Effect of Corporate Governance Attributes on Audit Quality in Nepalese Commercial Banks

Abhishek Shrestha, Bibek Wagle and Dipak Lama*

Abstract

The study examines the effect of corporate governance attributes on audit quality in Nepalese commercial banks. Audit committee and audit fee are the selected dependent variables. The selected independent variables are board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings. The study is based on secondary data of 10 commercial banks with 100 observations for the period from 2013/14 to 2022/23. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance attributes on audit quality in Nepalese commercial banks.

The study showed that board size has a positive relationship with audit committee and audit fees. It indicates that increase in board size leads to increase in audit committee and audit fees. Similarly, board independence has a positive relationship with audit committee and audit fees. It indicates that higher the board independence, higher would be the audit committee and audit fees. Likewise, female director has a positive relationship with audit committee and audit fees. It indicates that presence of female director in the board leads to increase in audit committee and audit fees. Further, institutional ownership has a positive relationship with audit committee and audit fees. It indicates that increase in institutional ownership leads to increase in audit committee and audit fees. In addition, number of meetings have positive relationship with audit committee and audit fees. It indicates that higher the number of meetings, higher would be the audit committee and audit fees. Moreover, bank size has a positive relationship with audit committee and audit fees. It indicates that higher the bank size, higher would be the audit committee and audit fees.

Keywords: audit committee, audit fee, board size, board independence, female director, institutional ownership, bank size, no of meeting

1. Introduction

Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance. Corporate governance therefore refers to the processes and structures by which the business and affairs of institutions are directed and managed in order to improve long term shareholders' value by enhancing corporate performance and accountability while taking into account the interest of other stakeholders (Ayorinde *et al*., 2012). Besides meeting the environmental and local community needs the aim of corporate governance is to govern the firms by complying with the legal and regulatory requirements. It is concerned with the proper implementation of policies and procedures by a company to satisfy its related parties including shareholders, employees, customers, suppliers, regulatory

* Mr. Shrestha, Mr. Wagle and Mr. Lama are Freelance Researchers, Kathmandu, Nepal.

authorities and the community at large (Kaur, 2014). Audit quality as the possibility of efficient recognition of inconsistencies between the organizations' provided statement and the true quality of the statement. This implies that audit quality can be arrived at, if the auditor is able to compare between the favorable report provided by the firm and the true picture of the situation or the project. One of the investment efficiency determinants is having good corporate governance mechanisms, which confirm firm management's credibility (Chen *et al*., 2017). Good CG mechanisms may enhance financial statements' transparency, accuracy, and trust facilitating the auditors' role to do their jobs reflected on audit quality (Rahman and Bermer, 2016). In contrast, poor CG mechanisms risk the firm being mismanaged, impair firm reputation, and encourage fraud and unethical practices (Karim *et al.,* 2018). These mechanisms are followed by practices of firm scandals due to fraud in inaccurate financial statements, causing loss of trust in financial statements (Rahman and Bermer, 2016). Khan *et al.* (2022) found that corporate governance and audit quality have normal impact on the firm's financial information jointly.

Mustapha *et al*. (2019) examined the effect of corporate governance attributes on audit quality in Nigeria. The study showed an insignificant and negative impact of board independence and positive and significant impact of audit committee meeting audit quality. Similarly, Ogoun and Owota (2020) revealed that board independence is negatively related to audit quality. Likewise, Kallamu and Saat (2015) revealed that the independence of the audit committee from managers will allow the committee to take an independent view of the financial reporting process of the company and ensure that the committee is not dominated by managers, leading to higher audit quality. Further, Alkhazaleh *et al.* (2023) found that board independence and family ownership have a negative impact on audit quality, whereas board size and concentration ownership have a positive impact on audit quality. In addition, Berghe and Baelden (2005) stated that the director's ability, willingness and board environment might lead to the independent attitude of each director. Moreover, Zang and Yu (2016) revealed that greater board independence is an insignificantly associated with a change in audit fees when client firms operate in a weak information environment. Similarly, Muniandy (2022) showed a positive relation between board independence and audit fees. Likewise, Nekhili *et al.* (2016) stated that audit committee chaired by independent directors is positively linked with high-quality financial reporting and a lower occurrence of fraudulent reporting. Soyemi *et al.* (2021) examined the external audit quality and clients' corporate governance mechanisms in Nigeria. The study found that independent external audit quality is positively influenced by the firm's size but negatively influenced by board independence and the proportion of female directors on board. Similarly, Carcello *et al.* (2010) showed a significant and positive relations between audit fees and board independence.

Afesha (2015) also observed that bank size is a significant determinant of audit fees in Ethiopian commercial banks. The study also revealed that an internal audit quality is significantly associated with financial reporting quality. Similarly, Nekhili *et al.* (2020) revealed that female independent directors and female audit committee members are more willing to assert their monitoring skills after the quota law, leading to lower audit fees. Likewise, Owolabi and Babarinde (2020) examined the effect of corporate governance on audit quality in Nigerian banks. The study found that the gender diversity, size of the board, non-executive in the board, foreign directorship and board composition have positive impact on the audit quality in Nigeria IDMBs. Further, Dey (2008) showed that smaller boards are likely to be more effective in coordination and communication that may lead to less work demanded from external auditors and accordingly lower audit fees found that large board of directors demand more monitoring from auditors, which is associated with an increase in chargeable hours and audit fees (Karim *et al.,* 2016). Likewise, Stewart and Munro (2007) concluded that larger board should focus more on promoting transparency and encouraging the diligence of the audit committee. Further, Kaawaase *et al*. (2021) investigated the corporate governance attributes (board expertise, board independence and board role performance), internal audit quality and financial reporting quality using evidence from Uganda's financial institutions. The study found that board expertise and board role performance are significantly associated with financial reporting quality.

Kateb et *al.* (2023) investigated the impact of corporate governance and audit quality on financial performance. The study showed that board size affects differently the performance of listed and unlisted firms. The study also found that an institutional ownership affects positively to the firm performance, whereas the variables related to the audit affect only unlisted firm performance. Similarly, Drogals *et al.* (2020) observed that board size is positively associated with audit fees. Likewise, Malekian and Fard (2015) showed that level of institutional ownership has a positive and significant impact on audit fees. Further, Chen *et al.* (2022) revealed that higher ownership enhances the firm's auditor committee effectiveness, induces the firm to appoint tough auditors, and increases its quality of internal controls. In addition, Salehi *et al*. (2017) assessed the effect of corporate governance and audit quality on disclosure quality: Evidence from Tehran stock exchange. The study revealed that there is no significant positive relationship between independent audit quality and the quality of disclosure of financial statements information, but there is a significant relationship between corporate governance and the quality of disclosure of financial statements information. Moreover, Nelson and Mohamed-Rusdi (2015) found a significant positive relationship between audit fees and firms with larger foreign ownership and government ownership but no significant relationship with firms with higher managerial ownership. Similarly, Janjarasjit *et al.* (2023) examined the corporate governance and audit quality in Thailand. The study found that larger board size, along with greater percentage of audit committee (AC) expertise, can lead to greater audit quality while other corporate governance mechanisms do not impact the audit quality. Likewise, Widani and Bernawati (2020) investigated the effectiveness of corporate governance and audit quality. The study found that corporate governance have no impact on audit quality, and the presence of ownership concentration strengthened the effect of the effectiveness of corporate governance on audit quality.

Bahrawe (2024) revealed a strong correlation between audit fees and frequency of board meetings. Similarly, Abidin and Johari (2020) showed that an institutional ownership and audit committee size have a positive impact on firm value. Likewise, Hutabara *et al.* (2022) showed that the audit committees significantly moderate the negative relationship between firm sizes on the cost of equity capital. The study showed that the number of meetings conducted by the audit committee can reduce problems in financial reporting, and therefore the audit fees paid by the firm will be lower (Farooq *et al.,* 2018). Further, Maraghni and Nekhili (2014) found a positive association relationship between board meetings and audit committee frequency. In addition, Hasan *et.al* (2020) revealed that quality is found to significantly moderate the relationship between audit committee with financial reporting quality proxy. Similarly, Awadallah (2020) examined the effectiveness of selected corporate governance practices and their implications for audit quality. The study showed that audit committees have a significant relationship with audit quality.

In the context of Nepal, Singh and Sharma (2022) examined the impact of ownership pattern and financial performance on corporate governance of banks. The study found that board independence and board size have negative and significant impact on cost of capital. Similarly, Bajagai *et al.* (2019) assessed the impact of ownership structure and corporate governance on capital structure of Nepalese listed companies. The study found that institutional shareholding and managerial shareholding have positive relationship with capital structure. However, board size has a negative relationship with capital structure while board composition and women directors have positive and significant impact on capital structure of Nepalese listed companies. Likewise, Karki *et al.* (2023) revealed that female directors on the board, family ownership, and leverage have negative impact on stock dividend. Additionally, female executives in the management team, board size, board independence, firm size, and net interest margin have positive impact on basic earning power ratio. Further, Bhandari *et al.* (2014) examined the effect of board size, board composition, and ownership structure on bank performance. The result found that corporate governance, board size and board independence have significant impact on capital structure.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of corporate governance attributes on audit quality in commercial banks. Though there are above mentioned empirical evidences in the context of other countries, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the effect of corporate governance attributes on audit quality in Nepalese commercial banks. Specifically, it examines the relationship of board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings with audit quality in Nepalese commercial banks.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 10 commercial banks for the period of 2013/14 to 2022/23, leading to a total of 100 observations. The study employed random sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank and annual report of respective banks. Table 1 shows the list of commercial banks for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with the study period and number of observations

S. N.	Name of Commercial Banks	Study time period	Observations
1	Agricultural Development Bank Limited	2013/14-2022/23	10
2	Everest Bank Limited	2013/14-2022/23	10
3	Nepal Bank Limited	2013/14-2022/23	10
4	Citizen Bank International Limited	2013/14-2022/23	10
5	Sanima Bank Limited	2013/14-2022/23	10
6	Machhapuchchhre Bank Limited	2013/14-2022/23	10
7	NMB Bank Limited	2013/14-2022/23	10
8	Prime Commercial Bank Limited	2013/14-2022/23	10
9	Siddhartha Bank Limited	2013/14-2022/23	10
10	NIC Asia Bank Limited	2013/14-2022/23	10
Total number of observations			**100**

Source: Annual Reports

Thus, the study is based on 100 observations.

The model

The model used in this study assumes that corporate governance attributes depends upon audit quality. The dependent variables selected for the study are audit fee and audit committee. Similarly, the selected independent variables are board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings. Therefore, the model takes the following form:

$$AC_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FD_{it} + \beta_4 IO_{it} + \beta_5 BSIZE_{it} + \beta_6 NM_{it} + e_{it}$$

$$AF_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FD_{it} + \beta_4 IO_{it} + \beta_5 BSIZE_{it} + \beta_6 NM_{it} + e_{it}$$

Where

AC = Audit committee is defined as the number of audit committee member, in numbers.

AF = Audit fee is defined as log of amount paid to auditor, in NPR.

BS = Board size as measured by the total number of directors on the board, in numbers.

BI = Board independence is defined as the number of independent directors in the board, in numbers.

FD = Female director as measured by the number of female directors in the board, in numbers.

IO = Institutional ownership is defined as the shares held by entities, in percentage.

BSIZE = Bank size is defined as log value of total assets, Rs. in billions.

NM = Number of meetings as measured as the meeting held in a year, in numbers.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Board size

Dey (2008) found that smaller boards are likely to be more effective in coordination and communication that may lead to less work demanded from external auditors and accordingly lower audit fees found that large board of directors demand more monitoring from auditors, which is associated with an increase in chargeable hours and audit fees (Karim *et al.,* 2016). Likewise, Stewart and Munro (2007) also showed that larger board should focus more on promoting transparency and encouraging the diligence of the audit committee. Further, Greco (2011) revealed that bigger the board size, the more the unproductive audit committee activities and meetings become. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board size and audit quality.

Board independence

According to Berghe and Baelden (2005), the ultimate factor for the board independence is by acquiring enough numbers of the independent directors on board. Zang and Yu (2016) revealed that greater board independence is insignificantly associated with a change in audit fees when client firms operate in a weak information environment. Similarly, Muniandy (2022) showed a positive relation between board independence and audit fees. Likewise, Carcello *et al.* (2010) found a significant and positive relationship between audit fees and board independence. Further, Nekhili *et al.* (2016) stated that audit committee chaired by independent directors is positively linked with high-quality financial reporting and a lower occurrence of fraudulent reporting. Based on it, this study develops the following hypothesis:

H_2: There is a positive relationship between board independence on audit quality.

Female directors on board

Nekhili *et al.* (2020) revealed that female independent directors and female audit committee members are more willing to assert their monitoring skills after the quota law, leading to lower audit fees. Similarly, Muniandy (2022) found a positive relationship between female audit committee representation and audit fees. Likewise, Lai *et al*. (2017) showed that boards (audit committees) with female directors (members) are likely to demand higher audit quality. Further, Yahaya (2023) revealed that there is significant relationship between female directors and audit committee size. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between female directors on board audit quality.

Institutional ownership

According to Zureigat (2011), an institutional ownership is an investment from a group of outside investors or investment owned by a certain institution, which is usually higher than that of individual investor. Malekian and Fard (2015) showed that level of institutional ownership has a positive and significant impact on audit fees. Similarly, Nelson and Mohamed-Rusdi (2015) found a significant positive relationship between audit fees and firms with larger foreign ownership and government ownership but no significant relationship with firms with higher managerial ownership. Likewise, Chen *et al.* (2022) revealed that higher ownership enhances the firm's auditor committee effectiveness, induces the firm to appoint tough auditors, and increases its quality of internal controls. Further, Abidin and Johari (2020) showed that an institutional ownership and audit committee size has a positive impact on firm value. Based on it, this study develops the following hypothesis:

H_4: There is a positive relationship between institutional ownership and audit quality.

No of meetings

Bahrawe (2024) revealed a strong correlation between audit fees and frequency of board meetings. The study showed that the number of meetings conducted by the audit committee can reduce problems in financial reporting, and therefore the audit fees paid by the firm will be lower (Farooq *et al.* 2018). Likewise, the study indicated that the most active board members based on the frequency of the meetings conducted tend to improve audit committee diligence by ensuring more frequent exchange with an audit committee member (Al-Najjar, 2011). Further, Maraghni and Nekhili (2014) found a positive association between board meetings and audit committee frequency. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between no of meetings and audit quality.

Bank size

Bank size is an indicator used to see the size of a bank. The size of the company will have an impact on the revenue received by the company. Afesha (2015) stated that bank size is the significant determinant of audit fees in Ethiopian commercial banks. Bank size is highly correlated with a series of bank financial risk measures, asset securitization risk measures and auditor attributes (Ettredge *et al.,* 2011). However, Hutabara *et al.* (2022) showed that audit committees significantly moderate a negative relationship between firm sizes and the cost of equity capital. Based on it, this study develops the following hypothesis:

H_6: There is a positive relationship between bank size and audit quality.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of the selected dependent and independent variables during the period 2013/14 to 2022/23.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 10 Nepalese commercial banks for the study period of 2013/14 to 2022/23. The dependent variables are AC (Audit committee is defined as the number of audit committee member, in numbers) and AF (Audit fee is defined as log of amount paid to auditor, in NPR). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board), FD (Female director as measured by the number of female directors in the board, in numbers), IO (Institutional ownership is defined as the shares held by entities, in percentage), NM (Number of meetings as measured as the meeting held in a year, in numbers), and BSIZE (Bank size is defined as log value of total assets, Rs. in billions).

Variables	Minimum	Maximum	Mean	Std. Deviation
AC	1.00	5.00	3.150	0.868
AF	0.12	8.19	1.490	1.022
BOS	5.00	12.00	7.490	1.275
BI	0.00	6.00	1.530	1.720
FD	0.00	2.00	0.580	0.516
IO	0.00	36.60	7.609	6.500
NM	6.00	1079.00	107.280	240.017
BS	29.42	364.09	142.107	80.233

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and results are presented in Table 3.

Table 3

Pearson's correlation coefficients matrix

This table shows the Pearson's correlation coefficients of dependent and independent variables of 10 Nepalese commercial banks for the study period of 2013/14 to 2022/23. The dependent variables are AC (Audit committee is defined as the number of audit committee member, in numbers) and AF (Audit fee is defined as log of amount paid to auditor, in NPR). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board), FD (Female director as measured by the number of female directors in the board, in numbers), IO (Institutional ownership is defined as the shares held by entities, in percentage), NM (Number of meetings as measured as the meeting held in a year, in numbers), and BSIZE (Bank size is defined as log value of total assets, Rs. in billions).

Variables	AC	AF	BOS	BI	FD	IO	BSIZE	NM
AC	1							
AF	0.012	1						
BS	0.061	0.250*	1					
BI	0.048	0.340**	-0.170	1				
FD	0.142	0.294**	0.055	0.105	1			
IO	0.330**	0.153	-0.103	-0.039	-0.143	1		
BSIZE	0.070	0.246*	-0.014	-0.135	0.324**	-0.404**	1	
NM	0.177	0.608**	-0.255*	0.074	0.385**	0.031	0.204*	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 shows that board size has a positive relationship with audit committee. It indicates that increase in board size leads to increase in audit committee. Similarly, board independence has a positive relationship with audit committee. It indicates that higher the board independence, higher would be the audit committee. Likewise, female director has a positive relationship with audit committee. It indicates that presence of female director in the board leads to increase in audit committee. Further, institutional ownership has a positive relationship with audit committee. It indicates that increase in institutional ownership leads to increase in audit committee. In addition, number of meetings have positive relationship with audit committee. It indicates that higher the number of meetings, higher would be the audit committee. Moreover, bank size has a positive relationship with audit committee. It indicates that higher the bank size, higher would be the audit committee.

Similarly, board size has a positive relationship with audit fees. It indicates that increase in board size leads to increase in audit fees. Similarly, board independence has a positive relationship with audit fees. It indicates that higher the board independence, higher would be the audit fees. Likewise, female director has a positive relationship with audit fees. It indicates that presence of female director in the board leads to increase in audit fees. Further, institutional ownership has a positive relationship with audit fees. It indicates that increase in institutional ownership leads to increase in audit fees. In addition, number of meetings have positive relationship with audit fees. It indicates that higher the number of meetings, higher would be the audit fees. Moreover, bank size has a positive relationship with audit fees. It indicates that higher the bank size, higher would be the audit fees.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4. More specifically, Table 4 presents the regression results of board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings on audit committee.

Table 4

Estimated regression results of board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings on audit committee

The results are based on panel data of 10 Nepalese commercial banks with 100 observations for the period of 2013/14 to 2022/23 by using the linear regression model and the model is $AC_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FD_{it} + \beta_4 IO_{it} + \beta_5 BSIZE_{it} + \beta_6 NM_{it} + e_{it}$ where, the dependent variable is AC (Audit committee is defined as the number of audit committee member, in numbers). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board), FD (Female director as measured by the number of female directors in the board, in numbers), IO (Institutional ownership is defined as the shares held by entities, in percentage), NM (Number of meetings as measured as the meeting held in a year, in numbers), and BSIZE (Bank size is defined as log value of total assets, Rs. in billions).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BI	FD	IO	BSIZE	NM			
1	2.841 (5.442)**	0.041 (0.601)						0.006	0.871	0.361
2	3.113 (26.605)**		0.024 (0.472)					0.008	0.872	0.223
3	3.011 (23.088)**			0.239 (1.419)				0.010	0.864	2.015
4	3.485 (27.376)**				0.044 (3.457)**			0.100	0.824	11.950
5	3.123 (32.697)**					0.012 (0.694)		0.005	0.871	0.482
6	9.468 (2.674)**						0.570 (1.785)	0.022	0.859	3.186
7	2.743 (4.985)**	0.048 (0.689)	0.030 (0.581)					0.013	0.874	0.349
8	2.675 (4.860)**	0.041 (0.592)	0.022 (0.460)	0.226 (1.318)				0.006	0.871	0.813
9	3.207 (5.814)**	0.020 (0.291)	0.015 (0.310)	0.156 (0.944)	0.042 (3.193)**			0.082	0.832	3.216
10	3.339 (5.887)**	0.012 (0.172)	0.004 (0.080)	0.212 (1.216)	0.048 (3.324)**	0.021 (0.999)		0.082	0.832	2.477
11	12.343 (3.108)**	0.032 (0.469)	0.006 (0.111)	0.368 (2.003)*	0.004 (3.121)**	0.013 (0.738)	0.795 (2.290)**	0.122	0.814	3.289

Notes:

i. Figures in parenthesis are t-value
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Audit committee is the dependent variable.

Table 4 shows that the beta coefficients for board size are positive with audit committee. It indicates that board size has a positive impact on audit committee. This finding is similar to the findings of Dey (2008). Similarly, the beta coefficients for board independence are positive with audit committee. It indicates that board independence has a positive impact on audit committee. This finding is consistent with the findings of Zang and Yu (2016). Likewise, the beta coefficients for female director are positive with audit committee. It indicates that female director has a positive impact on audit committee. This finding is similar to the findings of Nekhili *et al.* (2020). Further, the beta coefficients for institutional ownership are positive with audit committee. It indicates that institutional ownership has a positive impact on audit committee. This finding is similar to the findings of Malekian and Fard (2015). In addition, the beta coefficients for number of meetings are positive with audit committee. It indicates that number of meetings have positive impact on audit committee. This finding is consistent with the findings of Bahrawe (2024). Moreover, the beta coefficients for bank size are positive with audit committee. It indicates that audit committee has a positive impact on audit committee. This finding is similar to the findings of Afesha (2015).

Table 5 presents the regression results of board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings on audit fees.

Table 5

Estimated regression results of board size, board independence, female directors on board, institutional ownership, bank size, and no of meetings on audit committee on audit fees

The results are based on panel data of 10 Nepalese commercial banks with 100 observations for the period of 2013/14 to 2022/23 by using the linear regression model and the model is $AF_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 FD_{it} + \beta_4 IO_{it} + \beta_5 BSIZE_{it} + \beta_6 NM_{it} + e_{it}$ where, the dependent variable is AF (Audit fee is defined as log of amount paid to auditor, in NPR). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board), FD (Female director as measured by the number of female directors in the board, in numbers), IO (Institutional ownership is defined as the shares held by entities, in percentage), NM (Number of meetings as measured as the meeting held in a year, in numbers), and BSIZE (Bank size is defined as log value of total assets, Rs. in billions).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BI	FD	IO	BSIZE	NM			
1	6.546 (34.843)**	0.063 (2.553)**						0.053	0.313	6.516
2	5.975 (146.150)**		0.064 (3.570)**					0.106	0.304	12.747
3	5.966 (127.710)**			0.184 (3.054)**				0.078	0.309	9.325
4	6.130 (123.965)**				0.008 (1.523)			0.013	0.320	2.320
5	6.037 (175.341)**					0.020 (2.511)**		0.051	0.314	6.306
6	1.945 (1.834)						0.724 (7.561)**	0.362	0.257	57.163
7	6.359 (33.732)**	0.050 (2.084)*	0.057 (3.223)**					0.136	0.299	8.763
8	6.308 (34.736)**	0.055 (2.396)*	0.051 (2.979)**	0.174 (3.077)**				0.205	0.287	9.507
9	6.388 (33.712)**	0.059 (2.540)**	0.050 (2.932)**	0.163 (2.878)**	0.006 (1.413)			0.213	0.285	7.704
10	6.303 (32.793)**	0.053 (2.333)*	0.057 (3.321)**	0.127 (2.143)*	0.003 (0.543)	0.010 (1.904)		0.234	0.282	7.059
11	1.049 (0.913)	1.049 (0.913)	0.056 (3.893)**	0.000 (0.007)	0.006 (1.369)	0.246 (1.485)	0.649 (6.462)**	0.466	0.235	15.392

Notes:

i. Figures in parenthesis are t-value

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.

iii. Audit fees is the dependent variable.

Table 5 shows that the beta coefficients for board size are positive with audit fees. It indicates that board size has a positive impact on audit fees. This finding is similar to the findings of Stewart and Munro (2007). Similarly, the beta coefficients for board independence are positive with audit fees. It indicates that board independence has a positive impact on audit fees. This finding is consistent with the findings of Muniandy (2022). Likewise, the beta coefficients for female director are positive with audit fees. It indicates that female director has a positive impact on audit fees. This finding is similar to the findings of Yahaya (2023). Further, the beta coefficients for institutional ownership are positive with audit fees. It indicates that institutional ownership has a positive impact on audit fees. This finding is similar to the findings of Nelson and Mohamed-Rusdi (2015). In addition, the beta coefficients for number of meetings are positive with audit fees. It indicates that number of meetings have positive impact on audit fees. This finding is consistent with the findings of Maraghni and Nekhili (2014). Moreover, the beta coefficients for bank size are positive with audit fees. It indicates that audit committee has a positive impact on audit fees. This finding is similar to the findings of Hutabara *et al.* (2022).

4. Summary and conclusion

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of various stakeholders in a company, such as shareholders, management, customers, suppliers, financiers, government, and the community. Corporate governance ensures that companies are accountable and transparent in their operations, ultimately fostering trust among stakeholders. Corporate governance significantly impacts audit quality by establishing frameworks that promote accuracy, transparency, and integrity in financial reporting. Strong corporate governance practices, such as an independent board of directors, effective audit committees, and robust internal controls, enhance the reliability of financial statements by ensuring that audits are conducted rigorously and without bias. Good governance practices reduce the likelihood of financial misstatements or fraud, thereby improving the overall quality of audits. Conversely, weak governance can lead to conflicts of interest, reduced scrutiny, and a higher risk of audit failures, undermining the confidence of investors and other stakeholders.

The study attempts to examine the effect of corporate governance attributes on audit quality in Nepalese commercial banks. This study is based on the secondary data gathered from 10 Nepalese commercial banks for the study period from 2013/14 to 2022/23.

The major conclusion of this study is that board size has a positive relationship with audit committee and audit fees. It indicates that increase in board size leads to increase in audit committee and audit fees. Similarly, board independence has a positive relationship with audit committee and audit fees. It indicates that higher the board independence, higher would be the audit committee and audit fees. Likewise, female director has a positive relationship with audit committee and audit fees. It indicates that presence of female director in the board leads to increase in audit committee and audit fees. Further, institutional ownership has a positive relationship with audit committee and audit fees. It indicates that increase in institutional ownership leads to increase in audit committee and audit fees. In addition, number of meetings have positive relationship with audit committee and audit fees. It indicates that higher the number of meetings, higher would be the audit committee and audit fees. Moreover, bank size has a positive relationship with audit committee and audit fees. It indicates that higher the bank size, higher would be the audit committee and audit fees. Likewise, the study also concluded that number of meetings followed by female director is the most influencing factor that explains the changes in the audit committee and audit fees in the context of Nepalese commercial banks.

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