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Influence of Corporate Governance on Fees: UK Evidence

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Abstract

Given the lack of emphasize on auditor fees, the present paper investigates the implication of governance mechanisms on auditor's fees in UK. In particular, board of directors' independence, size, duality roles and audit committees' independence were examined while audit tenure is also included to examine the impact on auditor's independence. It proposes a theoretical framework to investigate governance mechanism and fees, which is empirically tested on a dataset of 521 FTSE350 UK companies for six years from 1999 to 2004. The finding reveals that fees are positively and significantly related to board independence. While for the size of board members, there is a significant positive relationship with audit fee and insignificant relationship with non-audit fee. Other governance variable of duality reveals insignificant association with audit and non-audit fees. The presence of independent audit committee on boards significantly reduces auditor assessment. Furthermore, the result also suggest that tenure is not as a main factor may impair auditor independence and most company pay higher fees for non-audit services than statutory services. An additional analysis should be done on audit and non-audit fees by using sample from other countries and other time periods to determine the reliability and the external validity of the result.

Keywords: *Corporate governance, Audit fees, Non-audit fees, UK companies*

1. INTRODUCTION

The auditing profession has come under increased scrutiny over the past several years about the growing amount of fees paid by audit client and may contribute significant impact of such fees on auditor independence (Geiger and Rama, 2003; Basioudis et al., 2006). The Securities and Exchange Commission 2000 (SEC 2000) stress that significant amount of non-audit fees can impact auditor independence and impair auditor decision making, especially when those decisions involve substantial amount of auditor judgment. In fact, SEC 2000 requires the companies to distinguish fees paid for statutory audit and those paid for other services (non-audit fees), stated whether the auditor have to maintain their independence when they providing such services and disclose the percentage hours worked on the audit engagement.

Auditing profession is organized around central of several conflict and it relies on auditor itself whether to manage the conflict arise or to create this conflict. The client hires the auditor and pay the fees and supposed that auditor will conduct the audit in an independence fashion by adhering to the professions of independence (Salehi, 2009a). Independence is perceived as cornerstone in auditing profession, however a few factors motivates auditor from maintaining their professional judgement, instead create significant threat to auditor's independence, integrity and objectivity (Che Ahmad et al., 2006). As noted by prior studies audit firm tenure perceived as one of the factors may affect to the auditor's independence (Raghunandan, 2002; Shafie et al., 2009; Salehi, 2009a; Salehi, 2009b; Chia-Ah and Karls-

son, 2010). The issue of auditor independence has prompted the regulator to be more concern about this problem and take some improvement that can enhance the auditor independence in the UK.

Thus, in view of the previously noted of auditor's fees and independence, this paper develop explanatory models and tests them via multiple regression analysis. The final aim is to assess which characteristics of board and audit committee appear to be a main influence in the payment of the auditors' fees consist of fees for statutory audit and fees for non-audit services, while auditor tenure is also included to assess whether this kind of situation will create a significant threat on auditors' independence in the UK context. The reminder of the paper is arranged as follows. The second section reviews some key literature contribution about corporate governance and auditor's fees which is audit fees and non-audit fees. The third section explains the theoretical framework which consists of research question, objectives and hypotheses development as well as the dataset employed for the study. The fourth section sets out the main findings of the research, while the fifth section considers the conclusions drawn and suggests some items for a future research agenda.

2. LITERATURE REVIEW

2.1 Board characteristics

Agency theory suggests that board independence leads to more effective monitoring and controlling of firm activities by reducing any opportunistic behavior of management and misappropriation of firm resources (Fama and Jensen, 1998). Carcello et al. (2002) find that board independence, diligence and expertise have positive relationship with audit fees. The result was supported by Bliss (2010) observes that higher proportion of board independence positively associated with higher audit fees pricing and claimed large number of board independence significantly demand and pay for the higher quality of audit be performed. Adelopo and Jallow (2008) found that board independence positively and significantly associated with audit and non-audit fees paid to auditor. They suggest that independent board play crucial oversight function on the management hence independent board likely to purchase more services from the external auditor to signal board's competence and quality of audit. Beasley (1996) finds that the larger boards are less effective in monitoring the financial reporting process and resulting external auditor assess the control environment in the company is weak, hence in higher external audit fees will be charged. In contrast, Yatim et al. (2006) find that external audit fees are not related with the board size. Consistent with Dillian (2007) also found that board size is not significant associated with external audit fees.

Tsui et al. (2001) examined the relations between CEO duality and audit fees and reveals that CEO-dominated is positively and significantly related with audit fees thus indicating that non-CEO-dominated boards are associated with lower audit fees. They indicate that firms with independent corporate boards (CEO and chairman being separate individuals) associated with lower audit fees because independent corporate boards provide an effective monitoring mechanism that reduces control risk and scope of audit work. Lower audit effort from auditor resulting lower audit fees charged as compared to non-independent, where CEO-dominated boards are associated with higher audit fees. Peel and Clatworthy (2001) reveals that CEO duality does not influence the external audit fees and supported by Mitra et al., (2007) find that there is insignificant relationship with audit fees when CEO also chair of the board. Boo and Sharma (2008) observe a negative association between audit committee independence and audit fees indicating that auditors will minimize their effort in the presence of independent audit committee. They observe that the existence of audit committee independence can reduce the tendency of control risk and misleading in financial reporting. Vafeas and Waegelein (2007) examine the association between audit committee characteristics and audit fees shows that independent audit committee positively associated with audit

fees and further suggest that audit committee serve a complement to external auditor in monitoring mechanism and financial reporting quality.

2.2 Audit tenure

Chia-Ah and Karlsson (2010) examine the impact of audit tenure on auditor independence, found that auditor independence is impaired when they have extended audit tenures. Ye et al. (2006) recognize that client willingness to purchase a higher level of non-audit services from incumbent auditor when they have close relationship with their audit firm and suggest the lengthy auditor tenure brings auditor better knowledge about client business environment, tendency to share information between client and auditor as well as client has not incur initial cost to hire a new auditor for the provision of non-audit services.

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Theoretical framework

The present paper aims to examine the association between governance tools and fees for statutory audit and fees for non-audit services of UK companies. The paper also to investigate whether the presence of audit committees' independence has significant effect on fees payment to the incumbent auditor and the final objective is to investigates whether shorter or extend tenure of audit firm will influence the amount of fees and examine the impact on auditors' independence from this interaction. Hence, the research question is therefore focused on the fees payment and auditors' independence in the UK context. This paper analyses board and audit committee characteristics which are integral part of internal governance mechanism, while auditor tenure has seen as a factor that affect on auditor's independence. Corporate governance attributes may be indentified from a prior theoretical relevance, from the analysis of the literature and by using statistical technique in order to summarize the information content of variables. The following areas or variables are proposed as governance tools.

Board independence – A number of studies document positive relationship between board independence and the demand for external auditor (Yatim et al., 2006; Mitra et al., 2007; Desender et al., 2009; Bliss, 2010). All of them claims that board independence more likely focus on quality of financial reporting since they play more effective roles in monitoring and fiduciary duties for the best interest of shareholders, thus board dominated by outsider tendency to exhibit good reputation to the shareholders. From an opportunistic perspective, board independence has an incentive to misreport financial result (Carcello et al., 2002) and these reasons are driven by three factors. Firstly, directors has incentive to protect themselves from loss in reputation, secondly is have an incentive to protect themselves from litigation risk and lastly, director seeking to protect shareholders wealth. In contrast, other views that board independence negatively associated with audit fees (Beasley, 1996; Dechow et al., 1996). They suggest that larger proportions of outside members on the board of directors significantly reduce the likelihood of financial statement fraud and required less audit assessment. Consequently, auditor will reduces their risk assessment, hence lower audit fees charged. Regarding the board independence, the first research hypothesis is as follows:

H1(a) – *In the UK company, Board Independence positively and significantly associated with audit and non-audit fee.*

Board size – Abdul Rahman (2009) claims that, the larger size of board will create effectiveness in their responsibilities and more strategize in decision making between them rather than small size of boards. Similarly, Zahra and Pearce (1989) suggest that larger of board size often more capable in monitoring the actions of their top management, thus CEOs will face difficulty to handle and dominate the board as well as enhances board independence

from the CEO for greater monitoring. Hence, the larger size of board intentionally require less audit assessment and then leading to lower audit fees.
From difference views, Beasley (1996) argues that board size significantly affect the financial statement fraud and suggest that board size likely affect the financial reporting process hence will influence the audit process. The larger board perceived as less effective in monitoring financial reporting leading to more audit assessment are required. The higher of audit coverage needed, resulting in higher external audit fees. This arguement support by Jensen (1993) reveals that the larger of board is negatively associated with the ability to engage in long-term strategic plans. It means that, the large of members in board, board of directors have difficulties in coordinating and facing with problem in organizing the large sizes between them. Regarding the size of board members, the second research hypothesis is as follows:

H1(b) – *In the UK company, the larger size of board members positively and significantly associated with audit and non-audit fee.*

Duality role – Duality role perceived as important tool to determine whether the firm have strong corporate governance practice or not. Cadbury Committee Report (1992) suggests that CEO duality should be discouraged since this situation perceived weaker corporate governance and tendency to create conflict of interest for the people who carry out both positions (Bliss, 2010). Previous studies (Fama and Jensen, 1983; O'Sullivan, 2000) have identified when CEO also the chair of the board, it will decline the demand for audit assessment. They suggests that firm with duality roles seeking less intensive audit in result lower demand for audit fees and likely to protect their reputational capital and avoid from litigation loss. As noted by Fama and Jensen (1983), the presence of CEO duality perceived as a signal in poorer corporate governance as well as less effective in controlling and monitoring function. Furthermore, Bliss (2010) also claims dual roles of board in the firms driven weaker of corporate governance practices, hence less likely to require for the higher of audit quality. In the overall, when individuals occupy both positions of chairman and CEO, board effectiveness is affected because both board independence and size are impairs which is as a signal poorer governance. However, previous studies (Gul et al., 2004; Tsui et al., 2001) have identified a positive association between duality roles and audit fees, which auditor consider as having higher inherent and control risk, less effective in controlling and monitoring mechanisms when CEO also as a chairman of the boards. The large scope of audit work, in turn leads to higher audit fees. Regarding the duality roles, the third research hypothesis is as follows:

H1(c) – *In the UK company, as part of governance mechanism, duality roles positively and significantly associated with audit and non-audit fee.*

Audit committee independence – Several studies (Gul, 1989; Teoh and Lim, 1996; Salehi, 2009a, 2009b; Abu Bakar and Ahmad, 2009) have document audit committee perceived as factors can influence auditor's independence as well as audit process. Boo and Sharma (2008) suggest that independent audit committee have incentive to protect their reputation and avoid any litigation risk that can harm their reputation and likely to demand differently audit quality. The assurance provided by auditor requires extensive audit coverage and significantly increase the audit charged. Abbott et al. (2001) and Vafeas and Waegelein (2007) also reveals that the higher audit fees associated with the presence of independent audit committee. Independent audit committee also exhibits the strength of corporate governance practice in firm (Chen et al., 2009). Thus, the presence of independent audit committee perceived as signal about auditor independence. Gul (1989) suggests that the concept of audit committees was originally perceived as way to maintain auditor independence. This notion motivates the auditor to provide audit work carefully and auditor tendency to reduce the risk assessment because independent audit committee strictly focuses on good monitoring in the

internal controls system and the quality of financial reporting. The relationship is investigated through the following hypothesis:

H2 – *In the UK company, the presence of independent audit committee positively and significantly associated with audit and non-audit fee.*

Audit tenure – A number of studies (Raghunandan, 2002; Shafie et al., 2009; Chia-Ah and Karlsson, 2010) have documented that long audit tenure will impair auditor independence and audit quality as well because auditor with long tenure potentially to create close relationship with clients and have benefited in reducing the contractual cost exist between them. In this circumstance, auditor tendency to align themselves with the wishes of the management and consequently will impair their independence. Further, Chi and Huang (2004) suggest that familiarity effect produce higher earning quality in firm with long audit tenure, which is the auditor compromise their objectivity because close relationship with the client (Chia-Ah and Karlsson, 2010). The concept of DeAngelo demonstrates that economic bond exist between auditor and audit client give incentive to auditor to violate their independence (DeAngelo, 1981). Ashbaugh (2004) implies that auditor incentive to compromise their independence and too dependent with their client in order to sustain the economic bond to the client. From the auditor perspective however, the longer audit tenure allow auditor to improve their knowledge through audit process (Ye et al., 2006) and resulting knowledge spillover to the non-audit services (Simunic, 1984) and could benefit to the client directly. On the auditee perspective long tenure with auditor could reduce contractual cost such as set-up cost that need to incurred if they hire new or unknown auditor and could benefit them directly in the forms of value-adding solutions since existing auditor able to provide consistent capabilities and reliability through the past transactions, hence client willing to have long audit tenure and tendency to purchase more non-audit services.

On the other hand, shorter tenure also could impair auditor independence (Griffin, 2009; Chia-Ah and Karlsson, 2010). In the case of low-balling where auditor fees below costs in the initial period, auditor who engages in first year audit intentionally to recover the start-up cost incurred which may impair their independence. Gul et al. (2007) suggest that newly auditor who engage in first year audit unfamiliar with business environment, culture and characteristics of their client and leading to impair their independence. Based on economic perspective, auditor tendency to maintain their independence in order to maintain their reputation and avoid from any litigation risk. Hence, auditor dismissed too early with their client (Raghunandan, 2002) propensity to loss their reputation in shorter tenure. Regarding this point, the following research hypothesis is formulated:

H3 – *In the UK company, the longer of audit tenure positively and significantly associated with audit and non-audit fee.*

Following previous studies (Carcello et al., 2002; Cantoni et al., 2010; Lifschutz et al., 2010), we use OLS multivariable linear regression to examine the association between explanatory variables and the fees for audit and non-audit services. The general model specification for the previous five hypotheses can be summarised as follows:

$$AFEE_t = \beta 0 + \beta 1BInd_t + \beta 2BSize_t + \beta 3Duality_t + \beta 4ACInd_t + \beta 5AudTenure_t + \beta 6Industry_t + \varepsilon_t \quad (1)$$

$$NAFEE_t = \beta 0 + \beta 1BInd_t + \beta 2BSize_t + \beta 3Duality_t + \beta 4ACInd_t + \beta 5AudTenure_t + \beta 6Industry_t + \varepsilon_t \quad (2)$$

Table 1 provides a full listing of the specific variables used, their definition, the label and expected coefficient signs. From Table 1, AFEE refers to audit fee. Audit fee is measured as amount of audit fee paid to the auditor (in Thousand); NAFEE refers to non-audit fee, measured as amount of non-audit fee paid to the auditor (in Thousand); β1Bind is board inde-

pendence, measured as the number of independent non-executive directors (NEDs) on the board; β2Bsize is board size, measured as total number of directors on the board; β3Duality is duality, measured as 1 if Chairman and CEO are separate persons, 0 otherwise; β4ACInd is audit committee independence, measured as percentage of independent NEDs on the Audit Committee; β5AudTenure is auditor tenure, measured 1 if auditor tenure is longer than and equal to four years, 0 otherwise; β6Industry is industry types, measured as industry dummy as listed under FTSE350 UK Companies.

3.2 The dataset

Data employed for this study was first obtained from Portsmouth Data which provide 4212 UK Companies. The present paper aims to investigates between the governance tools and fees for audit and non-audit services paid to incumbent auditor in the UK context, thus we considered only those companies listed in FTSE350. This lead us to remove any unrelated companies which is consist of FTSE100 companies, FTSESmallCap Companies, Fledging Companies, The company has been taken over, The company has merged with/into another entity, The company has been liquidate, the company is in administration and The company with temporary status. After removing all these kinds of companies, these lists produced a total of 1044 FTSE350 companies with the exception of finance, insurance and banking companies, which have a distinct set of control and financial reporting rules. After eliminating companies with missing data, our final sample produced of 522 UK firms year observations. This paper analyses the issues which concerned across a period of 6 years, from 1999 to 2004.

4. RESULTS AND DISCUSSION

4.1 Descriptive statistics for the variables

As shown in the framework set out in section 3.1, there are 8 variables are considered in this study. The descriptive statistics of these variables are presented in Table 2. These variables are mainly numeric which is presented in accounting figures, but include classification values and dummies. As proposed by prior research the use of natural logarithm (Cantoni et al., 2010; Pong and Whittington, 1994), natural logarithm (LG) were generated for accounting data (i.e. audit fee and non-audit fee) to reduce the skewness of the distribution. The data show general problems in not fitting a normal distribution, hence the data fit is increased by the natural logarithm transformation but the assumption of normality does not appear robust as reported in Kolmogrow-Smirnov and Shapiro-Wilk test (see Appendix A). This situation may be a limitation in constructing regression models and in generalising results from them. The last column of Table 2 shows the correlation value of all variables with fees (LogAF and LogNAF). In this study the Spearman correlation index was considered because of two important characteristics which the first is independent of the distribution of the data and secondly is it also considers non-linear relationships (Cantoni et. al, 2010). However, a comparison with the Pearson index correlation (see Table 3) was carried out for the variables set out in Table 2.

As shown in last colum of Table 2, significant correlation at the 1 percent level are reported for the variables BIND, BSIZE and ACIND, while DUALITY and AUDTENURE are reported not significant with LOGAF. With respect to the LOGNAF, a significant correlation at the 1 percent level are reported only for the variables of BIND and BSIZE, while ACIND and AUDTENURE are significant correlation at the 5 percent level. DUALITY however, do not present significant results in terms of correlation with both LOGAF and LOGNAF. Based on the result, this suggest how BIND, BSIZE and ACIND of corporate governance mechanisms are important in the fees payment to the auditor. The result also suggest that AUDTENURE is also important in the fees payment for non-audit services to the incumbent auditor when there is longer tenure between auditor and its clients. The same applies to the Pearson in-

dex (Table 3), AFEE and NAFEE are transformed to the natural logarithm adjustments. The empirical evidence seems to report that, BIND, BSIZE and ACIND are significant correlation at the 1 percent level with both LOGAF and LOGNAF and also support the result that these components are important in the payment of audit fees and non-audit fees to the auditor.

The result however do not present significant correlation between DUALITY and AUDTENURE and fees paid to the auditor using the Pearson index. The result contrast with the Spearman index where AUDTENURE is significant at the 5 percent level with LOGNAF.
Table 2 presents descriptive statistics of UK companies which reports that LOGAF and LOGNAF mean value are £56,147 and £56,208 respectively. This suggests that average value of fees for non-audit services is higher than fees for statutory services with maximum value of fees for non-audit services is £19,000,000 as compared with atatutory audit fees is only £90,000,000. As for other components of corporate governance mechanisms the average numbers of directors on boards (BSIZE) show the highest score is 8.68 (5 and 15) and follow with independent audit committee (ACIND) report 75 percent. The average value for independent board (BIND) report 3.15 with maximum number of independent board is 6 person while DUALITY reports 89 percent of mean value and the majority CEO and chairman of the boards is separate person. With respect to auditor tenure (TENURE) report mean value of 0.78 with maximum auditor engage with its client is 6 years and minimum period is 2 years.

4.2 Correlation matrix

Table 3 reports the correlations between the variables used in the regressions. The correlation analysis carried out using the Pearson index does not show particular differences in the magnitude and significance of the association between LOGAF and LOGNAF and the other variables. The correlation matrix reveals that variables of natural log of audit fees and natural log of non-audit fees (0.612) highly inter-correlated which is above 0.5. The result also reveals that ACIND and BIND with a high significant correlation (0.699), while other governance variables are significantly correlated with each other. Further observations from the full Spearman's correlation matrix (see Table 4) report high levels of association (above 0.5) between natural log of audit fees and natural log of non-audit fees (0.617) and also governance variables of ACIND and BIND (0.686). As shown in Table 4, other governance variables are significantly correlated with each other. The Pearson's correlation matrix produces similar results which should not give rise to multicollinearity problems.

4.3 Regression analysis

In order to achieve the objective of the present study, OLS multiple regressions models have to be constructed and evaluated, according to the theoretical framework set out in section 3.1. The linear regression process was run with the dependent variables of audit fee and non-audit fee and the independent variables set out in Table 1. The process was run for the whole dataset and the main results of OLS regression models are shown in Table 5.

4.3.1 Model 1 (Regression results of the association between fees and board characteristics)
Results in model 1 show the association between audit and non-audit fees and board characteristics derived from the extant literature (Carcello et al., 2002; Yatim et al., 2006; Mitra et al., 2007; Lifschutz et al., 2010) as independent variables. The model is significant at the 1 percent level of confidence with an adjusted R square for audit and non-audit fees of 0.162 and 0.132 respectively. This means that the model explains more than 16 percent and 13 percent of the variability in fees payment to the auditor. The result shows that board independence is positively and significantly at the 1 percent level with audit and non-audit fees. The results consistent with governance literature discover that board independence positively and significantly associated with audit fees (Carcello et al., 2002; Yatim et al., 2006, Mitra et al., 2007; Bliss, 2010) and non-audit fees (Adelopo and Jallow, 2008), hence we

confirm that the proportion of independent NEDs on board has significant influence on the fees payment because likely demand the superior audit quality. Further, independent boards also tendency to purchase more non-statutory services from auditor just to signal about their competency and to protect themselves from litigation risk.

As for other governance variables, the study predicts that total numbers directors on board reveals positive association with audit and non-audit fees. The finding reveals that board size is positively and significantly with audit fee (significant at the 1 percent level) while not significant with non-audit fee and this result consistent to prior study (Yatim et al., 2006; Adelopo and Jallow, 2008), found that board size is not significant with non-audit fee. The finding reveals that duality role is positive but insignificant associated with audit and non-audit fee. Thus our result inconsistent with Tsui et al. (2001), Mitra et al. (2007) and Bliss (2010) found negative association between duality and audit fee. From the result, we suggests that even though only one person that occupies both positions of CEO and chairman of the board, he/she also tendency to demand high audit quality from incumbent auditor, hence suggest that duality is not main factor of poorer governance practices in UK context.

4.3.2 Model 2 (Regression results of the association between fees, board characteristics and audit committee independence)

Model 2 which regresses audit and non-audit fees on board characteristics and the proportion of audit committee independence, are significant at the 1 percent level for audit and non-audit fees with an adjusted R square of 18.1 percent and 15.2 percent respectively. The results reported in model 2 shows that audit committee independence is negatively and significantly with audit and non-audit fee (significant at the 1 percent level) and this inconsistent with Adelopo and Jallow (2008) which reveals that audit committee independence is not significant with fees, hence reject our hypothesis 2. This means that the presence of independent audit committee will reduce auditor assessment and suggest that independent audit committee likely focus on the credibility of financial reporting and control risk that may arise in the company, thus auditor tendency to minimize their effort because the presence of independent audit committee aims to ensure the fairness of financial reporting. This notion also support that the presence of audit committee independence on the board perceived as a signal for auditor independence. In this circumstance simultaneously will avoid incumbent auditor from providing non-statutory services.

4.3.3 Model 3 (Regression results of the association between fees, board characteristics, audit committee independence and auditor tenure)

Model 3 regresses the audit and non-audit fees on board characteristics, audit committee independence and auditor tenure (proxy for auditor independence) for UK companies. Model 3 are significant at the 1 percent level with an adjusted R square of 19 percent for audit fee and 15.2 percent for non-audit fee. As shown in model 3, there is significant negative relationship between audit fee and auditor tenure (significant at the 5 percent level) while insignificant positive relationship with non-audit fee and this result consistent with Griffin et al., 2009. Based on the result, this suggests that even though auditor has extended their tenure with its clients, auditor will not expand their scope of audit instead of minimize audit scope.

The longer tenure between auditor and its client motivated auditor in expanding their knowledge on specific information of client business environment and at the same time enable auditor to gather other valuable information from their client. Therefore, it will benefited for auditor to become more knowledgeable about client environment, valuable in management plans as well as capable in mitigating any contingency arise. However, based on the risk perspective, auditor tendency to protect themselves from litigation risk and reputation loss hence motivates them to maintain its independence and objectivity even though they have enough knowledge and valuable information about client environment. Furthermore, the

longer tenure between auditors with its client also motivates management to reduce any misleading in financial report because auditor has capabilities in fraud detecting (Raghunandan, 2002; Fairchild, 2007; Shafie et al., 2009). Even though audit client request for non-audit services, auditor still maintains their independence when providing such services. Thus, the result also confirms that auditor tenure is not the main factor that contributes to the impairment of auditor independence.

5. SUMMARY AND CONCLUSION

The present paper has investigated the governance mechanisms on fees paid to the incumbent auditor in the UK companies. This study focused on the association of board, audit committee characteristics and auditor tenure with the fees payment for audit and non-audit services to the auditor. This study only investigated auditor tenure to investigate whether this situation create any impact on auditor independence.

In general, according to the theoretical framework exposed in section 3.1, only hypotheses H1(a), H1(b) and H1(c) can be accepted. However, the empirical evidence does not fully support hypotheses H2 and H3, which is rejected. In the UK companies, the governance tools of board independence, size and duality are positively associated with audit and non-audit fees level. This result is present in each regression model (Table 5) and can be interpreted as the consequence of specific characteristics of board. While audit committee independence reveals negative association with audit and non-audit fees. Prior studies observe that auditor tenure as one of important factors that affect to auditor independence (Raghunandan, 2002; Ye et al., 2006; Fairchild, 2007; Shafie et al., 2009; Griffin et al., 2009; Chia-Ah and Karlsson, 2010). The present study however, reveals a negative association between auditor tenure and audit fees, while positive association with non-audit fees, thus suggest that auditor tendency to maintain their independence and objectivity even though they have provided non-audit services to its client and conclude that auditor tenure is not main factor that affect on auditor independence.

This study, of course, has limitations. The first limitation relates to the dataset which is it may seen as rather old because of the time period considered starting from 1999 to 2004. It may contribute more interesting results if we use current period (i.e. 2010). A second limitation relates to the distributions of the variables that, as indicated above, are not normal. This must restrict the external validity of the model and so its predictive reliability. The third limitation is regarding on the board characteristics that have been selected which is only independent of board, size of members and duality roles.

Future researches could be started from the points set out above. The theoretical framework discussed in the present study could be replicated using sample from other countries and other time periods, to determine the reliability and the external validity of the results. Furthermore, the use of other kinds of board characteristics could be assessed and contribute more interesting result.

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Appendix

Table 1: Theoretical framework for the fees model (audit and non-audit fee) in the UK company

Variables	Acronym	Treatment	Expected sign
Independent Variables			
Audit Fee	AFEE	*Natural Logarithm*	
Non-audit Fee	NAFEE	*Natural Logarithm*	
Board Characteristics			
Board Independence	BIND	*Number of independent non-executive directors (NEDs) on the board*	+
Board Size	BSIZE	*Total number of directors on the board*	+
Duality Role	DUALITY	*1=separate, 0=no*	+
Audit Committee Independence	ACIND	*Percentage of independent NEDs on the Audit Committee*	+
Audit Tenure	TENURE	*1=longer and equal to 4 years, 0=no*	+
Industry Type	INDUSTRY	*Industry dummy as listed under FTSE350.*	

Table 2: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis	Correlation with AFEE (Spearman)	Correlation with NAFEE (Spearman)
AFEE	40000	9000000	657183.20	811799.253	4.596	32.453	1.000	0.607***
LOGAF	4.60	6.95	5.6147	.42524	-.084	-.123	1.000	0.617***
NAFEE	0	19000000	962504.63	1893628.806	5.972	43.353	0.607***	1.000
LOGNAF	3.85	7.28	5.6208	.58062	-.288	.574	0.617***	1.000
BIND	0	6	3.15	1.252	.029	-.349	0.392***	0.335***
BSIZE	5	15	8.68	1.852	.437	-.191	0.237***	0.133***
DUALITY	0	3	.89	.477	.853	7.110	0.059	0.081
ACIND	.00	100.00	75.5108	24.69073	-.786	.036	0.149***	0.121**
TENURE	0	1	.78	.413	-1.378	-.102	-0.019	0.089**
INDUSTRY	1	20	8.04	4.997	.547	-.851	0.122**	0.246***

Notes: *** Significant at the 0.01 level; ** Significant at the 0.05 level; and * Significant at the 0.10 level

Table 3: Pearson's correlations

Pearson	LOGAF	LOGNAF	BIND	BSIZE	DUALITY	ACIND	TENURE	INDUSTRY
LOGAF	1.000							
LOGNAF	0.612***	1.000						
BIND	0.381***	0.365***	1.000					
BSIZE	0.228***	0.134***	0.228***	1.000				
DUALITY	0.037	0.039	0.024	-.012	1.000			
ACIND	0.155***	0.160***	0.699***	-.031	-.026	1.000		
TENURE	-0.048	0.049	0.069	.056	-.008	-.040	1.000	
INDUSTRY	0.090**	0.221***	0.080	.010	.041	.002	-.106**	1.000

Notes: *** Significant at the 0.01 level; ** Significant at the 0.05 level; and * Significant at the 0.10 level

Table 4: Spearman's correlations

Spearman's rho	LOGAF	LOGNAF	BIND	BSIZE	DUALITY	ACIND	TENURE	INDUSTRY
LOGAF	1.000							
LOGNAF	0.617***	1.000						
BIND	0.392***	0.335***	1.000					
BSIZE	0.237***	0.133***	0.230***	1.000				
DUALITY	0.059	0.081	0.039	-0.010	1.000			
ACIND	0.149***	0.121***	0.686***	-0.011	-0.049	1.000		
TENURE	-0.019	0.089*	0.080	0.048	-0.015	-0.041	1.000	
INDUSTRY	0.122***	0.246***	0.064	-0.020	0.031	0.007	-0.126***	1.000

Notes: *** Significant at the 0.01 level; ** Significant at the 0.05 level; and * Significant at the 0.10 level

Table 5: OLS regression results

	Model 1		Model 2		Model 3	
	AFee	NAFee	AFee	NAFee	AFee	NAFee
(Constant)	4.923***(0.000)	4.928***(0.000)	5.087***(0.000)	5.187***(0.000)	5.166***(0.000)	5.148***(0.000)
BIND	0.118***(0.000)	0.163***(0.000)	0.162***(0.000)	0.225***(0.000)	0.168***(0.000)	0.224***(0.000)
BSIZE	0.034***(0.000)	0.017(0.202)	0.026**(0.008)	0.006(0.682)	0.026**(0.007)	0.006(0.683)
DUALITY	0.027(0.454)	0.037(0.454)	0.020(0.582)	0.027(0.582)	0.018(0.608)	0.027(0.580)
ACIND			-0.003***(0.003)	-0.004***(0.003)	-0.003***(0.001)	-0.004***(0.003)
TENURE					-0.099**(0.017)	0.011(0.852)
R square	0.167	0.137	0.181	0.152	0.190	0.152
Adjusted R square	0.162	0.132	0.175	0.145	0.182	0.144
F-Statistics (p-value)	34.589***(0.000)	27.172***(0.000)	28.577***(0.000)	22.954***(0.000)	24.213***(0.000)	18.336***(0.000)

Notes: *** Significant at the 0.01 level; ** Significant at the 0.05 level; and * Significant at the 0.10 level

Table 6: Test of normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AF	0.224	521	0.000	0.601	521	0.000
NAF	0.306	521	0.000	0.424	521	0.000
LOGAF	0.081	521	0.000	0.986	521	0.000
LOGNAF	0.053	518	0.001	0.985	518	0.000
BIND	0.178	521	0.000	0.942	521	0.000
BSIZE	0.137	521	0.000	0.957	521	0.000
DUALITY	0.438	521	0.000	0.510	521	0.000
ACIND	0.235	521	0.000	0.862	521	0.000
AUDTENURE	0.484	521	0.000	0.508	521	0.000
INDUSTRY	0.177	521	0.000	0.921	521	0.000

Notes: *** Significant at the 0.01 level; ** Significant at the 0.05 level; and * Significant at the 0.10 level