

## Factors that determine the fees for audit NGOs financial statements in Kosovo

**Bahtijar Berisha**

*Faculty of Economics, University of Prizren*

**Luan Vardari**

*Faculty of Economics, University of Prizren*

*Prizren, 20000, Kosovo*

**Bekim Berisha**

*Faculty of Economics, University of Prizren*

### Abstract

The purpose of this paper is to identify, analyze and evaluate the potential factors that influence the determinants of the fee/price of the NGOs financial statements audit in Kosovo based and tested, generally, traditional determinants and known in economic literature on this issue. In our study, we have chosen the NGO sector in Kosovo to investigate the factors that determine the fee/price of their financial statements, because the non-governmental organizations are among the first organizations that have gone through the audit process after war disintegration of former Yugoslavia, and to our knowledge no similar research was undertaken. The study is generally based on data collected through a questionnaire, sector financial audit of NGOs in Kosovo's reality, focusing on the group of respondents who are professional in this field as statutory auditors, certified auditors and certified accountants.

By the results of this analysis related to the importance variables of the model, it was found that the size, complexity, audit risk, NGO audit market, competition, international character and the number of donors who fund NGOs and the number of projects they develop, have a significant impact on the fee/price of the financial audit of NGOs Kosovo.

**Keywords:** NGOs; Financial statements; Financial Audit.

Jel Code: L31, M42, H83

### Introduction

In Kosovo, the audit as an economic activity is regarded as a relatively new field, experience and its development stages are generally associated with the birth and development of the state of Kosovo after the war and dissolution of the former Yugoslavia. Therefore, our objective is focused on audit practices and the development of the audit and assurance services after 1999, and specifically our research will focus on the research and the impact of factors affecting fee/price of audit services in the NGO sector in Kosovo. Based on theoretical and empirical literature, most of the factors affect directly or indirectly the determination of the fees for audit and assurance services.

Simunic (1980) is among the first authors who gives a comprehensive definition on audit fees and assurance services, fees / pricing audit is the product of the unit price

and quantity of services of audit, required by the management of the audited company. He also elaborated and developed a model of the factors affecting audit services fees, model which then was modified and adopted by other scientists from different countries of the world, especially from countries with a developed economy. Given the fact that in Kosovo as a new country with an emerging economy, audit and assurance services are a new field.

Therefore, our objective will be focused on identifying, analyzing, measuring and assessing the level of impact of the factors that determine the fee / price audit in the financial statements of NGOs, relying on a critical approach of a larger group of professionals in this field, as statutory auditors, certified auditors and certified accountants, who are regarded as potential service providers of accounting and auditing of financial statements in the Republic of Kosovo.

### 1. Review of literature

Based on literature and theory, the fees / price of audit and assurance services, has an increased value of money on the cost of the audit and paid by the auditee for these services. Fee/price audit is the product of the unit price and quantity of services of audit, required by the management of the audited company (Simunic, 1980). Therefore, pricing for audit services is not a simple job, but requires review of the potential factors expected to impact directly or indirectly on the determination of the fee/price. Simunic (1980), was the first who developed an empirical model on the fee / price of auditing in the private sector of the economy of a country, using data on public companies that trade on the stock market in the USA. Later, Francis (1984) extended the model using data on public companies of Australia.

Shortly, the market of external audit, the first model on the fees of the external audit, was developed for private and public sector and it was conducted in the United States of America by Simunic (1980), Francis and Simon (1984), Palmrose (1986), Gist (1992), in the UK by Taylor and Baker (1981), Taffler and Ramalinggam (1982), Pong and Whittington (1994), Ahmad and Houghton (1996), in Australia by Francis (1984), Francis and Stokes (1986), Craswellm Taylor and Francis (1995), in New Zealand Firth (1985), in Canada by Chung and Lindsay (1988), Anderson and Zeghal (1994), by Taylor (1997), DeFond (2000), Simon (2005), Simon and Taylor (1997) in Asia.

In reviewing the literature, we find that most of the studies made about the determinants of audit fees are generally based on the explanatory model developed by Simunic (1980) and then continued by other scientists, focusing on identifying the variables that represent the size of the client (auditee), the size of the auditing company, complexity, risk of customer, risk and audit quality as well as the risk that carry with this model itself. Ellis and Quinton (2011) developed the model on determination of audit fees which includes the variables of economic literature and preliminary research in this field, adding three other variables that affect the determination of audit fees, audit costs spent, the number of federal programs and low-risk entity.

Eventually, from this scientific work we learn that the fee / pricing of financial audit of the humanitarian sector, is mostly influenced by the size, complexity, non-audit services and the nature of the scope of the organization being audited.

## 2. Methodology

In this search we used surveying methods which through survey research allows us a good empirical research based on data collection of the answers, statements, behaviors and perceptions of professional groups in this field, regarding the factors affecting the determination audit fee / price of the financial statements of NGOs in Kosovo.

The questionnaire was developed and designed in 'google drive forms', it was sent to the SCAAK (Society of Certified Accountants and Auditors of Kosovo) office, which than was conveyed to its members (statutory auditors, certified auditor and certified accountant). The selected sample consists of: statutory auditors (61), certified auditors (106) and certified accountants (232). From the group of respondents, we have received a total of 73 valid responses or 18:29%, while the statutory auditors consisted of 24, certified auditors consisted of 19 and certified accountants made up 30.

Data collected from respondents, reflect the critical assessments and their behavior on the core issues discussed in this paper. The data will be analyzed by descriptive method, which enables us to measure the impact of NGO attributes in determining the fee / price of the financial audit of NGOs through the factors that affect these attributes.

### 2.1 Hypothesis

Relying on that prejudice the hypothesis of this paper are:

**Hypothesis 1:** Characteristics of NGOs such as the size, complexity, and market audit competition, affect directly in fee / price services to audit the financial statements of NGOs in Kosovo.

**Hypothesis 2:** NGOs with an international character, pay a higher price for the services of their financial statements audit.

### 3. Identification of group factors influencing in audit fee / price of the financial statements of NGOs

In connection with the identification and qualitative assessment of factors influencing fee / price audit, respondents were asked to respond one of the following questions: In determining the fee / price audit the financial statements of NGOs, which of the following factors will have an impact?

The size of NGOs, nature and locations of action of NGOs, complexity of operations of NGOs, risk audit NGOs, competition in the audit market of NGOs, legal requirements of the audit of NGOs, Other.

Table 1. Analysis of data on identifying attributes of NGOs

Factors Influencing	Size	Nature and Location	Complexity	Audit Risk	Competition	Legal requirements	Other
Frequency	50	37	55	43	38	7	1
Percentage	70%	51%	75%	59%	52%	10%	1%

From 73 respondents, 51 or 70% of them think that the size of NGOs has a significant

impact on determining the fee / price of audit of the financial statements, from 73 respondents, 37 or 51% of them think that the nature and location of the action of NGOs has a significant impact on determining the fee / price of audit of the financial statements, from 73 respondents, 55 or 75% of them think that the complexity of the operations of NGOs has significant influence in determining the fee / price of audit of the financial statements, from 73 respondents, 43 or 59% of them think that the risk of NGO audit has significant influence in determining the fee / price of audit of the financial statements, from 73 respondents, 38 or 52% of them think that the competition in the audit market NGO has significant influence in determining the fee / price of auditing the financial statements.

Table 2. Analysis of data on factors that influence the size of NGOs

Research Question	Strongly Agree	Partially Agree	Against	No Influence	Respondents
OKN <sup>1</sup>	43	18	3	9	73
VMA <sup>2</sup>	42	24	1	6	73
NMA <sup>3</sup>	54	14	1	4	73
Result	49	19	2	6	73
Average	37	37	37	37	-
Deviation	10	(18)	(35)	(30)	-
Percentage	63%	26%	2%	9%	100%

Interpretation of information, derived from the data analyzed in Table - 4 consists of the average of the 73 respondent 46 or 63% of them agree with the statement that; NGOs which have higher value of assets, the largest number of operating units and NGOs with international character action require effort and great commitment during their audit of the financial statements, which means that as secondary factors directly affect the size of the NGO, as the primary factor in the impact of the tariff / price of financial audit.

Table 3. Analysis of data on the factors that affect the complexity of NGOs

research question	right	Not right	other	respondents
NPO <sup>1</sup>	35	22	15	73
NDO <sup>2</sup>	44	12	17	73
NPR <sup>3</sup>	54	10	9	73
Average frequency	44	15	14	73
Average respondents	37	37	37	-
Deviation	8	(22)	(23)	-
Percentage	61%	20%	18%	100%

<sup>1</sup> NGOs with international character, in relation to the effort and commitment of the auditors.

<sup>2</sup> The greatest value of assets / funds of NGOs in relation to the effort and commitment of the auditors.

<sup>3</sup> The number of employees of NGOs in relation to the cost of the audit.

<sup>4</sup> The number of employees of NGOs in relation to the cost of the audit.

<sup>5</sup> Number of donors that fund NGOs in relation to the cost of the audit.

<sup>6</sup> The number of projects that NGOs develop within an annual period, in relation to the cost of the audit.

The information presented in Table-3 shows a homogeneity in the attitudes and perceptions of the respondents (61% of them) to report the cost of the audit that is in proportion to the number of employees, the number of donors and the number of projects that NGOs develops.

The analysis and interpretation of information, derived from data consisting in finding that;

- the size of NGOs,
- the complexity of the operations of NGOs,
- the audit risk of NGOs and
- competition in the audit market of NGOs, resulting in four factors as the most important in determining the fee / price of audit of the financial statements of NGOs.

#### 4. Conclusions and Recommendations

Consistent with the findings of this paper, the size and complexity of the auditee has been identified as a factor in homogeneous and influential in determining the fee / price of financial audit, which is in full compliance with the first hypothesis of this paper. Among the findings we highlight:

The motive of the request for audit turns out to be closely connected with the legal requirements, donor source and provision of funds by NGOs to cover the cost of the audit. In our opinion, the motive for auditing is closely connected with the provision of funds, in terms of fulfilling their rounded application process, provision of funds and auditing, which is an alternative that can prevail over factors traditionally known and that affect the attributes of NGOs by questioning the scope and quality of the audit of the financial statements of NGOs, that we consider studying in the future.

#### References

1. A. CRASWELL., J. FRANCIS, and S. TAYLOR. Auditor Brand Name Reputations and Industry Specializations. (Journal of Accounting and Economics, 1995).
2. A.CHE AHMAD, and K.A. HOUGHTON. Audit Fee Premium of Big Eight Firms: Evidence from the Market for Medium Size UK Auditees. (Journal of International Accounting, Auditing, and Taxation, 1996).
3. C.M. PONG and G. WHITTINGTON. The Determinants of Audit Fees: Some Empirical Models. (Journal of Business Finance and Accounting, 1994).
4. D. SIMUNIC, The pricing of audit services: theory and evidence. (Journal of Accounting Research, 1980).
5. D.T. SIMON and J. FRANCIS. The Effects of Auditor Change on Audit Fees: Tests of Price Cutting and Price Recovery. (The Accounting Review, 1988).
6. D.T. SIMON and M.H. TAYLOR. The Market for Audit Services in Pakistan. (Advances in International Accounting, 1997).
7. D.T. SIMON. The Market for Audit Services in Germany. (The Journal of Applied Business Research, 2005).
8. D.Y. CHUNG and W.D. LINDSAY. The Pricing of Audit Services: The Canadian Perspective. (Contemporary Accounting Research, 1988).
9. J.R. FRANCIS and D.T. STOKES. Audit Prices, Product Differentiation and Scale Economies: Further Evidence from the Australian Market. (Journal of Accounting

- Research, 1986).
10. J.R. FRANCIS. The effect of audit firm size on audit prices: A study of the Australian market. (*Journal of Accounting and Economics*, 1984).
  11. M. DEFOND, J.R. FRANCIS AND T.J. WONG. Audit Industry Specialization and Market Segmentation by Big 6 and Non- Big 6 Accounting Firms. (*Auditing Journal of Practice and Theory*, 2000).
  12. M. FIRTH. An Analysis of Audit Fees and their Determinants in New Zealand. (*Auditing: A Journal of Practice and Theory*, 1985).
  13. R.J. TAFFLER. AND K.S. RAMALINGGAM. The Determinants of Audit Fees in the UK: An Exploratory Study. (Working Paper (37), City University Business School: London, 1982).
  14. S.A. TAYLOR AND T.L. BAKER. An Assessment of the Relationship between Service Quality and Customer Satisfaction in the Formation of Consumers' Purchase Intentions. (*Journal of Retailing*, 1994).
  15. T. ANDERSON and D. ZEGHAL. The Pricing of Audit Services: Further Evidence from the Canadian Market. (*Accounting and Business Research*, 1994).
  16. W.E. GIST. Explaining Variability in External Audit Fees. (*Accounting and Business Research*, 1992).
  17. Y. ELLIS AND L.B. QUINTON. Audit fee determinants in the nonprofit sector: A study of community action agencies. (*Journal of Finance & Accountancy*, 2011).
  18. Z. PALMROSE. Audit fees and auditor size: Further evidence. (*Journal of Accounting Research*, 1986).