Simunic, 1980; Vu, 2011; Xu, 2012 where they conclude though with mixed results that company size, company risk, audit firm size and firm age, influence audit fees. These streams of researches had focused more on developed economies such as US, UK and on non-financial firms. Non-financial firms have been excluded because it has been argued that the nature of financial firms "balance sheet and profit and loss account are so different from financial firm's that make them reasonably difficult to combine with non-financial firms (Ask and Holm, 2013; Vu, 2011; Pope and Young, 2005). Furthermore the extant studies have examined factors influencing audit fees from the supply perspective of audit services. Only very few studies such as Abbott and Parker (2003); Bashiruddin (2011) examined factors from the demand perspective, where they examined the effect of board characteristics on audit fees. There are also scanty studies on the effect of independent director on audit fees. For these reasons, a study of insurance companies listed on the Nigerian Stock Exchange is considered suitable to cover these gaps. So the question is "Do independent directors influence audit fees of quoted insurance companies in Nigeria?

Who are Independent Directors?

The board of directors is made up of mainly the executive and the non-executive directors. The executives manage the day to day affairs of the company while the non-executive carry out more detailed oversight functions of the executive. The independent directors are the non-executive directors on the board of the company. The entire board is accountable and responsible for the performance and affairs of the company (SEC, 2011). However, the executive may have conflict of interest and so the non-executive directors are more likely to be free from such conflicts and so examine transactions of the company more fairly minded. Another dimension was added to the concept of independent director in the US in 2002 when

the Sarbanes Oxley Act was passed. This differentiates independent director from other non-executive directors who may hold indirect shares in the company. The Act states that the independent director is one that is appointed solely on merit based on his background and experience and receives no other allowance from the company other than the director's allowances. By such arrangement, the director is free from any relationship with the company or its management that may impair his ability to make independent judgment.

In Nigeria, this concept was brought in the SEC code of Corporate Governance of 2011 which is an improvement over the 2003 code (SEC, 2011). The code requires that the composition of board of directors should include at least one independent director. The code states that such independent director must, not hold directly or indirectly more than 0.1% of the company's paid up capital, not be a representative of a shareholder, not have been employed in the company in executive capacity in the last three years, not be a professional adviser, not be a significant supplier of the company. The code further requires that the name(s) of independent director(s) are to be disclosed in annual reports of each company. Some quoted companies in Nigeria had on voluntary basis, adopted this concept before 2011 it become mandatory with the code. The Nigerian Insurance Commission (NAICOM) being the body responsible for administering and enforcing the provisions of the Insurance Act, 2003 introduced its code of Corporate Governance for Insurance Companies in 2009 and also adopted the concept of Independent Director and require Insurance Companies to appoint and disclose the names of Independent Directors in their annual reports.

Audit Fees

Audit fees is the remuneration paid to the auditor by the company being audited (Kiptum, 2013). Xu (2011) define audit fees as the special cost that auditee is willing to pay for audit service. The amount of audit fees paid by any client depends on the amount of work done by the auditor and the unit price of the working hours for the client. The auditor on other hand ensures that the fees charged are sufficient enough to cover his cost and some profit, thus he audit pricing results from maximizing the interest of both parties. In his study of audit fee determinants in Sweden, Vu, (2012) identifies four types of audit contract used in practice; fixed price, contingent price, benefits in kind and hourly billing rate. He asserts that there is no general legal requirement related to audit pricing contract in Sweden and as a result of regulatory restriction, audit fees is based largely on hourly billing rate.

In Nigeria, the Companies and Allied Matters Act, 1990 (as amended) requires companies to have their accounts audited and auditors be remunerated but the Act does not specify how the fees should computed. However, the Accounting Professional Bodies issue guidelines on scale of professional fees to be charged. For instance, the Institute of Chartered Accountants of Nigeria (ICAN) issued for the first time in 1995 approved scale of fees to be charged based on hourly rates and subject to review from time to time. The guidelines specifically prohibited auditors from charging fees based on percentage of turnover or receipts unless where the client refuses to accept the rates based on time and insists that it is more convenient and acceptable by "client and the practitioner" to charge fees on bases other than the hourly rates.

Audit Profession and Nigerian audit market

An audit is an examination of financial statements of an entity by an independent certified professional accountant to express an opinion whether the financial statements show a true and fair view of the operations of that entity within a given period of time. ISA 2000 states that the objective of an audit of financial statements "is to; enable the auditor to express an opinion whether the financial statements are prepared, in material respect, in accordance with an identified financial reporting framework and other criteria" (IFAC, 2012). Gray and Manson (2008) define audit as an investigation or search for evidence to enable an opinion to be formed on the truth and fairness of the financial and other information by a person or persons independent from the information and the issue of a report on that information with the intention of increasing the credibility and therefore its usefulness. The audit profession is the supplier of auditors. The auditing profession at its rudimentary stage started in Egypt around 3000 BC when "auditors" were supervising the accounts of the Egyptian Pharaoh (Vu, 2011). Traces of audit activities also occurred in Greece and Rome when auditors "heard" when tax payers report their business results. It was then that the Latin word "audiere means to hear" was introduced when auditors merely listened to those presenting their stewardship reports. Due to industrial revolution in the 18th century where ownership of business was divorced from management, it became necessary that the management had to report on their stewardship to the owners. This gave rise to the modern auditing. With development of the Stock market and globalization, countries of the World came together to form the International Federation of Accountants (IFAC) and appearance of Big International auditing firms such as Pricewaterhousecoopers; Ernest & Young, Delliote & Touche and K.P.M.G Professionals.

Demand and Supply of Audit Services in Nigeria

In Nigeria, there are two major professional accounting bodies; Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) who give members license to practice as auditors. While each body regulates its members, the Financial Reporting Council of Nigeria (FRCN) monitors and regulates the two professions in terms of standards that must be set and complied with. The suppliers of audit services in the audit market in Nigeria are the International Accounting firms and their affiliates and the local/domestic accounting firms. Those who demand the services of the auditors are the stakeholders; owners of a company, creditors, investors, management, Government and the general public. For instance, it has been found that loan officers in banks rely on audit reports in processing customers' loan applications and therefore useful in lending decisions (Wright & Davidson, 2000). It has also been documented that investors find auditor's report as a good measure for external governance mechanism (Fan & Wong, 2005).

Directors Demand for Audit

This demand is based on monitoring hypothesis as identified by Wallace (1980). The monitoring hypothesis assumes that when delegating decision making power to one party, as suggested in agency theory, the agent is motivated to agree to be monitored if the benefits from such activities exceed the related costs. This hypothesis is applicable to all co-operative relationships in any organization, not only relationships between owners and managers, but also in relationships between employers and employees, creditors and shareholders, different levels of management in companies and government and tax

payers (Wallace, 1980, 1987). Beaver (1989) also pointed out that the monitoring theory strives to solve problems that arise due to moral hazard and information asymmetry between the agent and the principal. Moral hazard is the problem of the agent possessing superior information and thus having the opportunity to use it for self-purpose at the expense of the principal. Asrrow (1985) calls the two types of principal-agent problems "hidden action (moral hazard) and hidden information (information asymmetry)". The board of directors and auditors help in the monitoring of management on behalf of the owners.

Wallace (1980, 1987, 2004) bring forward many factors implying that auditing is a highly valued monitoring system among stockholders, creditors, and top management. For example, Chow (1982) found that companies with a higher ratio of total debt/total assets or companies with more accounting based covenants are more likely to hire an auditor, presumably to address the agency relationship of management to creditors. Additionally, evidence suggests that the likelihood of voluntarily hiring of an auditor increases with the number of employees (Hay & Davis 2004). The value of auditing of management may also be explained by the management's loss of organizational control (Abdel-Khalik, 1993). In companies with more employees or more complex organizational structure, management may benefit from audit in the sense that it is an additional means for improving internal control. Directors especially outside director's demand audit because it enhances their reputation as effective monitors. Studies have shown that directors who are effective monitors in return may get rewarded with additional directorship in another firm (Fama, 1980; Fama and Jensen, 1983). On the other hand Fich and Shivdasani (2007) assert that outside directors who suffer loss of reputation due to financial fraud in a firm they serve lose 50% of their directorship in other firms in which they are directors. This suggests that such directors are seen as weak monitors and so lose opportunities to serve in other firms. Furthermore as posited by Carcello, Hernanson, Real and Riley (2002) outside directors of company secures their reputation so as to avoid legal exposure and therefore demand auditors to carryout detailed cheeks of transactions of the company which increases audit fees.

METHODOLOGY

The study adopts expo-facto research design and the population is the entire insurance firms listed on the Nigeria Stock Exchange as at 31st December, 2015 which number 27. The sample is based on a fulfillment of certain criteria.

i. The company must exist throughout the period of the study (2009-2015).
ii. Audit fees must be for annual financial report and not interim reports.
iii. Firms with joint audit are excluded as such firms may become outliers.

Twenty one (21) firms met the set criteria and form the sample fo the study. Data were collected from the annual financial reports of the companies selected, which reports were obtained from their Head Offices or from the National Insurance Commission (NAICOM) or SEC or on their websites. Data collected were analyzed using multiple linear regression with the aid of STATA a computer statistical package.

Model Specification

Consistent with extant studies (Siminic, 1980; Vu, 2012; Kiptum, 2013) audit fee determinant is modeled as follows:

$$\text{Ln (AUDFee)} = \beta_0 + \beta_1 ID_{it} \beta_2 Size_{it} + \beta_3 Comp_{it} + \beta_4 Risk + \beta_5 Big4_{it} + \beta_6 fage_{it} + \beta_7 ROA_{it} + U_{iit}$$

Where:

Ln Audit Fee is the Dependent variable and is the natural log of audit fees.

β_0 = represent the constant

$\beta_1 - \beta_7$ = represent the coefficients of the independent variables of independent director auditee size, auditee business complexity, auditee risk and audit firm size, firm age respectively.

U_i = represents error term of the model

Measurement of the Variables

Dependent Variable (Audit Fees) in measured by the natural log of the audit fees.

Independent or explanatory variables

(a) Independent Director is coded one (1) if it exists on the board, otherwise zero (0).

(b) Company size is measured by natural log of Total Assets consistent with prior studies of Palmrose, 1986, Kiptum, 2013.

(c) Company Business Complexity is measured by the number of branches consistent with Palmrose 1986; Beatre, Alan, Pratt and Stevenson, 2001; Kiptum, 2013. Several other studies such as Siminic 1980; Simon & Francis 1988, Ahmed & Goyal, 2005 use nature of assets (the ratio of receivables securables and inventory to total assets) but this proxy is inappropriate for financial firms and insurance firms in particular as they carry no physical inventory like manufacturing companies. The number of branches may be indicative that auditors travel to more locations to obtain adequate documentation.

(d) Company risk is measured by the debt ratio consistent with Simunic 1980 and Vu, 2012. Debt ratio is total debt/equity.

(e) Auditor size is measured by whether the audit firm carrying out the audit of the insurance company is among the Big4 International firms of KPMG, PWC, Ernest &Young and Deliotte & Touche and their associates or they are just National/Domestic firms. If the insurance company uses any of the Big4 firms, it is assigned one (1) otherwise zero (0) consistent with Kiptum, 2013 level of significance.

(f) Firm age is the number of years the company has existed from the date of listing.

Results

This section contains the results of the data analyzed and the interpretation thereof.

Descriptive Statistics

Table 1 below shows the descriptive statistics

variable	mean	max	min	sd	skewness	kurtosis
Lufee	14774.52	54000	1500	10432.98	1.449813	5.368961
Lnauditfee	4.063644	4.732394	3.176091	.3176975	-.3237114	2.806463
Lntas	7.100301	7.903774	6.596505	.2827096	.5232702	2.580351
branches	16.82993	48	3	9.386214	1.092163	4.668102
de	.4642699	.9288865	.089271	.1913402	.0647186	2.667155
big4	.4421769	1	0	.4983432	.2328549	1.054221
idirector	.292517	1	0	.4564737	.9121766	1.832066
fage	13.95238	26	1	8.189814	.0468424	1.416081
roa	1.185782	20.76	-78.32	10.14334	-4.094785	28.69871
fasta	12.68231	41.21	.46	9.070679	1.238227	4.249649

Source: Computed using STATA

The descriptive statistics of measures of Audit fees (Ln audit fee) and hypothesis variables, idirector and related control variables (Lntas, branches, de, Big4) contain the mean, maximum, minimum, standard deviation, skenewness and kurtosis. A few highlights of the statistics are stated below. The audit fees charged insurance, Companies quoted on the Nigerian Stock Exchange average N14.7m while the highest audit fee charged is N54m and the lowest in N1.5m. The standard deviation is large indicating that there is a wide disparity in the audit fees charged. The Big 4 international audit firms audit only nine (9) out of the 21 or 43% of the insurance companies examined and nearly half of the companies (46%) rely on debt to finance their operations.

Correlation Matrix

The correlation matrixes of the variables are show in Table 2 below:

Table 2: Correlation Matrix

	Lnaudi~e	Lntas	branches	de	big4	idirec~r	fage	roa	fasta
Lnauditfee	1.0000								
Lntas	0.6619	1.0000							
branches	0.1300	0.1826	1.0000						
de	0.2935	0.3968	0.2607	1.0000					
big4	0.6560	0.3552	-0.1639	0.0280	1.0000				
idirector	0.1597	-0.0204	-0.2489	-0.0441	0.2706	1.0000			
fage	0.3616	0.0872	0.2041	0.3522	0.1462	0.1338	1.0000		
roa	0.0086	0.1665	-0.1977	-0.0558	0.0412	0.1089	-0.0626	1.0000	
fasta	-0.3045	-0.5135	0.1494	0.0811	-0.2925	-0.4111	-0.0066	-0.3005	1.0000

Source: computed using STATA

The concern here is to determine if two variables are so highly correlated that can create multicollinearity problem in the empirical model. Multicollinearity becomes a problem if the coefficient of two variables is above 0.8 (Gujarati & Porter,

2009). As shown in the table there is no issue of multicollinearity. This is further confirmed the variance inflation factor faster of 1.63 as shown below.

Variance Inflation Factor (VIF)

Table 4.3 shows the VIF values

Table 4.3 VIF values

Variable	VIF	1/VIF
Lntas	2.53	0.394849
fasta	2.24	0.446510
de	1.64	0.609147
idirector	1.51	0.661204
big4	1.38	0.724204
branches	1.31	0.763335
fage	1.26	0.795039
roa	1.15	0.871870
Mean VIF	1.63	

Source: Computed using STATA

The table shows that the VIF values ranges from 1.15 to 2.53 with a mean of 1.63. If VIF value is greater than 10, it shows that there is a multicollinearity problem (Gujarati & Porter 2009), which is not the case in this study.

Multiple Regression

The data collected is a panel data and the first regression is to run a pooled regression which is the simplest but it disregards the space and time dimensions of the pooled data. Because of this defect it is either the Fixed Effects Model or the Random Effect Model that can be used. In the fixed effect model, the slope coefficients and β_{it} are constant but the intercept varies across space. The Random effect model is an alternative to fixed effect model. The Random Effect estimator assumes that the intercept of an individual unit is a random component that is drawn from a larger population with a constant mean (Gujarati & Porter, 2009).

To determine which model, between Fixed Effect and Random effect to adopt, Hausman Test is carried out.

Hausman Test

The test proposes that difference in the coefficients are systematic. If the probability of the test is significant (i.e less than 5%) it means the hypothesis is rejected and fixed effect model is adopted. If the probability is not significant (greater than 5%), the random effect model is then used.

The Hausman test of this study is shown in Table 4 below

Table 4: Hausman Test

	---- Coefficients ----			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Lntas	.373845	.6319035	-.2580585	.0619708
branches	-.0118644	-.0053673	-.0064971	.0026132
de	.3362812	.3531509	-.0168697	.0353297
big4	.2432266	.2336011	.0096255	.0194274
idirector	-.2001663	-.0324406	-.1677257	.1115475
fage	.0442974	.0160933	.0282041	.0065323
roa	-.0004631	-.0005125	.0000493	.
fasta	-.0009234	.0030726	-.003996	.0007617

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 1.26
Prob>chi2 = 0.9960

Source: Computed using STATA

From the result, the probability shows that it is insignificant so the random effect model is more suitable for this study.

Random Effect Regression Results.

The Random Effect regression Results are shown in Table 5 below:

Table 5: Random Effect

R-sq: within = 0.7009
between = 0.6153
overall = 0.6230

Obs per group: min = 7
avg = 7.0
max = 7

Wald chi2(8) = 278.13
Prob > chi2 = 0.0000

corr(u_i, X) = 0 (assumed)

Lnauditfee	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Lntas	.6319035	.0861934	7.33	0.000	.4629675	.8008395
branches	-.0053673	.0026819	-2.00	0.045	-.0106236	-.0001109
de	.3531509	.1015964	3.48	0.001	.1540256	.5522762
big4	.2336011	.0428604	5.45	0.000	.1495963	.3176059
idirector	-.0324406	.0679062	-0.48	0.633	-.1655343	.1006532
fage	.0160933	.0036708	4.38	0.000	.0088988	.0232879
roa	-.0005125	.001305	-0.39	0.695	-.0030702	.0020453
fasta	.0030726	.0027646	1.11	0.266	-.0023459	.0084911
_cons	-.8533919	.6012536	-1.42	0.156	-2.031827	.3250436

Source: Computed using STATA

The R^2 is 62% indicating that variation in Audit fees in insurance companies quoted on the Nigerian Stock Exchange are explained by the independent variables of size, company complexity, risk and status of the Audit firm. The model has therefore, high explanatory power. The overall results show that Independent Director is negative and insignificant (p-value 0.633). The control variables; Company size (Lntas) p-value 0.000, company risk (de. p-value 0.000) and Big4 Auditors (Big 4 p-value 0.000) are all positive and significant at 5%. Company complexity (branches p-value 0.045) is significant but negative firm age (p-value is 0.000) is significant, profitability (ROA) (p-value 0.695) is not significant.

DISCUSSION OF FINDINGS

The discussion of findings relates to the hypothesis being tested and that is the significance level of the relationship between Independent director and audit fees.

Independent Director and Audit Fees

The hypothesis of this study is that existence of independent director has no significant relationship with Audit fees. From the regression results in Table 5, the coefficient of independent director is 0.32 with a p-value of 0.633 showing that independent director has no significant relationship with Audit fees. In other words, existence of independent director on the board of insurance companies in Nigeria is not a factor that determines audit fees. The null hypothesis is therefore accepted.

The study result is contrary to findings by O'Sullivan (1999), Carcello et al 2002; Abbott et al, (2003) and Bashiruddin (2011) who document evidence showing that independent director is a factor in determining audit fees. A possible reason for the difference in the extant studies and this study may be due to the definition of independent director. The prior studies define independent director as non-executive director with direct or indirect interest while this study uses the definition of Independent director as a non-executive director that has no relationship with the company other than his appointment being on merit and the remuneration that he receives as director. Such independent director is therefore free from any relationship with the company or its management that may impair, or appear to impair the director's ability to make independent judgment. (SEC, 2011). The existence of independent director should increase the monitoring role of the director by demanding detailed and reliable financial statements. Such demand requires auditors to do very thorough examination of records which consumes time and therefore higher audit fees. The result of this finding is contrary to expectation. Another possible reason could be the level of compliance of appointing Independent Directors on the board. For instance of the 21 companies studied, only 5 or 24% of them have independent Directors. There are also scanty studies on the relationship between independent director and audit fees since the concept of Independent director arose after the passage of Sarbanes Oxley Act of 2002 in USA. Nigeria brought in the concept in 2003 through the Stock Exchange Commission code which is applicable to all companies in Nigeria. Since then very few studies have examined the existence of Independent director as a determining factor of audit fees.

Control Variables

Company Size and Audit fees

Studies such as simunic 1980; Francis, 1984; Naser et al 2007; Silra, 2012; Ask & Holm, 2013 document evidence that company size is a significant determinant of Audit fees. They argue that as the size of a company increases the work load of the auditor also increases leading to higher audit fees. The regression results confirm same.

Company Complexity and Audit Fees

Researchers such as Simunic, 1980; Firth, 1985; Xu, 2011 document evidence that the more complex a company is, the more likely that higher Audit fees are charged by audit firms.

Company risk and Audit Fees

Prior studies such as Simunic & Stem, 1996; Xu, 2011; Kiptun, 2013; who provide evidence that external auditors try to reduce risk of potential litigation by carrying out more audit work which consumes more time leading to higher audit fees. This necessitates auditors to be more careful and examine transactions thoroughly to avoid potential litigation from long term creditors.

Auditor size and Audit fees

The regression shows that Big 4 auditors are significant factor in determining audit fees. Big-4 auditors are known because of their brand name and they provide higher audit quality and consequently charge higher audit fees (De Angelo, 1981, Palmrose, 1986; Kiptum, 2013). From the descriptive statistics, only 43% of the Insurance companies listed on the Nigerian Stock Exchange are audited by the Big-4 audit firms. The other control variables used in the study and consistent with prior studies of Ask & Holm 2013, Kiptum 2013, Urhoghide & Emeni 2014, are firm age (fage), Return on Assets (ROA) and Fixed Assets/Total Assets, (tasta). Of the three variables only firm age is significant meaning that the older a firm the higher the audit fees charged. Control variables are not the subject of interest of this study. The subject of interest is the relationship between Independent director and audit fees.

CONCLUSION AND RECOMMENDATION

This study concludes that the existence of Independent director on the board of an insurance company in Nigeria does not determine audit fees of such company. Company characteristics of size complexity, risk and Big 4 auditors are however determinants of audit fees of insurance companies listed on the Nigerian Stock Exchange. These results are generally consistent with prior studies of Carcello et al 2002, Bashruddin, 2011; Kiptum 2013. Independent directors may not have too much interest in a company as they have little or no financial stake. It is therefore recommended that regulatory authorities should make the appointment of independent director on the board of the company on voluntary basis.

Furthermore, a policy shift to that of improving the effectiveness of non-executive directors on the board should be considered as area of emphasis by regulatory authorities to enhance auditor independence and improve corporate governance.

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