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Effect of Audit Committee Attributes on Audit Fees among Listed Financial Service Firms in Nigeria

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ABSTRACT
This study examined the effect of audit committee attributes on audit fees among listed financial service firms in Nigeria. The study used secondary data sources obtained from the published financial statements of the sampled firms listed for the period 2007 to 2020. The population of the study consists of 53 listed financial service firms in Nigeria. The study adopted correlational research design using ordinary least square regression as a tool of analysis. The study found out that the explanatory powers of audit committee size revealed a positive significant effect on the predictive factor (audit fees) while audit committee independence and meetings have significant negative effect on audit fees. Findings from the study indicated that firms with larger audit committee size have a tendency of enjoying lower audit fees. Consequently, in order to have a lower external audit costs, financial service firms in Nigeria are encouraged to consider larger audit committee size. The study recommended amongst others that there may be need for ensuring that non-executive directors of all the listed financial firms to be greater in the composition of the audit committee for effective monitoring activities. Also, the requirement of having at least 4 meetings (once quarterly) is apt and empirically proven in lowering the audit fees. Therefore, firms yet to adhere to it should be encouraged to comply.

Keyword: Audit fees, audit committee, listed financial firms, Nigeria.

1.0 INTRODUCTION

The central theme of the audit is to ensure the accuracy of the documents prepared by the management of corporate organisation and for the external auditor to give his opinion on the organisation's financial statements. Audit of financial statements of listed financial institutions is mandatory as prescribed by the Nigerian Companies and Allied Matters Act (CAMA), 2020 in sections 374, 375, 376 and 377. Also, Section 408 of CAMA, 2020 provides for remuneration of external auditors in Nigerian incorporated companies, and the guidelines on how an audit should be conducted as well as audit fees charged are the function of the statutorily accounting professional bodies that are

recognised in the country and basically is based on the agreement between the auditee and the auditor.

The determination of audit fees by listed firms is a function of the perspective that a company decided to adopt. However, the demand-supply perspective can be used to determine the remuneration of external auditor (Wu, 2012; Yasin & Nelson, 2012). The demand side disposes high external audit fees when the audit committee wants to have high value addition to their organisational financial statements, as such the committee selects a reputable external audit firm. Consequently, an audit committee that pursues a superior level of external audit assurance could demand a greater level of audit coverage resulting in higher audit fees, considering the motive of auditor's wealth-maximisation. Concurrently, the supply side shows that when corporate governance of a listed firm is good, the risk faced by external auditors is minimised; therefore, auditor's remuneration will be low compared with firms that have corporate governance issues. A quality audit carried out by reputable external audit firm, however, constitutes part of organisational operating costs, which in effect reduces its profitability. One of the approaches adopted in minimising the cost of external audit, however, is by lowering the number of areas of concern and internal control deficiencies that the external auditors need to verify. This justifies the importance of good audit committee to stakeholders of listed financial firms in Nigeria.

Internationally, the audit committee is a sub-committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the board of directors to fulfil its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system, risk management system and internal and external audit functions.

Section 57 of the FRC Act (2011) of Nigeria mandated every listed auditor to prepare financial reports and ensure that the financial reports are in compliance with the accounting and financial reporting standards. In addition to that, Section 62 of the Act requires an independent investigation of any fraudulent and unethical practice or misconduct by any firm to ensure the quality of the financial reporting in order to protect the interests of the investors. To achieve that, a monitoring committee must be in place to ensure that firms produce relevant and reliable information which will eventually protect the interests of both existing and prospective investors. The most important of these mechanisms is the audit committee. This is because the audit committee has been an active corporate governance oversight device that has a disciplining role on the manager's decision in the estimation of the accounting numbers. Despite the existence of these monitoring committees, there have been a lot of corporate failures in Nigeria in recent years. Thus, the independence of audit committee has been called into question. This is because the composition of audit committee in Nigeria has been criticised of being skewed in favour of the firm's management, thus reducing the visible independence of the committee (Chukwunedu *et al*, 2014). This in turn tends to compromise the quality of their

work (Komolafe, 2012). For instance, the issue in Cadbury (Nig.) Plc, the AC of the firm was heavily indicted by the Nigerian Security and Exchange report on the accounting scandal in that company as they were found guilty of complete negligence of duty (Chukwunedu *et al*., 2014).

Previous studies such as Millicent *et al.,* (2022) suggested that audit fee variation is a function of audit committee's effectiveness that partly drives the audit fees. Audit committees facilitate the role of internal auditors and otherwise strengthen internal controls. If audit committees are a substitute for external auditors in monitoring management, more effective audit committees will minimise the need for an external audit, consequently, reducing audit fees. Alternatively, if audit committees complement the work performed by external auditors, better audit committees may be associated with more significant external audit effort, hence increasing audit fees.

Numerous studies on audit fees have been conducted primarily in developed countries such as the U.S and U.K, Ghafran & O'Sullivan (2017) and Abbott *etal.*, (2003), and they are heavily based on agency theory. Furthermore, they have resulted in contradictory and inconclusive results. Thus, the findings of the previous studies might not be applicable in the context of Nigeria, which is a dissimilar setting in terms of the audit market, institutional framework, level of regulatory enforcement, and culture.

Several studies have investigated the relationship among existing audit committee attributes. The extant literature reviewed documented that Companies that have a large number of audit committee members, hold meetings often, and have many professional accounting members Yatim *et al*., (2006) found that the more financial or business expertise an audit committee has, the lower the audit fees to be paid. Prior studies also 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). Different conclusions were presented by other studies, such as Vafeas and Waegelein (2007), who reported an insignificant relationship between frequency of meetings and audit fees. On the other hand, Yasin and Nelson (2012) found a positive relationship between these two attributes. An educational background is necessary to manage a company's business (Yasin & Nelson, 2012). An audit committee that has a large number of members with financial or accounting expertise provides good supervision and wants to increase the value of the company by selecting a reputable audit firm, and thus audit fees to be paid are high (Yasin & Nelson, 2012). However, Goodwin-Stewart and Kent (2006) provided evidence that the expertise of the audit committee has no positive effect on audit fees.

In Nigeria, attempts were made by Abubakar (2016), Ilaboya *etal* (2017), Ohidoa and Okun (2018), Ezinando (2020), Yisa and Abdullahi (2020) and Olugboyega *etal* (2022), but findings from these studies, perhaps due to different methodologies used, were mixed and inconclusive. Of the aforementioned studies, none were conducted using the entire financial service sector as a case study. The financial service sector in Nigeria is the dominant sector in the capital market in terms of the number of shares traded and market

capitalisation. Additionally, the Nigerian financial service sector has witnessed a series of corporate scandals that have resulted to failure of many firms, arising from weak corporate governance and failure of external audit to provide the necessary assurance service. It is therefore imperative for researchers to beam searchlight on activities in the financial service sector. This study aims to investigate whether audit committee attributes have any impact on the external audit fees in the unique business environmental context of listed financial service firms in Nigeria. Most of the prior studies carried out on audit fee are from developed countries such as UK, USA, and Canada as well as China and European countries. However, Ghosh (2006) strongly argued that the findings of developed economic countries have no implication for the developing economies which is basically due to elementary structural and institutional differences between these economies.

2.0 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory

Agency theory propounded that monitoring of an agent diminishes the agency cost (Jensen & Mecklings, (1976). The argument here is that, management manipulation in a firm is viewed as agency cost since it is mostly opportunistic. In order to minimise this undetermined behaviour of firms' manager (the agent), monitoring mechanism like board independence, audit committee independence, institutional shareholders comes in handy.

Prior studies also concur that the cost of monitoring assumes importance in reducing the agency problem. For instance, Audit committees play important roles in monitoring company policies (Trotman & Trotman, 2015). Financial statement audit is a kind of supervision to prevent agency problems. Audit fees are monitoring costs that are inevitably incurred by the agent (Jensen & Meckling, 1976). An external auditor is an independent third party believed to be having expertise and experience of providing confidence about the true and fairness of the financial statements presented by the management (agent). The characteristics of audit committees consist of their expertise, frequency of meetings (diligence), size and independence. Expertise in accounting and finance allows audit committee members to understand both the accounting and auditing process and resolve disagreements between management and external auditors (Abbott, Parker, Peters & Raghunandan, 2003; Mangena & Tauringana, 2008). Effective monitoring may increase when audit committee members meet regularly (Januarti *etal*, 2020). The size of the audit committee affects the audit fee, this proves that more number of audit committee members in the company will produce quality financial reports (Yovanka & Fitriana, 2022). Independent audit committees can ensure a better and reliable financial reporting (Ebrahim & Fattah, 2015; Januarti *etal*, 2020). However, the findings of the study conducted in Malaysia show that the audit committee attributes have no significant effect on audit fees, which suggests that audit committee attributes have no influence on the audit fees (Kee, 2015).

2.2 Audit Committee Independence and Audit Fees

The Nigerian Corporate Governance Code (CGC) (2016) and CAMA (2020) made it compulsory for the board to establish audit committee with at least three non-executive directors or two in case of smaller companies. The increased proportion of non-executive directors in the audit committee strengthens the oversight function and improves financial reporting by the audit committee, which leads lesser chances of unreliable financial reporting (Abbott *et al*, 2004). Therefore, domination of non-executive directors in the listed firms' audit committee facilitates high quality of financial reporting and improves the objectivity of the audit committee which is contrary to the domination of executive directors in the audit committee. Therefore, the presence of non- executive directors in the audit committee enhances both internal and external control system which significantly reduces inherent as well as control risk. Farooq *et al*. (2018) hypothesised that the higher the audit committee independence the better the financial reporting quality and lesser audit fees, even though the findings from their results contradicted the hypothesis. On the other hand, Amer *et al*., (2014) discovered a positive relationship between independent directors on the audit committees and audit fees. Thus, the hypothesis of this relationship is given in a null form:

H_1: There is no significant relationship between audit committee independence and audit fees

2.3 Audit Committee Size and Audit Fees

The audit committee is formed by a board of directors. According to agency theory, internal control to reduce agency costs is carried out by the audit committee. CAMA (2020) states that the existence of an audit committee is mandatory, which means that every listed financial firm is required to have an audit committee. An audit committee is a committee that is responsible to the board of directors and assists the board in overseeing internal and external audit functions (Fuad 2017 & Yovanka, 2022). Al-Najjar (2011) posited that independent audit committee members compel management to have more transparency and accountability in order to ensure a true and fair financial reporting (Ebrahim & Fattah, 2015) as they are independent and free from any vested interests (Hamid *etal*, 2015).

Yatim *et al*. (2006) also opined that audit committee size increases the firm's financial reporting quality and reduces external auditor's efforts which result in lower audit fees. Similarly, Farooq *et al*, (2018) posit that the higher the size of the audit committee the lower the audit fees, this is due to the fact that high quality audit committee will ensure reliable financial reporting which reduces external auditor's efforts that result in lower audit fees. Thus, the propose hypothesis is:

H_2: There is no significant relationship between audit committee size and audit fees

2.4 Audit Committee Meetings and Audit Fees

According to the supply side, the audit committee that frequently holds meetings will carry out oversight functions well; therefore, all audit related risk will be less (Wu, 2012) and issues in financial reporting are maximally minimised. Meetings conducted by the audit committee are one way of monitoring firm costs to reduce agency related problems. A high frequency of meetings may lead to a low risk of financial reports, signifying that the audit fees will be less (Farooq et al., 2018).

Diligence of audit committees enables them to oversee the overall quality of accounting and internal control system of firms more effectively (Jizi & Nehme, 2018). Audit committees positively influence financial reporting quality (Millicent *et.al* 2022, Quick *etal*, 2017 and Rabah & Lajmi 2013). Similarly, Yasin and Nelson (2012) provided evidence that the frequency of audit committee meetings has a positive effect on audit fees. On the contrary, Hashim and Abdul Rahman (2011) reported an insignificant association between the audit committee meetings and external audit fees. Thus, audit fees can be directly or inversely related to audit committee meeting. The hypothesis is given as:

H_3: Audit committee meetings have no significant effect on audit fees

2.5 Audit Committee Expertise and Audit Fees

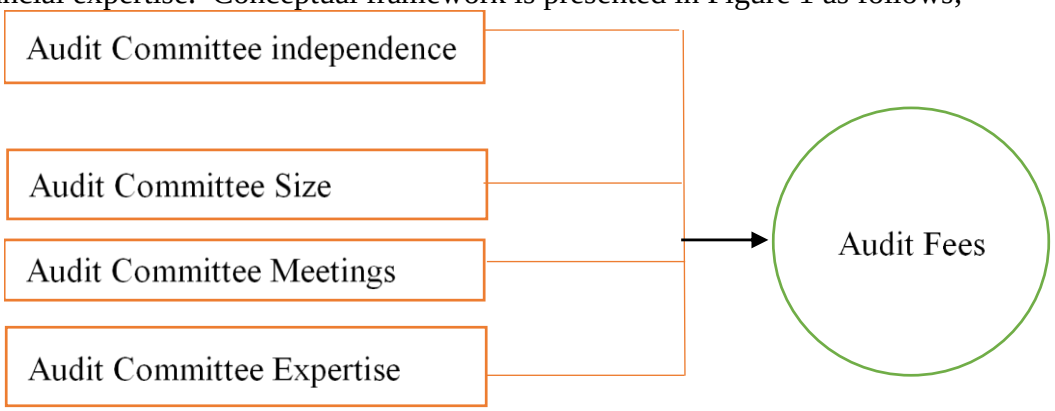
Audit committees with members who are expert in accounting and finance will increase the number of items disclosed in integrated reports (Chariri & Januarti, (2017) and Millicent *et al* (2022)). This signifies that audit committee expertise can enhance the capabilities of audit committee members in monitoring the financial reporting process of a firm. Agency theory opines that audit committee members must have expertise in accounting and finance to decrease information asymmetry and align agent interests to that of the principal (Jensen & Meckling, 1976).

The supply side perspective explains that audit committee members who have accounting and financial expertise can increase the effectiveness of the audit committee's performance and reduce agency problems. Such expertise allows audit committee members to have good knowledge and experience of accounting and auditing process as well as resolving conflicts between management and external auditors (Li *etal*, 2012). The expertise of the audit committee is expected to lower the work conducted by the auditor so that audit fees are minimised. From the other perspective, the demand side explains that audit committee members who have accounting and financial educational backgrounds can understand financial statements better. In line with these conditions, the committee members prefer a quality audit and thus choose a reputable public accountant. A consequence of selecting a reputable external audit firm is high audit fees. Based on that explanation, it can be hypothesised that:

H_4: Audit committee expertise has no significant effect on audit fees

3.0 CONCEPTUAL FRAMEWORK

The conceptual framework provides a pictorial relationship between components of audit committee attributes and audit fees. The components are; audit committee independence, audit committee size, audit committee diligence and audit committee financial expertise. Conceptual framework is presented in Figure 1 as follows;



4.0 METHODOLOGY

The research design of this study is patterned along correlational design. The design has supported the analysis, interpretation and description of the collected historical data of the study population. The population of the study consists of all the 53 listed financial service firms in Nigerian Exchange Group (NEG) as at 31st December 2020. Also, for a firm to be included in the study it must have its data available throughout the period under study, on the basis of this, twelve (12) companies were removed. Thus 41 out of 53 listed financial service firms in Nigeria that have their data available throughout the study period were selected. Therefore, the study adopted census approach in which all the 41 firms were used in the investigation. The data of this study was extracted from the annual reports of the sampled firms for the period of fourteen years (2007 to 2020). In view of the nature of the Dependent variable, the study used ordinary least square regression as a tool of analysis.

4.1 Aprior Expectation

The following represent an apriori expectation on the relationship between the independent variables (audit committee size, audit committee independence, audit committee meeting, audit committee expertise and audit fees as the explained variable of study).

Variable	Sign
Audit Committee independence	+/-
Audit Committee size	+
Audit Committee Diligence	+/-

Audit Committee Expertise +

Table 3.1 Variable Measurement

variable Type	Variable Name	Measurement	Source
Independent	Audit Committee Independence	Proportion of non-executive directors in the Audit Committee	Farooq *et al*., 2018
	Audit Committee Size	Total number of audit committee members	Januarti *et al*. 2020
	Audit Committee Meeting	Annual meeting frequency of the audit committee	Quick *et al*.2017
	Audit Committee Expertise	Proportion of audit committee member with accounting or finance knowledge	Rustam *et al*., 2013

Sources: Literature reviewed

4.2 Model Specification

The model will evaluate and test for significance to establish the relationship between the dependent and the explanatory variables.

$$LAUF = \beta_0 + \beta_1 ACSZ_{it} + \beta_2 ACIN_{it} + \beta_3 ACDL_{it} + \beta_4 ACEX_{it} + \mu_{it}$$

Where:

LAUF = Audit Fees
ACSZ = Audit Committee Size
ACIN = Audit Committee Independence
ACDL = Audit Committee Meetings
ACEX = Audit Committee Financial Expertise

4.3 Diagnostic Tests

This study tested for the existence of multicollinearity using variance inflation factor (VIF) and the tolerance value. The results proved of lack of significant multicollinearity among the explanatory variables which resolves suspicion of multicollinearity as presented previously by correlation matrix. The rule of thumb is that if the variable has VIF above ten and tolerance value of less than 0.1, there is a strong indication of the existence of excessive multicollinearity. VIF and tolerance value of less than 10 and 1 respectively confirm the lack of harmful multicollinearity. The complete result of the multicollinearity test was attached as appendix. Similarly, the result of

heteroskedasticity shows that the p-value is significant at 1% level, hence indicating that there is evidence of heteroscedasticity. Hence, the need for Generalised Least Square (GLS) because the model was met since OLS assumptions concerning homoscedasticity failed. Based on the heteroscedasticity result (as attached in the appendix) that recommended the use of GLS for the study, the GLS required Hausman test. The rule of thumb is that if chi2 is significant, then fixed effect GLS is appropriate and vice-versa. The result shows a chi2 of -248.31 which fails the asymptotic assumption of hausman test, therefore, the study failed to reject the null hypothesis. The study therefore, concludes that OLS regression with robust standard error is the most appropriate technique of analysis.

5.0 DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS

Table 4.1 Descriptive Statistics

	LAUF	ACSZ	ACIN	ACDL	ACEX
Mean	7.266	5.941	0.499	4.029	0.436
Maximum	9.000	6.000	1.000	8.000	0.830
Minimum	6.000	4.000	0.170	0.000	0.170
Std. Dev.	0.639	0.321	0.106	1.160	0.136

Source: Stata output (2023)

Table 4.1 shows the descriptive statistics for the variables and as can be observed, Lauf which is natural logarithm of audit fees has a mean of 7.27 which is equivalent to N53,546,426 (Fifty three million five hundred and forty six thousand four hundred and twenty six Naira only) in monetary term which suggested that the listed financial service firm in Nigeria paid an average of fifty three million five hundred and forty six thousand four hundred and twenty six Naira for the period under study. The mean value for audit committee independence stood at 0.499 which suggests that on the average about 49.9% of audit committee members in the Nigerian listed financial firms are non-executive directors which is not in line with the recommendation of the Nigerian code of corporate governance (NCCG) 2018 and CAMA 2020 which stated that at least half of the audit committee members should be non-executive directors. The maximum and minimum values of audit committee independence are 1.0 and 0.17 signifying 100% and 17% respectively. The mean for audit committee size stood at 5.94 with maximum and minimum values of 6 and 4 respectively which suggest that on the average most firms in the sample have an average of 6 members in the audit committee with maximum and minimum of 6 and 4 in the committee. The NCCG (2018) recommends that the audit committee should comprise of at least 50% of non-executive directors. The value 4 signifies that some of the firms have 4 audit committee members representing non-executive directors and shareholders. The mean for audit committee meeting stood at 4 with maximum and minimum value of 8 and 0 respectively. The mean value of 4 signifies that most of the firms comply with the mandate of the NCCG (2018) which recommended that the audit committee should meet at least once in every quarter. The minimum value of zero signifies

that some selected firms do not meet at all in a particular year. Also, results of the descriptive statistics show mean of 0.436 for audit committee expertise signifying that 43.6% of audit committee members among listed financial service firms in Nigeria are financial expert. This is in agreement with the provision that listed firms in Nigeria should have at least 1 member with financial expertise in the audit committee.

Table 4.2 Correlation Matrix

Variables	LAUF	ACSZ	ACIN	ACDL	ACEX	FSIZ
LAUF	1.000					
ACSZ	-0.109	1.000				
ACIN	-0.115	-0.402	1.000			
ACDL	0.258	-0.155	0.074	1.000		
ACEX	0.134	-0.106	0.048	0.289	1.000	
FSIZ	0.715	-0.174	0.163	0.219	0.086	1.000

Source: Output generated using stata (2023)

Table 4.2 shows the correlation statistics for the variables. The correlation coefficients that are of interest in this study are the correlation between audit fees, ACIN, ACS, ACDL, ACEX and FSIZ. As seen, LAUF is positive with ACDL (r = 0.258), ACEX (r = 0.134) and FSIZ (r = 0.715) while, ACSZ and ACIN have shown a negative association with LAUF with coefficient of -0.109 and -0.115 respectively. The positive correlation implies that the audit fee of listed financial firms can be associated with an increase in the variables and vice-versa. However, correlation analysis is limited in its inferential abilities since it does not necessarily imply functional dependencies between variables. Regression analysis is more suitable for inferences as it implies functional dependencies between variables. Also, it is observed that the independent variables correlate between -0.402 and 0.28. There is no relationship among the independent variables that is large enough (greater than 0.7) to pose the problem of multicollinearity of data (Hassan, 2011). The extent of relationship among all the independent variables is therefore minimal and negligible.

The regression analysis result is presented below:

Table 4.3 Regression Results (Robust OLS)

Variable	Coefficient	Std. Err.	T-Value	Prob.
Constant	7.100	0.2630	27.00	0.000
ACSZ	0.1308	0.0419	3.12	0.002
ACIN	-1.146	0.2539	-4.51	0.000
ACDL	-0.055	0.0106	-2.42	0.016
ACEX	-0.126	0.1260	-1.00	0.316
FSIZ	-0.517	0.0278	-1.86	0.064
R^2	0.259			
F-stat	0.0000	(5, 568)	63.21	

Source: Stata output 2023

Table 4.3 is the robust regression result for the estimation of the model specified earlier. The F-stata of 6.92 (P-value 0.000) means that it is significant at 1% and suggests that the hypothesis of non - significant linear relationship between the dependent variable and independent variables can be rejected. It is also indicative of the joint statistical fitness and significance of the model. Focusing on the explanatory variables individually, we observed that three of the independent variables (ACSZ, ACIN, and ACDL) together with control variable (FSIZ) are significant, while ACEX is found to be insignificant at all level. The result implied that audit committee size, audit committee independence and audit committee meetings have significant effect on audit fees signifying that the higher the size of audit committee the greater the audit fee paid to external audit firm, the higher the number of non-executive directors in the audit committee of listed financial firms in Nigeria, the lower the amount of audit fees paid to an external auditor and similarly the higher the audit committee meeting the lower the audit fees paid by the listed financial firms in Nigeria.

The overall result implied that all the explanatory variables except audit committee expertise have significant effect and greater likelihood to influence the audit fees of the listed financial firms in Nigerian. Hence, the null hypotheses (H1, H2 and H3) that stated that audit committee size, audit committee independence and audit committee meetings have no significant effect on audit fee among listed financial service firms in Nigerian are rejected. The positive and significant effect of audit committee size on audit fees is consistent with the previous findings of Fuad (2017), Yovanka (2022) and Januarti (2022) and contrary to the findings of Kee (2015) and Farooq et.al (2018) who documented insignificant as well as negative significant effect of audit committee size on audit fees respectively. However, the negative significant effect of audit committee independence on audit fees result of this study is consistent with the findings of Farooq *et.al* (2018) and Januarti (2022) who also documented a significant negative effect of audit committee independence on audit fees. The result differed with that of Abbott *et.al* (2003) and Kee (2015) who found positive significant effect of audit committee independence on audit fees and no significant influence respectively. Lastly, the negative significant association between audit committee meetings and audit fees as reported in the findings of this study is in agreement with the findings of Farooq et.al (2018) and inconsistent with the findings of Hashim and Abdul Rahman (2011) and Kee (2015) who reported that audit committee attributes have no influence on the audit fees.

6.0 CONCLUSION AND RECOMMENDATION

Evidences from the literature have shown that several factors exert varying degrees in influencing the amount paid as external audit fees ranging from the factors that are client related to the factors that are audit firms and audit market related. This study focuses on the effect of audit committee attributes on audit fees among listed financial firms in Nigeria. Using regression technique, the study found that the audit committee size, audit committee independence, audit committee meetings have significant effect on audit fees among listed financial service firms in Nigeria. The study recommends that since audit

committee size, audit committee independence, audit committee meetings play a significant role in influencing audit fees among the listed financial firms in Nigeria, there may be need for ensuring that non-executive directors of all the listed financial firms to be greater in the composition of the audit committee for effective monitoring activities and ensuring superior performance. Findings from our study indicate that firms with larger audit committee size have a tendency of enjoying lower external audit fees. Consequently, in order to have lower external audit costs, financial service firms in Nigeria are encouraged to consider larger audit committee size. The negative significant effect of audit committee independence on audit fees suggested inverse relationship; therefore, it is recommended that financial service firms should ensure independence of their audit committees for them to save cost and ensure effective oversight. Also, the requirement of having at least 4 meetings (once quarterly) is sound and empirically proven as evident from the study findings of significant negative relationship between audit committee meetings and audit fees of listed financial service firms in Nigeria. Therefore, firms yet to adhere to these should be encouraged to follow the practice. The significant finding on the number of meetings shows that it is a major requirement for audit committee effectiveness.

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APPENDICES

Descriptive Statistics

```
. summarize lauf acsz acin acdl acex fsiz
```

Variable	Obs	Mean	Std. Dev.	Min	Max
lauf	574	7.266551	.6338582	6	9
acsz	574	5.939024	.3205195	4	6
acin	574	.4992509	.1058876	.17	1
acdl	574	4.029617	1.158094	0	8
acex	574	.4356272	.1363071	.17	.83
fsiz	574	8.339686	.5422932	7.01	9.89

Correlation Matrix

```
. correlate lauf acsz acin acdl acex fsiz
(obs=574)
```

	lauf	acsz	acin	acdl	acex	fsiz
lauf	1.0000					
acsz	-0.1088	1.0000				
acin	0.1153	-0.4024	1.0000			
acdl	0.2579	-0.1550	0.0743	1.0000		
acex	0.1339	-0.1060	0.0479	0.2887	1.0000	
fsiz	0.7145	-0.1741	0.1634	0.2195	0.0856	1.0000

OLS Regression Result

```
. regress lauf acsz acin acdl acex fsiz
```

Source	SS	df	MS
Model	120.737631	5	24.1475262
Residual	109.480139	568	.192746724
Total	230.21777	573	.401776213

```
Number of obs =     574
F(  5,   568) =  125.28
Prob > F      =  0.0000
R-squared     =  0.5244
Adj R-squared =  0.5203
Root MSE      =  .43903
```

lauf	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
acsz	.0687633	.0634862	1.08	0.279	-.0559331	.1934598
acin	.0380729	.190234	0.20	0.841	-.335575	.4117208
acdl	.0524957	.0169833	3.09	0.002	.019138	.0858534
acex	.2333827	.1408494	1.66	0.098	-.0432665	.5100318
fsiz	.8114287	.035229	23.03	0.000	.7422337	.8806237
_cons	-.241111	.534731	-0.45	0.652	-1.291403	.8091806

Multicollinearity Test

```
. vif
```

Variable	VIF	1/VIF
acsz	1.23	0.812390
acin	1.21	0.829022
acdl	1.15	0.869564
acex	1.10	0.912611
fsiz	1.09	0.921644
Mean VIF	1.15	

Heteroskedasticity Test

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of lauf

         chi2(1)      =    11.86
         Prob > chi2  =   0.0006
```

Fixed Effect Regression Result

```
. xtreg acsz acin acdl acex fsiz, fe

Fixed-effects (within) regression               Number of obs      =       574
Group variable: id                              Number of groups   =        41

R-sq:  within  = 0.0759                         Obs per group: min =        14
       between = 0.3830                                        avg =      14.0
       overall = 0.1773                                        max =        14

                                                F(4,529)           =     10.86
corr(u_i, Xb)  = 0.2771                         Prob > F           =    0.0000
```

acsz	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
acin	-.7123809	.11179	-6.37	0.000	-.9319877	-.4927742
acdl	-.0025514	.0105419	-0.24	0.809	-.0232606	.0181577
acex	-.0062617	.0939786	-0.07	0.947	-.1908787	.1783553
fsiz	-.0327928	.0387428	-0.85	0.398	-.1089013	.0433158
_cons	6.581172	.3370731	19.52	0.000	5.919006	7.243338
sigma_u	.19787918					
sigma_e	.2308256					
rho	.42360015	(fraction of variance due to u_i)				

```
F test that all u i=0:     F(40, 529) =     9.21             Prob > F = 0.0000
```

Random Effect Regression Result

```
. xtreg lauf acsz acin acdl acex fsiz, re

Random-effects GLS regression                   Number of obs      =       574
Group variable: id                              Number of groups   =        41

R-sq:  within  = 0.0118                         Obs per group: min =        14
       between = 0.4181                                        avg =      14.0
       overall = 0.2471                                        max =        14

                                                Wald chi2(5)       =     18.23
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0027
```

lauf	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
acsz	.0286601	.0519109	0.55	0.581	-.0730834	.1304036
acin	.1805666	.1399698	1.29	0.197	-.0937692	.4549023
acdl	.0033883	.0126338	0.27	0.789	-.0213735	.0281501
acex	.0006637	.1121947	0.01	0.995	-.2192339	.2205613
fsiz	.1671512	.0428854	3.90	0.000	.0830973	.251205
_cons	1.972823	.5106312	3.86	0.000	.9720043	2.973642
sigma_u	.30860917					
sigma_e	.27825705					
rho	.55158101	(fraction of variance due to u_i)				

```
. est store re
```

Hausman Test

```
. hausman fe re
```

	Coefficients (b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
acin	-.7123809	.1805666	-.8929475	.
acdl	-.0025514	.0033883	-.0059397	.
acex	-.0062617	.0006637	-.0069254	.
fsiz	-.0327928	.1671512	-.1999439	.

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

  Test:  Ho:  difference in coefficients not systematic

              chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                      =  -248.31    chi2<0 ==> model fitted on these
                                    data fails to meet the asymptotic
                                    assumptions of the Hausman test;
```

Robust OLS Result

```
. regress lauf acsz acin acdl acex fsiz, robust

Linear regression                               Number of obs =     574
                                                F(  5,   568) =   63.21
                                                Prob > F      =  0.0000
                                                R-squared     =  0.2590
                                                Root MSE      =  .41507
```

lauf	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
acsz	.1307705	.0419302	3.12	0.002	.0484134	.2131276
acin	.3205191	.1919551	1.67	0.096	-.0565094	.6975475
acdl	.0166381	.0165161	1.01	0.314	-.015802	.0490782
acex	.327038	.1324056	2.47	0.014	.0669736	.5871024
fsiz	.4229488	.0274433	15.41	0.000	.3690461	.4768516
_cons	-1.032326	.3957239	-2.61	0.009	-1.809587	-.2550657