DETERMINANTS OF AUDIT FEES IN DEVELOPING COUNTRIES: EVIDENCE FROM EGYPT

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Abstract

The aim of this study is to examine the perceived level of importance with respect to each pre-suggested determinant of audit fees in Egypt. In particular, the perceptions about auditor-related attributes and client-related attributes according to external auditors and client's representatives (auditee).

This study is based on the results of a survey conducted in Egypt. A questionnaire is designed to request the opinions of external auditors and client representatives about 28 audit fees determinant. The questionnaire was sent to 150 participants out of whom 63 responses are found usable. Data is analyzed using SPSS program and Mann-Whitney U test is performed.

The results reveal that the perception of all attributes is greater than 3, implying that all pre-suggested determinants are perceived as relatively important, important or highly important. The most three important attributes are: the good reputation of the audit firm, the fact of being one of the Big Four and the level of complexity of the auditee. Furthermore, the results show that there is no significant difference in perceptions of both group of participants regarding the importance of each audit fees determinant. It is also evident that auditor-related attributes are perceived to be of higher importance than client-related attributes.

This is the first study conducted in Egypt examining the determinants of audit fees, knowing that audit fees figures are neither available nor publically disclosed. Moreover, the study takes into account the Egyptian revolution which started in 2011 by adding two new determinants to the questionnaire; economic and political stability. This is in order to cope with the country's situation and to check the extent of such environmental attributes' effect on audit pricing.

Keywords: Audit Fees, External Auditor, Big Four, Determinants, Developing Countries, Egypt

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1. INTRODUCTION

By the turn of this century, the accounting and auditing profession took a totally new direction at both, legal and practical levels along with an increased awareness about transparency, accountability and responsibility reached by all stakeholders of business firms. The failure of big corporations such as Enron and WorldCom in addition to other business scandals which in turn took down big audit firms (i.e., Arthur Andersen), made a shift in auditing practices and its regulations. As a result, a substantial increase in the research field was noticed with regards to auditors' roles in fraud detection and prevention, internal

control, audit fees and audit quality (Jizi, Nehme, & ELHout, 2016). In fact, the determinants of audit fees as a topic, is being researched since the last three decades (Abbas & Aleqab, 2013; Abbott, Parker, & Peters, 2012; Alanezi & Alfraih, 2016; Amba & Al-Hajeri, 2013; Banimahd & Vafaei, 2012; Choi, Kim, Liu, & Simunic, 2008; Cullinan, Du, & Zheng, 2016; ElGammal, 2012; Hassan & Naser, 2013; Gu & Hu, 2015; Mohamed, Mat Zain, Subramaniam, & Wan Yusoff, 2012; Mostafa Mohamed & Hussien Habib, 2013; Nehme & Jizi, 2018; Van Caneghem, 2010; Venkataraman, Weber, & Willenborg, 2008; Wines, 2012; Jizi & Nehme, 2018), but interestingly it has also evolved with its findings and factors influencing it, making it still a subject of interest for many scholars. More or less, there are fixed determinants that will remain to be counted as main factors of audit fees such as the audit firm's industry specialization and the risk associated with the client's firm, while other determinants have become obsolete and non-valid, also some of them have been introduced to reflect indirect factors in audit pricing audit.

Unlike developed economies, the attributes influencing audit fees in the Middle East and North Africa (MENA) region, which includes both, emerging and developing economies, has been less studied providing little empirical evidence. In this region, several studies were conducted to examine the pre-suggested determinants of audit fees and their perceived level of importance according to external auditors, auditing practitioners and accountants while lacking to provide fees numbers since such numbers are considered confidential and are not publically disclosed. The studies covered MENA countries such as Lebanon (ElGammal, 2012), Bahrain (Amba & Al-Hajeri, 2013; Joshi & Al-Bastaki, 2000), United Arab Emirates (UAE) (Hassan & Naser, 2013), Kuwait (Alanezi & Alfraih, 2016) and Jordan (Naser & Nuseibeh, 2007). These studies intersect at almost all attributes and confirm results of previous studies conducted in developed and/or emerging countries. In Egypt, a study done by Abbas and Aleqab (2013) focused on audit fees while solely linking it to internal auditors' characteristics, which will be one of the explored factors in this study. Therefore, studying the larger context of audit fees determinants and attributes in Egypt would contribute to previous studies given the greater scale of population, more than 90 million (World Bank, 2015), and economy that Egypt enjoys compared to other MENA countries that were studied before. Moreover, the uniqueness of this study is that it incorporates new determinants including political and economic stabilities of the country in which the client operates as such environmental factors cannot be dismissed while audit pricing decision making in a country playing a significant role in the "Arab Spring".

It should be emphasized that, all the prior research except (ElGammal, 2012) are based on the idea that the researcher had an access to the audit fees figure which is published in the annual reports of most of the auditee companies. The main problem of the present study is that the researcher was not able to find the audit fees figure as there is no a strict law in Egypt that can enforce companies to publish the audit fees figure. But because the researcher has a motive to examine what are the factors that can affect determining audit fees figure in a country like Egypt, he thought to ask different types of respondents (external auditors, client representatives) about their attitudes regarding a pre-suggested determinants of audit fees based on prior research.

In light of this, a questionnaire was designed and distributed in Egypt to external auditors and clients' representatives, who are knowledgeable about audit pricing, to examine the level of importance and agreeability with the predetermined audit fees factors while giving insight to non-considered attributes before. The questionnaire included three-category attributes: those related to the audit (CPA) firm, the client firm (auditee) and other environmental determinants such as the political and economic stability of the country.

The remainder of this paper is organized as follows a review of the literature including the development of the hypotheses of the study is presented in Section 2. The methodology is presented in Section 3, followed by the results and discussion in Section 4, then the conclusion including the limitations of the study in Section 5.

2. LITERATURE REVIEW

Auditors are the entrusted party for approving the credibility of financial reports. These reports represent the fundamental reference for external users such as investors. Hence, pricing services with far implications is more complicated than cost-benefit analysis or supply-demand equation. Audit practices became highly recognized as fraud and forensic accounting became hot topics. Audit fees are the amount of money received by an audit firm from the client in exchange of performing audit process. Increasing trend in studies about audit fees kicked off when the previously Big Five accounting firms became what is known now Big Four (Ernest & Young, Deloitte, PWC and KPMG), as Arthur Andersen no more exists after the Enron scandal in 2001. This incident represented a turning point in legal institutions who reconsidered laws shaping the profession to restore public confidence, minimize future business failures and guarantee good enforcement of accountability standards.

The famous Sarbanes-Oxley (SOX) Act enforced in the USA in 2002, was a reaction for 2001 audit failures. SOX imposes stricter requirements on accuracy of financial information and higher compliance costs. SOX potentially changes the supply and demand for audit. Thus, determinants of audit fees and requirements in general can be classified into pre-SOX and post-SOX.

Studies explored determinants of audit fees and their importance in the MENA region, and the results show high consistency among countries. In the UAE, the findings of Hassan and Naser (2013) proved a direct relationship between audit fees and both, business complexity and corporate size of the client, and also revealed that audit fees are not significantly affected by the client's risk, profitability and status of the auditor. Recently, Alanezi and Alfraih (2016) noted that factors influencing audit fees in Kuwait are: auditor's brand

name, auditor's experience and time spent to complete the given job.

Naser and Nuseibeh (2007) said the main determinants of audit fees in Jordan are client's size, audit firm status, degree of client's risk and complexity and industry type, while client's profitability showed no significance. In Bahrain, Joshi and Al-Bastaki (2000) examined the relationship between audit fees and five variables: client's size-in terms of total assets, profitability, complexity, risk, and timing of audit. The results showed a significant association between audit fees and each of size, risk, complexity and profitability of the client. Factor significance goes back to market characteristics and economy size and enacted laws.

In Lebanon, ElGammal (2012) focused on pre-suggested client's attributes, and examined the audit firm's attributes in determining audit fees such as industry specialization, experience, size, competition, reputation and whether the audit firm is a Big Four firm. Results indicated that all attributes are either important or extremely important in influencing audit fees by internal and external auditor whose perceptions towards each factor were highly consistent (ElGammal, 2012). From an auditing practitioner's point of view in Qatar, the most influencing factors in determining audit fees were the following: client's size and profitability, industry type, audit firm's reputation and independence, competition among audit firms and extent to which the audit firm provides auditee with consulting services (Kutob & Al-Khater, 2004).

The next two sections (2.1. and 2.2.) below are devoted to defining each of the attributes in details accompanied by the predicted effect on audit fees based on prior studies' findings then based on the theoretical foundation, the hypotheses of the study will be developed as well.

2.1. Audit firm attributes

2.1.1. Size

Studies reached mixed results when examining the relationship between CPA firm size and audit fees billed. A study by Van Caneghem (2010) suggested that Big Four auditors are able to charge a premium in comparison to non Big Four auditors and they consider a richer set of variables. On the other hand, Simunic (1980) concluded that Big Eight (now Big Four) tended to charge lower fees. This contradiction can be justified from a cost point of view, knowing the high level of economies of scale enjoyed by big CPA firms compared to small firms.

2.1.2. Industry specialization

The more expertise a CPA firm has in a client industry, the error frequency is lessened. On average, Bonner and Lewis (1990) found that more specialized auditors outperform less experienced ones. Craswell, Francis, and Taylor (1995) found that industry specialized audit firms earn on average a 34 percent premium, as the development of this specialization is argued to be costly. For example, in the manufacturing industry, auditors with more manufacturing experience, are better able to identify errors (Bedard & Biggs, 1991).

Krishnan (2003) indicated that an industry specialist enhances the credibility of accounting information and increases audit effectiveness. According to Porter's (1985) framework, industry specialization is considered a differentiation strategy aiming to create a sustainable competitive advantage over non-specialized auditors. Therefore, the industry specialization of the audit firm is absolutely a major determinant of audit pricing and has a significant effect on fees charged.

2.1.3. Reputation (brand name)

This brand name and reputation of the Big Four firms allows them to justify premium pricing as they are the leaders of their industry. A reputable audit firm can adopt "boutique strategies", accepting a lower price from clients if it has a low market share in the industry while trying to cover more industries and expand in existing ones (Ferguson & Stokes, 2002). On the other hand, because an audit failure is costly, clients are motivated to pay a premium in order to guarantee a satisfying level of quality and avoid any failure consequences.

A link between auditor's quality and the economic value of the client's firm has been detected. Chaney and Philipich (2002) revealed that, in initial public offerings (IPOs) market, higher audit quality leads to a greater value for the offering, less underpriced, or both, where entrepreneurs and managers are willing to pay a premium charge in order to receive a higher audit quality, as they perceive it. The reputation of the auditor significantly affects its client business, to the level of guaranteeing its continuity. Given this, the auditor's reputation is strongly taken into consideration during the audit pricing process.

2.1.4. Litigation risk

Litigation risk is also referred to as legal liability. Gu and Hu (2015) considered that the risk differences across litigation regimes are reflected in the audit fees. The study found that the higher the litigation risk the higher the audit fees. Similarly, the results of a study by Venkataraman, Weber, and Willenborg (2008) suggested that in a higher litigation regime, audit fees are higher, the thing that is consistent with the relationship between auditor's incentive and litigation risk. Furthermore, Sun and Liu (2011) argued that as the client-specific litigation risk increases, big auditors are forced to perform more effectively. In order to receive a higher level of effectiveness, a client has to pay for it.

While in the U.S. it was thought that Big Four auditors provide high-quality audits for the sake of protecting the firm's reputation and brand name and also avoiding costly litigations, Khurana and Raman (2004) found that the main driver for the perceived audit quality is the litigation exposure rather than the brand name and reputation protection. As a result, Choi et al. (2008) confirmed that "a country's litigation environment is likely to play a crucial role in audit pricing" (p. 56). Hence, litigation costs and the consequences associated with any audit underperformance or failure are incorporated in the audit fees model since litigation risk is considered an important determinant of the fees as higher fees are requested to compensate for this risk.

2.1.5. Big Four

Choi et al. (2008) studied the conditions (in a legal liability regime context) under which the Big Four auditors charge higher fees to reach the following explanations:

- Within a specific legal liability regime, Big Four firms charge higher fees due to: the potential legal liability cost for a Big Four auditor is greater than that cost for a non-Big Four. Consequently, given this higher potential cost, the incentive for a Big Four auditor to increase their effort is higher too, thus leading to higher audit fees in order to compensate for the increased efforts cost.
- As the country's legal regime shifts from weak to strong, the Big Four premium decreases. This is justified by the fact that a non-Big Four auditor has a higher audit failure rate (i.e. lower audit quality) compared to a Big Four firm. This allows the non Big Four firm to increase its fees more significantly than the Big Four firm so to compensate for the larger increase in expected legal liability costs. Accordingly, the fee spread or the fee gap between the two auditors becomes smaller and shrinks as the legal regime becomes tougher and more demanding.

On the other hand, Fan and Wong (2005) found that clients with intensive agency problems and owners with interests contradicting that of the minority shareholders were charged a fee premium since it is perceived that choosing a Big Four auditor will mitigate agency problems between owners and managers.

2.1.6. Tenure

Audit tenure is associated with greater acquired expertise knowing that the auditor gains a better understanding of the client's processes and risks (Bell, Marrs, Solomon, & Thomas, 1997). Studies showed that audit quality improves with audit tenure (Ghosh & Moon, 2005). This higher quality comes with a higher cost on the client. Although some researchers call for mandatory auditor rotation, Geiger and Raghunandan's (2002) results did not verify this argument, as they found that reporting failures in the earlier years of audit-client relationship were significantly more than when auditors had served these clients for longer tenures, indicating an inverse relationship between audit tenures and audit reporting failures. In this sense and in order for the client to minimize the probability of any auditing failure, he/she would accept to pay higher fees, knowing that its data are in safe hands.

Stanley and DeZoort (2007) findings were consistent with the concerns about audit quality due to the lack of client-specific knowledge and low audit fees on new audit engagements. On the other hand, Ettredge and Greenberg (1990) studied the determinants of audit fees cutting on initial engagements for clients who had switched to a new auditor, to find a cutting median of 23 percent and justifying this cut by the following factors: 1) the number of auditors bidding on the engagement, 2) the change in the auditor's relative cost advantage or disadvantage in auditing a given client including a change in auditor class, 3) technological efficiency and industry expertise, and 4) the financial health condition of the client. Therefore, audit tenure does have a significant effect on audit fees and is considered an important determinant.

2.1.7. Independence

In Egypt, Mostafa Mohamed and Hussien Habib (2013) revealed that auditor's independence does not exist, and the main reason for this problem goes to the poor structure of corporations of being closely held and found that the primary incentive for voluntary switching of auditors was to improve audit quality. Wines (2012) talks about two obligatory types of independence: in fact and appearance. Independence in fact exists when auditors are actually able to act with integrity, impartiality, objectivity and freedom from any conflict of interest (Wines, 2012). According to the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board of Accountants (IESBA) to be independent in appearance the auditor is required to avoid "…facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude…that a firm's, or a member of the audit team's integrity, objectivity or professional skepticism has been compromised" (IESBA, 2010, s. 280.8).

Thus, this improved quality is also associated with higher fees and we can say that the audit fee dependence on auditor's independence does exist.

2.1.8. Competition

Pearson and Trompeter (1994) investigated the relationship between competition and supplier concentration in a market of audit services to find out that concentration is negatively associated with audit fees where higher levels of concentration are related to higher levels of price competition and thus reaching lower prices. Interestingly, the study also found a significant price-cutting among market leaders for each other's clients but not for clients who switch from a non-leader auditor to a market leader auditor, thus the concentration, in fact, did increase price competition allowing lower fees (Pearson & Trompeter, 1994).

Simunic (1980) tested the competitiveness of the audit industry using fee data and his findings failed to support the allegation that the Big Eight (now Big Four) are monopolizing the market for audit services. In China, Wang, Sewon, and Chu (2014) indicated that with the growing market power of local audit firms, it was noticed that the Big Four firms have relatively decreased their fee premium in comparison to findings of prior research and that these local firms are gaining substantial market share in the Chinese market through mergers and acquisitions, where two large local firms have bypassed Big Four firms with their fee premium. With no doubt, rivalry among existing audit firms influences their pricing decisions.

2.2. Client attributes

2.2.1. Size

Auditee's size is measured in terms of the number of employees, market share and company assets (ElGammal, 2012). Ho and Ng (1996) consider that the main determinants of client's size which have the highest explanatory power of audit fees are assets and turnover. Amba and Al-Hajeri (2013) believed that the difficulty of audit tasks increases as inventories and accounts receivables become larger. In Denmark, Thinggaard and Kiertzner (2008) found that choosing PWC - Big Four firm - is associated with higher audit fees in small companies and lower audit fees in large companies. Similarly in Australia, a study by Carson, Fargher, Simon, and Taylor (2004) revealed that on average, there is a premium to Big Four auditors in the small client segment compared to the large client segment. This negative relationship may be due to the fact that larger companies ought to have stronger corporate governance mechanisms and higher internal control, thus generating more reliable internal audit reports the thing that makes the work of the external auditor easier, smoother and requires less effort. Yet, this negative relationship is not consistent with findings pointing out a positive relationship between the two, audit fees and auditee size, since large companies require more auditing services and their audit process consumes more time.

A study by Gonthier-Besacier and Schatt (2007) in France concluded that audit fees depend on firm size and that the fees charged by the audit firm are adjusted according to company size, in a positive sense. Also, Wilson (2003) reconfirmed this positive relationship upon finding that large energy firms pay higher audit fees than do smaller firms. These findings also support those of Turpen (1995) who indicated that companies with extensive receivables and high level of inventories pay higher audit fees.

From a mathematical perspective, the results of a recent study by Cullinan, Du, and Zheng (2016) suggest that the non-linear relationship between audit fees and client size is not always enough captured by a log transformation and different size transformation must be considered in order to test size measures. Also, many earlier studies indicated that audit fees increase at a decreasing rate of size (Abdel-Khalik, 1990; Francis, 1984; Simunic, 1980).

Hence, it is obvious that the client's size is an important characteristic while charging audit fees, yet the nature of the relationship between the two, whether positive or negative, seems to be debatable and may not always follow one rule, while the weight of this attribute may increase or decrease according to the intensity of other attributes and its size variables as well.

2.2.2. Complexity

According to Abdel-Khalik (1993), this issue was first studied by Elliott and Korpi (1978) who introduced indicators for client complexity such as internal control strength, degree of decentralization, locations and other organizational structure indexes. While Levinthal and Fichman (1988), grouped the elements influencing complexity into three categories: task difficulty, organization's size and diversification. To associate the client's complexity to audit fees, many argue that the two are positively related due to the extra audit hours and efforts needed by the audit firm to complete their service as the client's tasks and operations get more complex. Palmrose (1986) also pointed out the issue of locations in measuring complexity and its effect on audit fees. Consequently, a client with different locations requiring on-site visits by the CPA firm auditors would pay higher fees (Palmrose, 1986).

O'Keefe, Simunic, and Stein (1994) found that 80 percent of the cross-sectional variation in audit hours was explained by the client's size, complexity and risk measures. An empirical study conducted by Ho and Ng (1996), found that the "complexity of audit adds significantly to the cost of audit". Accordingly, the level of complexity of an auditee is highly important and is given careful attention when determining audit fees.

2.2.3. Client-related risk

Client's risk is another factor to be studied when looking at the client's characteristics, it is also known as the business risk in which the auditor needs to minimize it. It is also important to distinguish among the three types of risks which in fact build up the audit risk model and is used when the auditor assesses the client's risk and decides whether to accept the client or not: inherent risk, control risk, and detection risk. Rao and MacDonald (2011) defined control risk as the probability of the "client's internal control system failing to prevent financial statement misstatements exceeding the auditor's predetermined assessment of such risk" (p. 124). According to Hoag and Hollingsworth (2011), the American Institute of Certified Public Accountants (AICPA) defined each of the risks as follows:

- *Inherent risk* is the likelihood that a material misstatement exists in the financial statements without the consideration of internal control.
- *Control risk* is the likelihood that a material misstatement in the financial statements could occur and not be prevented or detected on a timely basis by the company's internal controls.
- *Detection risk* is the likelihood that the auditor will not detect a material misstatement that exists in the financial statements (AICPA, 2006).

Elder, Zhang, Zhou, and Zhou (2009) found that audit fees are positively associated with changes in reported internal control weakness in a way that as the control risk of a client increases, auditors are likely to respond in the order of audit fee adjustments or sometimes auditor resignations. Bell, Landsman and Shackelford (2001) found that high business risk of the client increases the number of audit hours billed but not the charge per hour in order to compensate for this risk. Hogan and Wilkins (2008) argue that as a result of big accounting scandals and the SOX Act, the auditors' sensitivity to control risk has in fact increased.

2.2.4. Profitability

According to Simunic (1980), the profitability of the client reflects the extent to which the audit firm may

be subjected to a loss in case the client is not financially viable or eventually fails. For example, leverage and liquidity ratios in addition to other profitability measures such as the effective rate of return are strongly used to assess the client's profitability and level of risk. It is expected that the higher the profitability of a firm, the more the CPA firm is inclined to charge higher fees. Taking profitability ratio by itself, it is simply the ratio of net profit to total assets (Banimahd & Vafaei, 2012).

2.2.5. Internal audit availability and the level of coordination with external audit

A study by Mohamed, Mat Zain, Subramaniam, and Wan Yusoff (2012) examined the internal audit competency (reflecting internal audit quality). The aspects of internal audit competency included: internal audit staff professional certifications and experience in accounting and auditing, training hours, expertise in IT and computer skills and the tenure of the existence of internal audit in the organization. The findings proved that the competency of internal audit is associated with lower audit fees (Mohamed et al., 2012). Singh and Newby (2010) examined the relationship between the firm's internal audit function and its external audit fees to find out a strong positive direction between the two and also indicted that internal audit function complements audit fees and signifies a high commitment by the firm to monitoring and control environment. Within the context of external auditors' reliance on internal auditors' work, Haron, Chambers, Ramsi, and Ismail (2004) revealed the two most important criteria that external auditors use when evaluating internal auditors which are the technical competence and the scope of function.

Facilitating greater coordination between internal and external auditors and investing in maintaining a higher quality internal audit by the auditee were also recognized of high significance in association with audit fees. Abbott et al. (2012) proved a negative relationship between internal audit assistance and external audit delay, and that this assistance is directly related to audit cost savings and greater audit efficiency. According to Felix, Gramling, and Maletta (2001) the greater the contribution to the financial statement audit made by the internal audit, the lower the external audit fees, indicating that this contribution is a significant determinant of audit fees. This coordination has the potential to maximize the effectiveness of the contribution of the internal audit on financial statements auditing resulting in an increase in the overall audit efficiency by minimizing the efforts for duplicate audit (Felix, Gramling, & Maletta, 1998). Therefore, the availability of internal audit only alone does not fully assure the implications on audit fees, but the extent of coordination and assistance between the two audit functions allow the client to utilize this resource more favorably.

2.2.6. Industry type

Other factors of the fees may include the sector in which the client operates. Some studies differentiated between public and private sectors, and also between for-profit and not-for-profit clients. For example, Goodwin (2004) revealed that in the private sector, it is perceived that internal audit leads to a greater reduction in audit fees compared to that in the public sector. In Canada, Anderson and Zeghal (1994) revealed that companies operating in the communication, transportation and utilities sectors pay lower audit fees than firms operating in other sectors. Moreover, it was found by Gonthier-Besacier and Schatt (2007) that French listed firms under the IT sector pay higher audit fees than firms belonging to other sectors. Therefore, the industry type of the client is an important factor in audit services pricing.

2.2.7. Other determinants

Huang, Liu, Raghunandan, and Rama (2007) observed a negative association between audit fees and the client's *bargaining power*. The results of Casterella, Francis, Lewis, and Walker (2004) suggested that the audit fees are lower when they have higher bargaining power and vice versa. On the other hand, this bargaining power can be also extracted from other factors such as the importance of the auditee for the audit firm in terms of the ratio of fees received from this client to the total revenues generated by the auditor, the interest of the audit firm in building long relationship with this client based on the peculiarity of being a potential and a continued client.

The *time consumed* as well as *the number of auditors* assigned to complete the audit process have been also recognized to affect audit fees. Amba and Al-Hajeri (2013) examined the significance of five factors, such as the size of client and complexity, on audit fees in Bahrain to find them all significant. The relatively new factor among the five was auditing information technology system utilized by the client and its level of sophistication which requires the audit firm to invest and spend a lot of money in training the staff to get the specialized skills while these auditors are also expected to possess professional certifications to be on the audit team; consequently, the audit firm will increase its fees for auditing the IT system and its invisible transactions (Amba & Al-Hajeri, 2013). In the questionnaire of this study, such skills were referred to as the *technical qualifications of the auditors.*

2.2.8. Political and economic stability

Since this study is carried out in Egypt, we cannot dismiss the significant political and economic changes taking place in the country since the beginning of the revolution in 2011. Recently, the Egyptian pound has experienced a substantial devaluation during 2016 and the official exchange rate to the dollar has increased from 8.8 pounds to 13 and to more than 16 pounds in the black market. As the budget deficit is expected to exceed 11% this year along with the decrease in foreign reserves (more than 50%) and investments in addition to the high need for cash, the shortage of dollars in the Egyptian market left many businesses scrambled (The Economist, 2016).

Accordingly, we suggest that the political instability in Egypt and its associated economic burdens and changes would impose further considerations on business entities and their practices.

2.3. Auditing profession in Egypt

Wahdan, Spronck, Ali, Vaassen, and Van den Herik, (2005) presented an analysis of the legal framework surrounding the auditing profession in Egypt and the problems facing it to find a substantial level of nonconformity with the laws which is a result of the following four reasons: the lack of expertise and experience in the profession, the lack of competitiveness in terms of salaries and incentives, the lack of auditing and accounting education and the weakness in the required training. Although great efforts have been made to reach compliance with auditing standards, there is still a gap between these standards and actual auditing practices (Wahdan et al., 2005). On the other hand, Kamal Hassan (2008) examined the processes of setting accounting standards in Egypt and found major changes in these processes driven by changes in the regulators' motivation and the state's political philosophy allowing the formulation of Egypt Accounting Standards (EAS), consistent with IAS, and later the development of Egypt Financial Reporting Regulations (EFRR), in which the government has a coercive power and its role changed from being a controller to becoming a regulator and a provider of legal and political frameworks of organizations function in Egypt. Dixon, Woodhead and Sohliman (2006) found evidence for a wide audit gap, between financial users and auditors, specifically in the areas of auditor's responsibilities for preventing and detecting fraud, maintain accounting records and the auditor judgment in the selection of audit procedures including internal controls, indicating serious concerns in the auditing and accounting profession in Egypt. The problem illustrated in the lack of the auditor's independence in Egypt and its effect on audit quality was studied by Mostafa Mohamed and Hussien Habib (2013) who believed that mandatory audit rotation is the solution for such a problem. The main reason behind this independence was due to the poor corporations' structure of being closely held, revealing that the voluntary switch of auditors was for the aim of improving audit quality; thus searching for more reputable auditors. Moreover, a long auditor-client relationship proved to enhance the quality of audit given the increased experience in the business practices of the client (Mostafa Mohamed & Hussien Habib, 2013). It can be noticed that much effort is being put in the accountancy and auditing profession in Egypt, especially at the legal level, yet it still needs further monitoring and control and investments in terms of training and practicing.

Hypotheses

Based on the presented literature, the hypotheses to be tested in this study are:

H1: Each of the suggested determinants of the audit fees is perceived as important by external auditors and clients' representatives.

H2: There is no significant difference in the perceptions of both external auditors and clients' representatives regarding the importance of each of the audit fees determinants.

3. METHODOLOGY

A questionnaire was designed and distributed in Egypt in order to investigate the perception of external auditors and client's representatives including internal auditors, accountants, chief accounting officers and members of the audit committee, about the importance of each of the audit fees determinants, in addition to exploring the level of consistency of perceptions between the two groups. The questionnaire included two parts; the first part consisted of six demographic questions (age, gender, years of experience, job position, professional certificates and qualifications) and the second part consisted of 28 factors using Likert-scale. In particular, the second part included 26 audit fees factors, auditor - and client - related factors in addition to two external factors about the political and economic stability of the country. All factors were extracted from ElGammal (2012) and Ramzy (1988) except for the economic and political related ones.

The questionnaire was distributed in January 2019 via email to 150 employees and audit practitioners working in audit firms, banks and universities, out of which 70 were returned during a period of 6 months), representing 46.67% response rate, and 63 responses were found usable. The answers of the second part questions were converted to numbers as follows: strongly disagree = 1, disagree = 2, neutral = 3, agree = 4 and strongly agree = 5. Analysis of mean variances was performed using the SPSS statistical program. It should be emphasized again that no prior study had examined the determinants of audit fees in Egypt before the present research. Descriptive statistics were obtained to check for hypothesis *H1*, and the Mann-Whitney U-test was then performed to check the significance in mean differences between the two independent groups, external auditors and client's representatives.

Demographics results are summarized in Table 1 below where external auditors represent 53.97% of participants and client's representatives including internal auditors, accountants, chief accountant officers and others representing the remaining 46.03%. The majority of respondents, 53.97 % holds a bachelor's degree and has more than 10 years of experience. In addition, 33.33% of the participants have a CPA certificate and are above the age of 40. Almost 75% of the participants are males, thus indicating that in this part of the world, males are more inclined than females to choose the audit profession and accountancy related jobs.

Table 1. Demographics results

Job position		***Type of respondent***		***Gender***	
External auditor	53.97%	external auditor	53.97%	male	74.6%
Accountant	15.87%	client representative	46.03%	female	25.4%
Audit committee member	3.17%	***Qualifications***		***Age***	
Chief accountant officer	7.94%	bachelor's degree	53.97%	< 30 years	39.68%
Internal auditor	9.52%	graduate degree	30.16%	30-40 years	26.98%
Other	9.52%	PhD	15.87%	> 40 years	33.33%
Years of experience		***Professional certificates***			
< 5 years	26.98%	CPA	33.33%		
5-10 years	19.05%	other	50.79%		
> 10 years	53.97%	none	15.87%		

4. RESULTS AND DISCUSSION

The data collected was ran through the SPSS program and descriptive statistics for all variables is presented in Table 2 shows the mean for each factor as well as the individual mean of each group within each factor and standard deviation. The results indicate that the total means of all factors is greater than 3, thus each of the determinants is perceived of the relative importance between the two groups. The highest score equals to 4.75 for the good reputation of the audit firm, and the lowest mean for the client's profitability equivalent to 3.34.

More specifically, the top factors for determining audit fees as perceived by the external auditors are: good reputation of audit firm (4.82), the audit firm is one of the Big Four (4.71) and complexity of the client (4.62), according to client's representatives, the most two important factors are the good reputation of the audit firm (4.66) and whether the firm is one of the Big Four (4.52), the third most important factor for them is industry specialization (4.48) and professional experience of the audit firm (4.34). Moreover, it can be also noticed from Table 2 that all the pre-suggested determinants have a total mean greater than 3, indicating that all the studied factors are relatively important in audit pricing. These findings support hypothesis *H1* and are consistent with those of ElGammal (2012), Joshi and Al-Bastaki (2000), and Stanely and DeZoort (2007).

Table 2. Descriptive statistics (Part 1)

		N	*Mean*	*Std. Dev.*	*Std. Error*	*95% Confidence Interval for Mean*		*Min.*	*Max.*
						Lower Bound	*Upper Bound*		
1. Auditing firm's market share	external auditor	34	4.32	.59	.10	4.12	4.53	3	5
	client's representative	29	4.10	.56	.10	3.89	4.32	3	5
	Total	63	4.22	.58	.07	4.08	4.37	3	5
2. Auditing firm size	external auditor	34	4.15	.78	.13	3.87	4.42	2	5
	client's representative	29	4.00	.76	.14	3.71	4.29	3	5
	Total	63	4.08	.77	.10	3.89	4.27	2	5
3. Good reputation of the auditing firm	external auditor	34	4.82	.39	.07	4.69	4.96	4	5
	client's representative	29	4.66	.48	.09	4.47	4.84	4	5
	Total	63	4.75	.44	.06	4.64	4.86	4	5
4. The auditing firm is one of the Big Four firms	external auditor	34	4.71	.46	.08	4.54	4.87	4	5
	client's representative	29	4.52	.51	.09	4.32	4.71	4	5
	Total	63	4.62	.49	.06	4.50	4.74	4	5
5. Number of hours spent and auditors assigned to complete the audit process	external auditor	34	4.35	.60	.10	4.14	4.56	3	5
	client's representative	29	4.24	.58	.11	4.02	4.46	3	5
	Total	63	4.30	.59	.07	4.15	4.45	3	5
6. Industry specialization	external auditor	34	4.44	.79	.13	4.17	4.72	2	5
	client's representative	29	4.48	.51	.09	4.29	4.68	4	5
	Total	63	4.46	.67	.08	4.29	4.63	2	5
7. Audit-firm tenure	external auditor	34	4.00	.78	.13	3.73	4.27	2	5
	client's representative	29	3.86	.52	.10	3.67	4.06	3	5
	Total	63	3.94	.67	.08	3.77	4.10	2	5
8. Independence of audit firm	external auditor	34	4.26	.99	.17	3.92	4.61	2	5
	client's representative	29	4.00	.93	.17	3.65	4.35	1	5
	Total	63	4.14	.96	.12	3.90	4.39	1	5
9. Audit firm's commitment to international and professional standards	external auditor	34	4.44	.61	.11	4.23	4.65	3	5
	client's representative	29	4.31	.54	.10	4.10	4.52	3	5
	Total	63	4.38	.58	.07	4.23	4.53	3	5
10. Providing advisory or consulting services to the client:	external auditor	34	3.53	1.05	.18	3.16	3.90	2	5
	client's representative	29	3.83	1.28	.24	3.34	4.32	1	5
	Total	63	3.67	1.16	.15	3.37	3.96	1	5
11. Professional experience of the audit firm	external auditor	34	4.41	.50	.09	4.24	4.59	4	5
	client's representative	29	4.34	.61	.11	4.11	4.58	3	5
	Total	63	4.38	.55	.07	4.24	4.52	3	5
12. Technical qualifications of the auditors executing the audit process	external auditor	34	4.35	.49	.08	4.18	4.52	4	5
	client's representative	29	4.14	.83	.15	3.82	4.45	2	5
	Total	63	4.25	.67	.08	4.08	4.42	2	5

Table 2. Descriptive statistics (Part 2)

		N	Mean	Std. Dev.	Std. Error	95% Confidence Interval for Mean		Min.	Max.
						Lower Bound	Upper Bound		
13. Risk observed by the auditor	external auditor	34	3.53	.96	.16	3.19	3.86	2	5
	client's representative	29	3.69	.66	.12	3.44	3.94	3	5
	Total	63	3.60	.83	.11	3.39	3.81	2	5
14. Size of the client	external auditor	34	4.26	.96	.17	3.93	4.60	2	5
	client's representative	29	4.14	.64	.12	3.89	4.38	3	5
	Total	63	4.21	.83	.10	4.00	4.41	2	5
15. Complexity of the client	external auditor	34	4.62	.49	.08	4.45	4.79	4	5
	client's representative	29	4.31	.71	.13	4.04	4.58	3	5
	Total	63	4.48	.62	.08	4.32	4.63	3	5
16. Importance of auditee	external auditor	34	3.94	.65	.11	3.71	4.17	3	5
	client's representative	29	4.24	.69	.13	3.98	4.50	3	5
	Total	63	4.08	.68	.09	3.91	4.25	3	5
17. Client's profitability	external auditor	34	3.24	1.16	.20	2.83	3.64	1	5
	client's representative	29	3.34	1.08	.20	2.93	3.75	2	5
	Total	63	3.29	1.11	.14	3.01	3.57	1	5
18. Litigation risk	external auditor	34	3.79	.91	.16	3.48	4.11	2	5
	client's representative	29	3.72	1.10	.20	3.31	4.14	2	5
	Total	63	3.76	1.00	.13	3.51	4.01	2	5
19. Availability of internal audit at the client end	external auditor	34	3.76	1.13	.19	3.37	4.16	2	5
	client's representative	29	4.03	.57	.11	3.82	4.25	3	5
	Total	63	3.89	.92	.12	3.66	4.12	2	5
20. Internal audit quality of work and the level of reliability of external audit on internal audit work	external auditor	34	3.65	1.20	.21	3.23	4.07	2	5
	client's representative	29	4.07	.70	.13	3.80	4.34	3	5
	Total	63	3.84	1.02	.13	3.58	4.10	2	5
21. Peculiarity of being a potential, routine or continued client	external auditor	34	3.65	.92	.16	3.33	3.97	2	5
	client's representative	29	4.00	.76	.14	3.71	4.29	3	5
	Total	63	3.81	.86	.11	3.59	4.03	2	5
22. Sector into which the client is classified	external auditor	34	3.71	.97	.17	3.37	4.04	2	5
	client's representative	29	3.79	1.01	.19	3.41	4.18	2	5
	Total	63	3.75	.98	.12	3.50	3.99	2	5
23. Economic situation of the country	external auditor	34	3.24	1.23	.21	2.81	3.67	1	5
	client's representative	29	3.45	1.21	.23	2.99	3.91	1	5
	Total	63	3.33	1.22	.15	3.03	3.64	1	5
24. Political stability of the country	external auditor	34	3.29	1.14	.20	2.90	3.69	1	5
	client's representative	29	3.59	1.15	.21	3.15	4.02	1	5
	Total	63	3.43	1.15	.14	3.14	3.72	1	5
25. Level of competition among auditing firms	external auditor	34	3.94	.81	.14	3.66	4.23	2	5
	client's representative	29	3.83	.80	.15	3.52	4.13	2	5
	Total	63	3.89	.81	.10	3.69	4.09	2	5
26. Existence and enforcement of auditing legislation and regulations	external auditor	34	4.09	.83	.14	3.80	4.38	2	5
	client's representative	29	3.72	.96	.18	3.36	4.09	2	5
	Total	63	3.92	.90	.11	3.69	4.15	2	5
27. Extent of coordination between internal and external audit	external auditor	34	3.82	1.06	.18	3.45	4.19	2	5
	client's representative	29	3.76	.99	.18	3.38	4.13	2	5
	Total	63	3.79	1.02	.13	3.54	4.05	2	5
28. Good communication and negotiations between the audit firm and the client	external auditor	34	3.82	.72	.12	3.57	4.07	2	5
	client's representative	29	4.14	.74	.14	3.86	4.42	3	5
	Total	63	3.97	.74	.09	3.78	4.15	2	5

Furthermore, Table 3 below shows all determinants with a total mean of 4 and above to include 13 factors, with 2 pairs having the same mean, while the means of the remaining factors are greater than 3 and less than four, as mentioned before from Table 1. Therefore, *H1* "each of the suggested determinants of the audit fees is perceived as important by external auditors and clients' representatives" is accepted. On the other hand, it is worth noting that the two newly suggested audit fees determinants in this study, related to economic and political and economic stability, scored a mean of 3.33 and 3.43 respectively (Table 2), indicating that these two factors do have a perceptible effect on audit services pricing, especially in countries already suffering from such instabilities and their associated risks like Egypt. We can also conclude from the results of Table 3 that among the 13 most important determinants, 10 of them are auditor-related while only 3 are client-related. This indicates the auditor's attributes' power in audit pricing, which can be an advantage or a disadvantage to the audit firm, depending on how much the firm matches these factors.

Table 3. Audit fees factors with a mean of 4 and above

1	**Good reputation of the auditing firm**	**4.75**
2	The auditing firm is one of the Big Four firms	4.62
3	Complexity of the client	4.48
4	Industry specialization	4.46
5	**2 determinants:** Audit firm's commitment to international and professional standards; Professional experience of the audit firm	4.38
6	Number of hours spent and auditors assigned to complete the audit process	4.30
7	Technical qualifications of the auditors executing the audit process	4.25
8	Auditing firm's market share	4.22
9	Size of the client	4.21
10	Independence of audit firm	4.14
11	**2 determinants:** Importance of auditee; Auditing firm size	4.08

As mentioned above, Table 3 highlights the 13 most important factors that were viewed by the participants to have a high impact on audit fees with respect to the remaining factors, with an average of four and above. To further investigate and understand why these factors are perceived as more important than the rest of the factors, in depth interviews were conducted with external auditors to evaluate the impact of each. The determinants below were mainly addressed by the interviewees where they explained and justified the reasons behind their importance on audit fees. A few determinants were not deeply analyzed as the practitioners consider them to be of relatively less relevancy and believe that they have less effect on audit fees.

In this section, we give an explanation about the importance of each of these determinants based on interviews that had been made with some external auditors and client representatives.

Good reputation of the auditing firm: according to the interviewed practitioners, the good reputation of the audit firm is the most important factor, as the act of auditing is not only a service of attesting correct and complete financial data, but it highly relies on the ethics and integrity of the firm in terms of secrecy and reliability and is also derived from its partners, associates and staff who are supposed to be compensated fairly. All this comes at a cost for the audit firm and once the firm enjoys such a good reputation and is known for its dedication, this can trigger marked-up fees. This confirms the results of Chaney and Philipich (2002) in the sense that it is a win-win situation to hire a reputable audit firm, especially from the perspective of the client's investors.

The auditor is one of the Big Four: the Big Four dictate strict audit rules and have higher working capital compared to other local firms, the thing that allows them to provide a vast number of site auditors making them more efficient and eligible for higher charges. Moreover, the notion of Big Four has become a brand name and it is accepted by clients to pay higher fees knowing that they are getting higher quality and credibility for their financial data. Moreover, Big Four auditors have hugely invested in developing their audit systems, processes and methodologies and implemented IT systems to facilitate their audit service and meet the client's expectations; hence this cost shall be financed through high fees. This justification supports the results of Choi et al. (2008), who added on top of this the higher legal liability cost for a Big Four firm in case of a failure, compared to a non Big Four.

The complexity of the client and industry specialization: clients in highly complex industries usually demand specialized resources from the audit firms and as these resources are scarce, the audit firm tends to optimize the specialized resource allocation on clients offering higher fees. As a result, this complexity implies that more "Man/Hours" should be dedicated to understanding the business processes and flow of the client and therefore this comes at higher fees. In some cases, the industry experts are not available within the audit firm, hence agreeing with the client to outsource them and that some costs to be billed to them. This confirms the results of Ho and Ng (1996) and brings further evidence for the concerns raised by Stanley and DeZoort (2007) regarding the low quality of audit when auditors are not skilled enough in the industry.

Audit firm's commitment to international and professional standards and the professional experience of the audit firm: the interviewees considered this as a no choice for the audit firm. If they are not committed to international standards and have no professional experience, they must be simply banned from performing audit services. Reputable auditors perform their engagements in accordance with international auditing standards and would not accept performing otherwise. In turn, this would result in performing extra procedures and extra hours which would be charged to the client resulting in higher cost. This goes in parallel with Wahdan et al. (2005) argument that although great efforts have been put in Egypt to comply with audit standards, there remains a gap between them and audit practices, the thing that highlights and indirectly justifies the importance for the audit firm to follow these standards. Again, this determinant is perceived as an obligatory more than it is optional.

The number of hours spent and auditors assigned to complete the audit process: this determinant is a strong key factor in determining audit fees as it directly triggers the audit firm upon deciding on fees. Audit firms usually price their engagements on an hourly basis. Furthermore, the hourly rate is determined by different factors such as seniority and years of experience of auditors, location and country risk factors and specialty of certain skills. This provides further support to the results of Palmrose (1986), O'Keefe, Simunic and Stein (1994), and Shackelford (2001).

Technical qualifications of the auditors executing the audit process: auditors having higher technical qualifications translates into higher effectiveness and efficiency of the service as well as would eliminate the audit risk which is the risk that the auditor will not be able to detect a material misstatement. Accordingly, this determinant is linked to higher fees, hence confirming Krishnan's (2003) findings.

Size of the client: if "net income" is meant by size, then this determinant is not strongly relevant for audit fees decision agreeing by this with Simunic (1980) who considered profitability mainly reflects the ability of a client to pay in case of a loss or failure. However if the "complexity of the client" that is meant, then the size directly impacts the audit fees.

Independence of the audit firm: since a non-independent audit firm should simply not perform the service, therefore this is a no choice and must not really affect the audit fees. Hence, the importance of this determinant lies in the presence/absence of it in the first place. This totally confirms Wines' (2012) talks about two obligatory types of independence: in fact and appearance, indicating that the independence of the audit firm is not an option.

It should be noted that, in order to test how significant each factor is above three, the study uses the Wilcoxon signed-rank test, (Table 4 and Table 5) below. *The Wilcoxon signed-rank test* is a nonparametric test that can be used to determine whether two dependent samples were selected from populations having the same distribution.

Table 4. Wilcoxon signed-rank test – viewpoint of external auditors
Test of median = 3.000 versus median > 3.000

	N	*N for test*	*Wilcoxn Statistics*	*P*	*Estimated median*
Factor 1	34	33	561	0	4.5
Factor 2	34	32	506	0	4
Factor 3	34	34	595	0	5
Factor 4	34	34	595	0	5
Factor 5	34	32	528	0	4.5
Factor 6	34	34	579	0	4.5
Factor 7	34	30	442	0	4
Factor 8	34	30	447	0	4.5
Factor 9	34	32	528	0	4.5
Factor 10	34	22	208	0.004	3.5
Factor 11	34	34	595	0	4.5
Factor 12	34	34	595	0	4.5
Factor 13	34	22	210.5	0.003	3.5
Factor 14	34	34	559	0	4.5
Factor 15	34	34	595	0	4.5
Factor 16	34	26	351	0	4
Factor 17	34	25	205	0.129	3
Factor 18	34	28	362	0	4
Factor 19	34	32	436	0.001	4
Factor 20	34	32	413	0.003	3.5
Factor 21	34	24	262	0.001	3.5
Factor 22	34	30	390	0.001	4
Factor 23	34	28	245	0.172	3.5
Factor 24	34	28	263	0.088	3.5
Factor 25	34	34	537	0	4
Factor 26	34	30	445	0	4
Factor 27	34	30	402	0	4
Factor 28	34	28	381	0	4

The results in Tables 4 show that all the factors are significant above 3 (Likert scale), except three factors (client's profitability, economic situation of the country, political stability of the country from view points of the external auditors), this means that even if these three factors are important in determining the audit fees but they are not significant.

Table 5. Wilcoxon signed-rank test – View Point of client representatives
Test of median = 3.000 versus median > 3.000

	N	*N for Test*	*Wilcoxon Statistic*	*P*	*Estimated Median*
Factor 1	29	26	351.0	0.000	4.0
Factor 2	29	21	231.0	0.000	4.0
Factor 3	29	29	435.0	0.000	4.5
Factor 4	29	29	435.0	0.000	4.5
Factor 5	29	27	378.0	0.000	4.0
Factor 6	29	29	435.0	0.000	4.5
Factor 7	29	23	276.0	0.000	4.0
Factor 8	29	23	257.5	0.000	4.0
Factor 9	29	28	406.0	0.000	4.5
Factor 10	29	27	300.0	0.004	4.0
Factor 11	29	27	378.0	0.000	4.5
Factor 12	29	27	360.0	0.000	4.0
Factor 13	29	17	153.0	0.000	3.5
Factor 14	29	25	325.0	0.000	4.0
Factor 15	29	25	325.0	0.000	4.5
Factor 16	29	25	325.0	0.000	4.5
Factor 17	29	18	125.5	0.043	3.5
Factor 18	29	22	218.0	0.002	3.5
Factor 19	29	25	325.0	0.000	4.0
Factor 20	29	23	276.0	0.000	4.0
Factor 21	29	21	231.0	0.000	4.0
Factor 22	29	23	244.0	0.001	4.0
Factor 23	29	20	154.0	0.035	3.5
Factor 24	29	20	166.0	0.012	3.5
Factor 25	29	23	257.0	0.000	4.0
Factor 26	29	23	240.0	0.001	4.0
Factor 27	29	23	242.0	0.001	4.0
Factor 28	29	23	276.0	0.000	4.0

The results in Table 5 show that all the factors are significant above 3 (Likert scale) from the viewpoint of the client representatives.

In order to test for hypothesis *H2* "there is no significant difference in the perceptions of both external auditors and clients' representatives regarding the importance of each of the audit fees determinants", the study uses The Mann-Whitney U-test a 95% confidence level. This test is used to compare the differences between two independent samples/groups in case the dependent variables are not normally distributed but are either ordinal or interval. In the current study, the two independent groups are the external auditors and the client's representatives with interval measures from 1 to 5. The results of the test are represented in Table 6 below, where the variables numbered 1 to 28 in Table 1 are denoted as factors 1 to 28 respectively in Table 4. By looking at the p-value row [Asymp. Sig. (2 tailed)], all factors showed a value greater than 0.05 meaning that the second hypothesis is supported. Therefore, hypothesis two can be accepted and this confirms ElGammal's (2012) findings in Lebanon.

Table 6. Mann-Whitney U-test results

	Factor 1	*Factor 2*	*Factor 3*	*Factor 4*	*Factor 5*	*Factor 6*	*Factor 7*	*Factor 8*
Mann-Whitney U	386.500	427.500	410.000	443.000	400.000	470.500	420.000	392.500
Wilcoxon W	821.500	862.500	845.000	878.000	835.000	905.500	855.000	828.500
Z	-1.735	-.987	-1.518	-.788	-1.525	-.354	-1.189	-1.470
Asymp. Sig. (2-tailed)	.083	.324	.129	.430	.127	.723	.234	.142
	Factor 9	*Factor 10*	*Factor 11*	*Factor 12*	*Factor 13*	*Factor 14*	*Factor 15*	*Factor 16*
Mann-Whitney U	427.000	392.000	474.000	445.000	446.000	398.500	383.500	377.000
Wilcoxon W	862.000	987.000	909.000	880.000	1041.000	833.500	818.500	972.000
Z	-1.032	-1.443	-.301	-.762	-.691	-1.431	-1.709	-1.770
Asymp. Sig. (2-tailed)	.302	.149	.764	.446	.489	.152	.087	.077
	Factor 17	*Factor 18*	*Factor 19*	*Factor 20*	*Factor 21*	*Factor 22*	*Factor 23*	*Factor 24*
Mann-Whitney U	475.500	481.500	465.000	418.000	393.000	469.000	452.000	424.000
Wilcoxon W	1070.500	916.500	1060.000	1013.000	988.000	1064.000	1047.000	1019.000
Z	-.249	-.166	-.425	-1.095	-1.464	-.352	-.583	-.987
Asymp. Sig. (2-tailed)	.803	.868	.671	.274	.143	.725	.560	.323
	Factor 25	*Factor 26*	*Factor 27*	*Factor 28*				
Mann-Whitney U	439.000	387.500	467.000	389.000				
Wilcoxon W	874.000	822.500	902.000	984.000				
Z	-.867	-1.562	-.377	-1.593				
Asymp. Sig. (2-tailed)	.386	.118	.706	.111				

5. CONCLUSION

The auditing profession became the primarily concerned party for fulfilling transparency and responsibility demand of business entities, not only from a legal perspective and measurement but also from a moral and ethical standpoint. Accordingly, the role of external auditors is not fixed and has evolved by time to meet societal needs and expectations such as enhancing effective corporate governance, through the presence of an audit committee in the organization, to benefit a wider spectrum of shareholders and the society (Baker, 2009). Given the significant associations and implications of audit services to the survival and success of the business, the fees charged in exchange for this service have been controversial in their relationships with many factors. In Egypt, no laws impose the disclosure of audit fees, thus constraining this study to only exploring the determinants and the perceived importance of pre-suggested factors in audit pricing.

This study focuses on the audit fees determinants, and aims to answer two main hypotheses: 1) whether each determinant is perceived as important; 2) whether there exists a significant difference in perceptions between the two groups of participants regarding the importance of each of these determinants or factors. A sample of 63 respondents including external auditors and knowledgeable clients' representatives from Egypt, gave their opinion about 28 factors influencing auditing fees by expressing their level of agreeability of the importance regarding each of the factors. The results revealed that 13 factors were perceived as important and highly important, with the remaining factors being relatively important. As a result, in depth interviews were conducted with external auditors and client representatives to further validate and explain the importance of these specific 13 determinants. The findings of the current confirmed the results of Alanezi and Alfraih (2016), Amba and Al-Hajeri (2013), Hassan and Naser (2013), Joshi and Al-Bastaki (2000), Kutob and Al-Khater (2004), Naser and Nuseibeh (2008), and Stanely and DeZoort (2007), proving that Egypt is similar to other MENA region countries in this aspect.

On the other hand, no significant difference was detected in the opinions between the two groups of participants regarding the importance of each determinant on audit fees. These findings support the results of ElGammal (2012) from Lebanon. This study also suggested two new determinants: economic stability and political stability of the country were both scored a mean greater than 3, allowing us to say that the two factors have, to a certain extent, a noticeable level of importance while considering audit pricing. Also, the results provided overall evidence that auditor-related attributes are perceived of higher importance than client-related attributes. On top of all these determinants, fees charged by the auditor must itself be characterized by transparency, fairness and truly represents efforts and quality.

This study can be classified as exploratory research due to the absence of audit fees figures in Egypt. This fact represents a major limitation for our study and it is recommended that countries of the MENA region start enforcing laws for audit fees disclosures. Moreover, the sample size is relatively small compared to similar studies carried out in other countries, mainly European. Since access to a sample of qualified participants requires several data collection methods, we heavily relied on personal contacts and their contacts in turn which represented another limitation as well. Future studies can conduct comparative analysis among MENA countries regarding the perception of audit fees determinants by looking at the country's specific laws and regulations and its associated impact in perceiving and justifying the importance of the audit fees attributes.

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