DETERMINANTS OF AUDIT QUALITY IN SELECTED QUOTED FINANCIAL AND NON-FINANCIAL FIRMS IN NIGERIA

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Abstract
The study examined the determinants of audit quality in Nigerian financial and non-financial companies. Specifically, the study evaluated how audit firm and client-related attributes impacts on audit quality and whether industry type moderates such relationships. In achieving the objectives, the study employed secondary data collected from the annual reports of sixty-four (64) companies (32 each from the financial and non-financial sectors) listed on the Nigerian Stock Exchange (NSE) for eight financial years (2016-2022). Moderated regression techniques were adopted. The study shows that, when both samples are pooled together, all the independent variables (auditor independence, auditor tenure, auditor reputation, audit fees, board independence, managerial ownership and audit committee effectiveness) have positive significant impacts on audit quality. However, when the sample was split into financial and non-financial companies, some variables that appeared significant in one model did not retain the same coefficient sign and level of significance in the other. The study recommended, among others, that management should ensure board structures (independence) that will guarantee formulation of policies that will ensure effective and efficient operation that will encouragement audit quality and the regulatory and professional accounting bodies should adopt measures to regulate the audit practice procedures and create a framework for appropriate normal audit fee, depending on the size of the company.

Keywords*: Audit quality, Audit committee, Accounting bodies, Financial and non-financial companies*

INTRODUCTION

The need for external audit services can be adjudged to have emanated in line with the tenets of agency theory where the ownership and control of the firm are separated. Based on the agency relation, the shareholders (principals) cede the running of the affairs of the company to managers (agents) who may not necessarily have a significant shareholding in the company. The managers are thus obliged to provide stewardship of the resources in their control to the investors (owners) in form of a periodic issuance of financial statements. The financial information is expected to guide the investors in making informed business decisions. However, for the financial information to achieve this purpose, it is expected to be of high quality (Salawu,Okpanachi, Yahaya & Dikki 2017).

In recent years however, concerns have been raised by stakeholders about the role of auditors and the quality of the external audit functions, particularly in the aftermath of the several highly publicized collapses of some giant companies abroad such as Enron and WorldCom. (Owolabi and Babarinde, 2020). In Nigeria also, the corporate failures of firms like Cadbury, Lever Brothers Plc, Afribank, Oceanic bank and Intercontinental bank were all linked to poor accounting quality which resulted to sanctions by the Security and Exchange Commission (SEC). As a result of these corporate scandals, there have been several changes in the regulatory arrangements of reporting practices by different countries which reflect the considerable public dissatisfaction with the audit quality and the roles of auditors. Examples include the Sarbanes-Oxley Act of 2002 in the US and the several Codes of corporate governance in Nigeria, beginning from the 2003 Code to the currently implemented 2018 Code. The major goal of these regulations is to improve the firms' corporate governance environments as well as address financial reporting anomalies. However, despite the interventions of these regulatory authorities, researchers like Adeyemi, Okpala and Dabor (2012) suggest that the challenges of ensuring credibility in financial reporting and auditing are still largely predominant and this calls for concern.

Considering the magnitude of users' that rely on the outcome of an audit in making investment decisions, a high-quality audit is often envisaged. Shareholders depend on the external auditor's reports to offer some guarantee that the financial reports of a company are a true and fair representation of the economic status of the company. In its 2014 report, the IAASB (International Auditing and Assurance Standards Board)

describes the objective of auditing the financial statements as …"for the auditor to form an opinion on the financial statements based on having obtained sufficient and appropriate audit evidence about whether the financial statements are free from material misstatement and to report in accordance with the auditor's findings" (IAASB, 2014). It is considered critical therefore, that the external auditors are not adversely influenced by both internal and external factors in order to champion an objective delivery of an independent auditing function (Nengzih, 2017). A poorly audited financial report will most likely mislead investors and also harbours detrimental effects on shareholders' wealth. These issues, coupled with the high rate of corporate collapse in recent past, were the concerns that appeared to have popularised the empirical investigations into the drivers of audit quality.

When the auditor expresses an opinion on the financial statements based on available audit evidence, there is always room for mistakes and errors which can decrease the audit quality (Person, 2011). This raises the question of what constitutes a high audit quality, as well as what possible factors determine the eventual quality of an audit assignment.

According to the Dutch Foundation for Auditing Research (FAR 2016), the determinants of audit quality can be studied from three perspectives: i) Client-related characteristics such as: client firm size, profitability, board of directors, audit committee presence, ownership and capital structure. ii) Auditor/audit firm-related characteristics such as: auditor independence, audit firm size, audit tenure, audit fees and auditor reputation, and so on; and (iii) External environmental factors such as: environmental context of the audit, audit quality from multiple stakeholder perspectives, external supervision and regulatory environment. Against this backdrop, this study examines the determinants of audit quality in Nigerian financial and non-financial companies. Thus, this study tested the following hypotheses:

1. *Auditor independence has no significant relationship with audit quality of quoted financial and non-financial companies in Nigeria.*

2. *Auditor's tenure does not significantly influence the audit quality of quoted financial and non-financial companies in Nigeria.*

3. *There is no significant relationship between audit-firm reputation and audit quality of quoted financial and non-financial companies in Nigeria.*

4. *Audit fees have no significant relationship with audit quality of quoted financial and non-financial companies in Nigeria.*

5. *There is no significant relationship between board structure and audit quality of quoted financial and non-financial companies in Nigeria.*

6. *There is no significant relationship between ownership structure and audit quality of quoted financial and non-financial companies in Nigeria.*

7. *Audit committee effectiveness does not significantly influence the audit quality of quoted financial and non-financial companies in Nigeria.*

LITERATURE REVIEW

Audits-Firm Tenure

The question as to whether or not audit firm tenure affects audit quality has been quite recurrent in literature and constitutes one of the major issues concerning auditing regulations. Most school of thoughts have it that lengthy auditor tenure undermines independence and objectivity, while others believe that long tenure increases auditor knowledge and competence. Audit-firm tenure is the length of the audit-firm-client relationship as of the fiscal year-end covered by the audited financial statements. Following prior research (Dabor & Adeyemi 2009), audit tenure is defined as short when the same auditor has audited the financial statements of a company for two or three years. Audit tenure is defined as long when the same auditor has audited the financial statements of a company for nine or more years. On the basis of definition of short and long term tenure, audit tenure could be seen as medium when the same auditor has audited the financial statements for four to eight years. Asiriuwa, Aronmwan, Uwuigbe and Uwuigbe (2018) suggest that a long tenure means painstaking knowledge of the client, which results in a more valuable auditor-client relation.

Audit Firm Size

Audit quality is positively related to audit firm size. Lu and Chollete (2010) and Ilaboya and Ohiokha (2014) suggested that large and/or specialized auditors are seen as being likely to have greater insurance coverage

in the event of financial statement fraud and/or other forms of proven audit failure. Bae and Lee (2013) concluded that audit firm size is positively associated with audit quality measured by discretionary accruals and modified opinions. Also audit firm size is positively associated with audit fees. The size of audit firm is an important factor in the provision of audit services. A number of previous studies were interested in observing whether audit fees paid to "Big" audit firms are significantly higher than fees paid to "non-Big" firms. Big four audit firms have efficiencies due to large-scale operations.

Auditor Independence

Auditor independence has been viewed as being very fundamental to the auditor's job and profession; this is because, without it, audited financial statements would not have value in the perception of the end-users. Auditor independence concept requires that auditor should carry out his work freely and in an objective manner. Since the independence of the auditor is a critical issue for the auditing profession, many studies have been performed in this area.

Auditor independence is fundamental to the credibility and reliability of auditor's report and if the reports are not credible, the investor would have little confidence in them if auditors' are not independent in both fact and appearance. Bassey, Omini, Aminu, Etore and Archibong (2020) relates the probability of detection to auditor competence and probability of revelation is associated with auditor independence. Due to larger client portfolios, big auditors can exert more pressures on management. Large international accounting firms have established brand reputation and had motives to maintain it by providing high-quality audit. Lack of financial affiliation with clients' will likely make bigger auditors more independent (Kilgore, Martinov-Bennie & Wright 2014). This independence provides big auditors with stronger negotiation stance with their chart compared with smaller audit firms (Ndubuisi & Ezechukwu 2017). As Francis (2009) states, "higher quality audits are inferred by the auditor's likelihood of issuing a going-concern audit report and accuracy of the report in predicting client bankruptcy, and the degree to which client's evidence earnings management behaviour"

Besides, it is suggested by Mgbame, Eragbhe and Osazuwa (2012) that audit quality is positively related to audit independence. But Mgbame et al also points out that if there is lack of competence, the auditors must rely on management of the client's, and there is no way of independence in existence. Hence audit quality, auditor independence and auditor competences are positively related. Likewise, this opinion is consistent with what is in Fagbemi, Abogun, Uadiale and Uwuigbe (2013), which states that audit quality is always equated with independence. **H_{O1}:** Auditor independence has no significant relationship with audit quality of quoted financial and non-financial companies in Nigeria.

Ownership Structure

In modern corporations, there are different patterns of ownership of companies. The characteristics of company ownership includes but not limited to: institutional ownership, foreign ownership, block-holder ownership and managerial ownership (Hashim 2017). The last in the log is the major focus of this study. According to Jensen and Meckling (1976), managerial ownership is ownership by directors, management, the commissioner or any person directly involved in company decision-making. Since the separation of ownership and control creates incentives for managers to maximize their own wealth at the expense of shareholders (Jensen & Meckling, 1976). A related agency problem is that of entrenchment- whereby managers, by virtue of their increased voting power, have increasing power to shirk and procure perquisites at shareholders' expense. The associated increasing agency risk implies that, when the risk of entrenchment decreases, the need, and thus provision, of high audit quality should also decrease (Hashim, 2017).

Board of directors is among the responsible parties in managing the companies on it daily operation. They take part in arrangements for the company and having power to control and make decision on behalf of the shareholder. There exists the separation of ownership and control in firms. The separation would create serious conflict between the owner of the firm (shareholders) and the board of director as well as the manager transferring the wealth in expense of the owner. The manager would not transparently manage the company in bona fide because they think that it not ours. One of alternatives that would motivate them in

managing the company efficiently and effectively is by awarding them a portion of ownership in the company.

Based on existing literature, it is believed that an increase in the managers' ownership percentage through a reduction of information asymmetry will decrease the conflict of interest between managers and shareholders (Mgbame, Eragbhe & Osazuwa 2012).

Audit Fees

Audit fees represent the amount charged by the auditor for an audit process performed for the accounts of an enterprise (Weiner 2012). Listed companies are statutorily required to have their accounts audited by an external auditor without compromising the quality of audit, it is expected that they would want the fees they pay to be reasonable. On the side of the auditors, they would also expect to receive adequate fees for their services in order to maintain their services at a satisfactory level. In addition to companies and auditors, the public in general and shareholders may equally be concerned that the audit fee is not set at such a level - either too high or too low, in order not to undermine the confidence of the audit opinion (Suyono 2012). According to Oyedokun, Yunusa and Adeyemo (2018) the reputation of most audit firms and the quality of their audit services are often related to the amount paid for the audit functions.

There are several challenges to the correlation of audit fees and audit quality. First, the total fees will clearly be larger for a larger firm because bigger clients will purchase more services than smaller clients. Auditors may also be contracted to provide special reports and/or opinions in addition to general external audits of financial statements. Audit fees can also be affected by "location and the coordination and complexity of an engagement" (Weiner 2012). For instance, if the client has multiple locations that require on-site visits, the audit fees will be higher. In many cases, an auditor will rely on the client's inputs or utilize client personnel for some audit tasks. The audit fees are reduced by any of these client inputs. The client's industry can also affect audit fees by measuring differences in risk. Audit fees are also generally higher among companies with public ownership. Companies with public ownership are at a greater exposure to risk and require more audit evidence. If there are any report modifications, the auditor is required to accumulate a greater amount of evidence to achieve the same quality, which results in more billable hours and higher audit fees (Weiner 2012).

Okolie, Izedonmi, and Enofe (2013) ague that higher audit fees are reflected in higher costs resulting from greater audit quality. Onaolapo, Ajulo and Onifade (2017) contested that "higher audit fees imply higher audit quality, ceteris paribus, because the higher audit fees are imposed because of either greater effort or more specialized auditors"..

Firm Performance

Firm performance is how well a firm can use its assets as a primary mode of business to generate revenues and profits. Considering the profit maximization is the ulterior motive of every investor, the management of a company traditionally strives to meet this expectation. However, in any business venture at particular period, it is either the company makes profit or it makes a loss (Ejeagbasi, G.E., Nweze, Eze & Nze 2015). Profitability is a commonly used indicator of financial performance. Financial performance is very likely to influence the ability of firm to engage proficient independent auditors. And it is expected that the higher the proficiency of the auditor, the higher the audit quality to be produced by an audit engagement. Since bigger audit firms charges higher audit fees and are often linked to high audit quality, lower profitable firms may not have the financial capacity to continually engage bigger audit firms. It follows therefore that more profitable firms will likely produce higher audit quality. This is due to the assumption the bigger auditors are most likely attracted to profitable firms than underperforming ones. With access to more facilities for training of auditors and performing various tests, bigger audit firms are likely to offer auditing services with higher qualities (Martinez & Moraes 2016).

The study by Hamideh, Mahmood & Abbas (2013) find that firms with higher profitability are less engaged in earnings manipulations in the form of earnings management; and thus, better financial reporting practices and audit quality.

Corporate Governance and **Board Structure**

Board structure, as used in this study, represents the composition of the board of directors in terms of executive (insider directors) and non-executive (outsider directors) members. From the stakeholders' theory view point, the theoretical expectation is that firms with more independent boards will produce higher quality audits than firms with boards dominated by executive directors (Mitra, Hossain & Deis 2007). The need to protect the interests of stakeholders will drive outside directors to produce higher quality audit. Non-executive directors are associated with the responsibility for monitoring managers and thereby reducing agency costs that arise from the separation of ownership and control in day-to-day company management (Nengzih 2017). The importance of non-executive and independent directors is underscored by CBN code of corporate governance that stipulates that the number of non-executive directors on the board of banks should be more than those of executive directors and that at least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) (Ogoun, & Perelayefa 2020). Thus, higher proportions of independent and non-executive directors on boards are expected to induce a more effective monitoring function which then leads to more reliable financial statements. This is due to the incentive for non-executive and independent board members to develop reputations as experts in decision making (Owolabi & Babarinde 2020) and to provide an unbiased assessment of a management's actions.

In examining corporate governance components and their relationship with audit quality, Abdullah, Ismail and Jamaluddin (2008), using regression, found a positive though insignificant relationship between board independence and audit quality. For Salleh, Stewart and Manson (2006), examining the effects of board composition and audit quality (using audit fees as proxy for audit quality), found that the proportion of independent directors was significantly related to audit fees (audit quality).

Abdullah et al. (2008) examined effective components of corporate governance in Malaysian listed companies and their relationship with audit quality. Their results showed that two independent variables had a significant relationship with audit firm size. They were board independence and nonfinancial institutional ownership. The executive directors' ownership and CEO duality had a negative relationship; but not significant with audit quality, whereas non-executive directors' ownership and financial institutional ownership showed a positive relationship with audit quality; though not significant. Their findings posit that both board independence and institutional ownership are important factors to the listed companies in improving their decision making processes, and in being more transparent and objective.

Audit Committee Effectiveness

Audit committee effectiveness is used here to classify how diligent the audit committee are in the performing their duties. The number (frequency) of audit committee meetings reflects their monitoring effectiveness, most studies use it as a proxy to measure audit committee diligence, audit committee meeting, audit committee activity, etc. The common thing is that it captures the number of meetings held by a company's audit committee to discuss issues regarding the company during a financial year (Stewart and Munro 2007). The effectiveness of audit committee depends on the extent the Committee is able to resolve issues and problems faced by the company and to improve their monitoring function of company activities (Abbott, Park & Parker 2004). A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality (Asiriuwa, Aronmwan, Uwuigbe & Uwuigbe 2018).

The total number of meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other

meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). According to Asiriuwa et al (2018), there are no regulations that are specific as to the number of meetings in Nigeria, but this study opine that since 2011 SEC code require that the board of directors should meet at least every quarter to carry out its responsibilities. Consequently, if the audit committee is seen as an extension of the board, as a mechanism of corporate governance just like the board, it may be argued that the same duty for meetings can be drawn from the expectations for the board of directors (Amin, Lukviarman, Suhardjanto & Setiany 2018).

Empirical Review

Owolabi and Babarinde (2020) examined the determinants of audit quality in Nigeria from the dimension of corporate governance. Their independent variables comprised of board size, board independence, board gender diversity and foreign ownership. Their sample consisted of fifteen Nigerian banks for a twelve-year period beginning from 2007 to 2018. They employed the panel data estimation procedure and found that board gender diversity, ethnic diversity, board composition and board size are significant variables that can explicate on audit quality of the deposit money banks in Nigeria, but foreign diversity does not have any significant impact on audit quality in Nigeria.

Bassey, Omini, Aminu, Etore and Archibong (2020) examined the relationship between auditors' independence and audit quality in Nigeria. They measured auditor independence using audit fees, audit firm rotation and auditor tenure and audit quality as the LOG of total number of staff in audit firm. They used secondary data of selected banks for the periods 2010 to 2019 and found that audit fees negatively and significantly affected audit quality while audit firm rotation negatively and non-significantly affected audit quality. Their result also revealed that auditor tenure negatively and non-significantly affected audit quality in the selected Nigeria based banks. Based on these findings, they prescribed that audit firms should ensure that audit cost are based on professional prescribed benchmark in ways that their independence is appreciably assured to enhance audit quality.

Ogoun and Perelayefa (2020) examined the corporate governance determinants of audit quality focusing on board independence as measure of corporate governance and three control variables of firm size, leverage and firm profitability. They sampled a total of 71 non-financial firms for the periods of eight years (2008 to 2015). Just like this current study, they measured audit quality using a dummy variable of "1" and "0", with 1 representing the use of a big four auditor by the firm and 0 otherwise. They used the binary panel regression technique and found that board independence is negatively and significantly related to audit quality. They recommended that the composition of non-executive directors as members of the board should be sustained and improved upon.

Olabisi, Kajola, Abioro and Oworu (2020) examined the determinants of audit quality among 15 insurance companies out of the 25 listed on the Nigerian Stock Exchange for a ten-year period starting from 2009 to 2018. They proxied audit quality using the modified Jones model of discretionary accruals and tested against five independent variables comprising of auditor tenure, audit fees, audit firm size, joint audit and auditor impendence. They adopted the ex-post facto research design using the panel data regression technique and their result showed that a significant relationship exists between the audit firm size, audit tenure, audit fee, cash flow and audit quality ($p < 0.05$). However, there is no significant relationship between auditors' independence, joint audit and audit quality ($p > 0.05$). They concluded that audit fees, audit firm size, audit tenure and cash flow from operations are major determinants of audit quality as each of them has significantly contributed to audit quality of listed insurance companies in Nigeria.

Oyedokun, Yunusa and Adeyemo (2018) examined the determinants of audit quality using 12 out of the 17 companies listed under the Industrial Goods sector in the Nigerian Stock Exchange for a period of six financial years (2012-2017). They proxied audit quality using discretionary accruals and tested against three independent variables of auditor tenure, audit fees and audit firm size. They adopted the panel regression analyses using STATA and found that auditor tenure has a positive and non-significant relationship with audit quality. Their result also showed that audit fir size and audit fees have negative relationships with audit

quality, but only the former was statistically significant. They concluded that high audit fee is not a guarantee of high audit quality.

Ndubisi and Ezechukwu (2017) examined the determinants of audit quality among deposit money banks listed on Nigeria Stock Exchange. They specifically examined the effect of audit fee, audit firm tenure and audit firm size on audit quality. They employed the secondary data for a period ranging from 2010 to 2015. Employing the Pearson coefficient of correlation, Ordinary Least Square (OLS) and Granger causality test, they find that there is a positive and statistically significant relationship between audit fees, audit tenure, audit firm size and audit quality of banks listed on the floor of Nigerian Stock Exchange at 5% level of confidence.

Ogoun and Owota (2016) examined the determinants of audit quality amongst small and medium sized audit firms in Nigeria. They specifically looked at the effect of audit fee, client retention and market expansion drives on audit quality. Their study employed a panel data which was obtained using a structured instrument from a panel of small and medium-sized audit firms in Nigeria modelled via the Likert Scale paradigm with scales ranging from 1 to 5. They used the ordinary least square regression technique and Pair wise Granger Causality Tests. They find that audit fee and market expansion drives impact positively on audit quality, while client retention strategies impacts negatively on audit quality in the short run. While in the long run, they find that all the three variables impact positively on standard audit practice

METHODOLOGY

The research design for this study is ex-post facto. The appropriateness of this design to this study is based on its core objective of examining the relationship between one or more variable and another in which the variables involved are not subject to manipulation by the researcher. The population of the study consists of the entire one hundred and seventy (170) companies quoted on the Nigerian Stock Exchange as at December 2022. This number encompasses both the fifty seven (57) financial companies and one hundred and thirteen (113) non-financial companies. The sample size, the sampling technique derived from Burley's formula and was popularized by Yamane was employed. The 10% error margin was applied on the entire population in order to arrive at a researchable sample. The formula stated below was adopted:

$$n = \frac{N}{1+N\,(e)^2} \quad \text{............................Equ 3.1}$$

Where: n = sample size; N = population size (i.e. 170); e = desired level of significance, (in this case is 10%); Incorporating the relevant statistics into equation 3.1, we have:

$$n = \frac{170}{1+170\,(0.1)^2} = 62.963,\ n = 63$$

From the above computation, a total of sixty three (63) listed companies form the sample size of the study. However, considering that the study intended to use an equal sample of both financial and non-financial companies in order to justify the basis for comparison, the judgmental sampling technique was further employed in selecting thirty-two (32) financial companies and another thirty-two (32) non-financial firms – making a total of sixty-four (64) companies as the eventual sample size. The use of the judgmental sample techniques is justifiable in order to ensure that an equal number of companies from each sector are chosen while also maintaining the number justified by the Yamane formula adopted.

The study employed descriptive statistics, binary logit regression and hierarchical moderating regression technique. A Hierarchical Moderating Regression Analysis (MRA) is a specific application of multiple linear regression in the regression equation contains elements of interaction or multiplication of two or more independent variables (Ghozali 2011), while the binary logit regression is a regression technique that is applied when the dependent variable is dichotomous in nature (i.e. 1 and 0). A descriptive analysis of the data was conducted to obtain the sample characteristics among the companies. The panel logistic regression analysis was performed to test the effect of the independent variables on the audit quality proxy.

Model specification

Determinants of audit quality in both financial and non-financials**.** The functional form goes thus; AUDQ = *f* (AID, ATN, ARP, AFEE, BIN, MOWN, ACE,)……..Equ (2)

While the explicit model is given as:

$AUDQ_{it} = \alpha_O + \alpha_1 AID_{it} + \alpha_2 ATN_{it} + \alpha_3 ARP_{it} + \alpha_4 AFEE_{it} + \alpha_5 BIN + \alpha_6 MOWN + \alpha_7 ACE + \mu$......Equ (3)

Where: Υ_O, β_0, α_O = Constants or Intercepts, Υ_1 to… Υ_7; β_1 to… β_8; α_1 to… α_7= Unknown coefficients or parameters to be estimated, FC = Financial Companies, NFC = Non-Financial Companies, it = " i" represents number of companies 1,...,64; and "t" represents period covered i.e. 1,...,6yrs, AUDQ = Audit quality for the eight year period (Dependent variable), AID = Auditor independence for the eight year period (Independent variable), ATN = Auditor's tenure for the eight year period (Independent variable), ARP = Auditors reputation for the eight year period (Independent variable), AFEE = Audit fees for the eight year period (Independent variable), BIN = Board independence for the eight year period (Independent variable)

MOWN = Managerial ownership for the eight year period (Independent variable), ACE = Audit committee effectiveness for the eight year period, μ = Stochastic error term

Table 1 Measurement of Variables

s/n	VARIABLES	DEFINITION	MEASUREMENT	SOURCE	*a priori expectation +/-*
1.	AUDQ	Audit Quality (dependent)	Measured as "1" if firm is audited by one of the Big four, otherwise '0'	Enofe et al (2013a); Ilaboya andOhiokha (2014)	
2.	AID	Auditor Independence	Ratio of audit fee to company's revenue	IFAC (2019); Adeniyi et al (2013)	+
3.	ATN	Auditor Tenure	Length of auditor-auditee relationship, If greater than 3yrs, we assign 1, else 0.	Ndubuisi and Ezechukwu (2017)	-
4.	ARP	Auditor Reputation	To be proxied using the number of years the audit firm has been in operation	Monye-Emina and Jeroh (2014)	+
5.	AFEE	Audit fees	Natural log of audit fees paid by the company	Babatolu et al (2016)	+
7.	BIN	Board Independence	Proportion of non-executive directors to the entire board size	Ilaboya andOhiokha (2014)	+
8.	MOWN	Managerial Ownership	Proportion of shares held by CEO and executive directors	Gacar (2016)	-
9.	ACE	Audit Committee Effectiveness	The frequency (number) of audit committee meeting in the financial year.	Akhor and Oseghale (2017)	+

Source: Researcher's Compilation (2023).

RESULTS AND DISCUSSION

Table 2: Descriptive Statistics result

Financial	AUDQ	AID	ATN	ARP	AFEE	BIN	MOWN	ACE
Mean	0.672	0.0031	0.559	31.035	141330.1	0.586	0.213	3.996
Median	1.000	0.002	1.000	28.000	28955.00	0.586	0.161	4.000
Maximum	1.000	0.035	1.000	67.000	1009000.	0.900	0.913	8.000
Minimum	0.000	6.49E-05	0.000	2.000	800.0000	0.250	0.000	1.000
Std. Dev.	0.471	0.004	0.498	17.475	212516.2	0.131	0.225	0.892
Skewness	-0.732	4.515	-0.236	0.687	1.998607	-0.002	1.058	-0.059
Kurtosis	1.536	32.022	1.056	2.565	6.500172	2.763	3.306	5.435
Jarque-Bera	45.731	9853.9	42.70	22.133	301.1085	0.599	48.79	63.380
Probability	0.000	0.0000	0.000	0.0001	0.000000	0.741	0.000	0.000
Sum	172.00	0.784	143.00	7945.0	36180512	150.13	54.458	1023.0
Sum Sq. Dev.	56.43	0.004	63.12	77866.7	1.15E+13	4.375	12.95	202.99
Observations	256	256	256	256	256	256	256	256
Non-Financial	**AUDQ**	**AID**	**ATN**	**ARP**	**AFEE**	**BIN**	**MOWN**	**ACE**
Mean	0.589	0.0029	0.648	40.988	33659.8	0.6225	0.255	3.8516
Median	1.000	0.0014	1.000	40.000	14750.0	0.6429	0.186	4.0000
Maximum	1.000	0.0846	1.000	67.000	732179.0	1.0000	0.890	6.0000
Minimum	0.000	0.0001	0.000	8.000	250.000	0.2500	0.000	1.0000
Std. Dev.	0.493	0.0060	0.478	17.945	68222.3	0.1187	0.249	0.6927
Skewness	-0.365	10.065	-0.622	-0.061	5.97986	-0.3941	0.514	-1.0719
Kurtosis	1.134	131.72	1.387	1.766	50.9030	3.2482	1.830	6.3242
Jarque-Bera	42.857	181054.5	44.26	16.402	26002.5	7.2821	25.877	166.89
Probability	0.000	0.0000	0.000	0.0003	0.00000	0.0262	0.0000	0.0000
Sum	151.00	0.7319	166.00	10493.0	8616916.	159.36	65.294	986.00
Sum Sq. Dev.	61.934	0.0094	58.36	82114.9	1.19E+12	3.5937	15.921	122.36
Observations	256	256	256	256	256	256	256	256

Source: Researchers Computation using E-views 10 (2023)

The descriptive statistics in table 2 shows the characteristics of the variables used in the study. The result was presented in a comparative form reflecting the outcomes from both the financial and non-financial companies that formed part of the overall sample of the study. As observed, about 67.2% of the thirty-two (32) sampled financial companies made use of the Big4 audit firms (i.e. KPMG, Deloitte, Price Water house Coopers and Ernst &Young), while 58.9% of the sampled non-financial companies equally employ the services of the big4 auditing firms. Similarly, the mean value of AID (auditor independence) on both sectors indicates that the financial sector has marginally higher proportion of audit fee to revenue ratio. This means that, within the period covered by the study, the financial companies paid higher fees to auditors (as a percentage of revenue) than the non-financial companies. This outcome is corroborated by the mean values of the both audit fees (AFEE) which stood at ₦141,330.1million and ₦33,659.8million respectively for financial and non-financial companies.

Further, the mean values of ATN (audit tenure) suggests that about 56% of the sampled financial companies retained their auditors for periods exceeding three (3) financial years compared to about 65% for the non-financial companies. This means that the non-financial companies retain their external auditors longer than the financial companies. However, in terms of the reputation of the auditors (proxied by the number of years the audit firms have been in existence), the auditors of the non-financial companies showed an average of 41 years of operation, while those of the financial companies are cumulatively 31 years. The mean values of BIN (i.e. 0.62 for non-financial and 0.59 for financial companies) showed that the non-financial

companies, taken together, have higher proportion of non-executive directors on their board (62%), compared to the financial companies (59%).

Similar trend was observed in the case on the variable of MOWN where the outcome suggests that, on the average, about 21.3% of shares in the financial companies are controlled by insiders (members of the board of directors), compared to 25.5% in the non-financial sector, which is higher. On the effectiveness of the audit committee (ACE), in terms of frequency of their audit meetings in a financial year, the outcome did not show much difference in both sectors at 3.996 and 3.85 respectively (both can be approximated to 4), which means that the companies in both sectors met the SEC requirements of at least one meeting in a quarter for the Statutory Audit Committees. Further, the Jarque-Bera statistics of each of the variables and its corresponding probability values suggest that only data on board independence (in the financial sector) follows a normal distribution. However, the departure from normality, as observed in most of the variables, does not pose any major problem in panel data analysis. According to Ghasem and Zahediasl (2012), with large enough sample sizes (> 40), the violation of the normality assumption poses no major problem in panel data analysis. The pooled normality test in the next sub-section presents the cumulative normality test.

Table 3: Moderated Regression Results

Panel A	(Output without the moderator)				Panel B	(Output with the moderating variable)		
Variables	**Coefficient (B)**	**z-Statistic**	**Prob.**		**Variables**	**Coefficient (B)**	**z-Statistic**	**Prob.**
C	-9.294885	-9.449399	0.0000		C	-9.299494	-9.423543	0.0000
AID	-30.77297	-2.492883	0.0127**		AID	-30.84659	-2.495779	0.0126**
ATN	-0.308970	-2.145543	0.0319**		ATN	-0.302571	-2.065489	0.0389**
ARP	0.011373	2.890392	0.0038***		ARP	0.011319	2.871786	0.0041***
AFEE	0.813534	9.984412	0.0000***		AFEE	0.812407	9.922393	0.0000***
BIN	1.113038	1.831379	0.0670*		BIN	1.112555	1.831410	0.0670*
MOWN	-0.566734	-1.945103	0.0518*		MOWN	-0.576009	-1.958174	0.0502*
ACE	0.250647	2.433862	0.0149**		ACE	0.251617	2.438697	0.0147**
					COMTY^	0.006069	0.239286	0.8109
McFadden R-squared			0.367525		**McFadden R-squared**			0.367610
S.E. of regression			0.375742		**S.E. of regression**			0.376231
LR statistic			247.8226		**LR statistic**			247.8799
Prob(LR statistic)			0.000000		**Prob (LR statistic)**			0.000000

Source: Researcher's Compilation (2021) ^.Interaction term ***.Significant at the 0.01 level (1%)

** Significant at the 0.05 level (5%)
*.Significant at the 0.1 level (10%)

Table 4: Hypotheses Testing

	Variables	z-Statistics	p-value (Sig.)	Decision	Remark/Conclusion
Ho1	Auditor independence (AID)	-2.495779	0.0126**	Significant at 5%	Reject null
Ho2	Auditor tenure (ATN)	-2.065489	0.0389**	Significant at 5%	Reject null
Ho3	Auditor reputation (ARP)	2.871786	0.0041***	Significant at 1%	Reject null
Ho4	Audit fees (AFEE)	9.922393	0.0000***	Significant at 1%	Reject null
Ho5	Board independence (BIN)	1.831410	0.0670*	Significant at 10%	Reject null
Ho6	Managerial ownership (MOWN)	-1.958174	0.0502*	Significant at 10%	Reject null
Ho7	Audit committee effectiveness (ACE)	2.438697	0.0147**	Significant at 5%	Reject null

Source: Researchers Compilation (2023)

Discussion of Findings

Based on the outcome of the first hypothesis, it could be deduced that the explanatory variable of auditors' independence poses an inverse significant impact on audit quality. The implication of the significant negative coefficient sign is that when audit fee (in terms of high average audit fee as a percentage of company revenue) is abnormally high, it could impair auditor independence thereby resulting in a lower audit quality. IFAC (2019) suggests that the closer the audit fee to the company's revenue, the more abnormal it becomes. However, the negative coefficient sign went contrary to our apriori expectation of a positive effect. The earlier assumption was that highly independent auditors will likely resist management interference and be mindful of the perceived threat to their independence while discharging their duties and thus, take necessary steps in order to preserve their reputation capital. Going by this outcome, our result negates those by Babatolu, Aigienohuwa and Uniamikogbo (2016); Enofe, Mgbame, Efayena & Edegware (2014); and Enofe, Mgbame, Adeyemi and Obehioye (2013) who found empirical evidence that auditors' independence asserts positive significant impact on audit quality.

From the second hypothesis, the result showed that audit tenure has a significant negative impact on audit quality. What this implies is that the length of auditor-client relationship in Nigerian companies significantly affect the audit quality when proxied using the Big4 dichotomous measure. The negative coefficient sign suggests that lengthy auditor tenure has the likelihood of reducing the audit quality. This outcome aligns with the apriori expectation of the study and with the school of thought that assumes that lengthy auditor tenureship creates familiarity with the client as well as an avenue for compromised auditor independence. The significant effect of auditor tenure on audit quality is in tandem with most previous Nigerian studies such as Ilaboya and Ohiokha (2014) and Enofe et al (2013).

On the third hypothesis, the result showed a positive and significant effect of auditor reputation on audit quality. This led to the rejection of the null hypothesis three (H_{O3}). This outcome is in tandem with our expectation of a positive influence. Considering our measure of auditor reputation (i.e. the number of years the audit firm has been in operation), it is safe to assume that the result is in line with theoretical expectation because the basic assumption is that experienced audit firms have increased chances of detecting errors and misstatements which will go a long way in enhancing the audit quality. The implication of this finding is that reputable and experienced audit firms have huge incentives to maintain high audit quality due to their pedigree and the larger number of clients they attract; they also have better resources and experienced auditors. Thus, they understand the weight placed on them in terms of high expectation to deliver coupled with higher audit fees they attract. The result is also in tandem with the findings of most previous studies such as that of Yasina and Nelson (2012) and Zamzami, Tantri and Timur (2017) which all concluded that high auditor reputation increases audit quality.

From the outcome of the fourth hypothesis test, the result showed that the variable of audit fees (AFEE) has a positive significant effect on audit quality – leading to the rejection of null hypothesis four (H_{O4}). It can therefore be interpreted, based on the result that higher audit fees significantly lead to a higher audit quality. This result is in line with the apriori expectation because the basic assumption is that financial satisfaction (in terms of paying high audit fees) increases the professionalism and the effort exerted by the auditor which will eventually enhance the audit quality.

The fifth hypothesis testing revealed that board independence positively and significantly affects audit quality positively in Nigerian listed firms. This is due to its probability value of 0.067 which is greater than 0.05 but less than 0.1 and can thus be taken to be significant at the 10% level of confidence. This led to the rejection of the null hypothesis six (H_{O5}). Although weakly significant, the positive sign is in tandem with the apriori expectation of a positive effect of board independence on audit quality. The study projected that firms with more independent board of directors will produce higher audit quality than firms dominated by more of executive directors – because the interests of stakeholders will most likely drive outside directors to produce higher quality audit since they are independent outsiders with no influence on the day-to-day running of the business. The observed positive and significant effect of board independence on audit quality is in tandem with Akhalumeh, Agweda and Ogunkuade (2017), Ilaboya and Ohiokha (2014) whose findings

showed that independent boards are more likely to enhance quality audit in any organisation. However, the result on board independence varies with those of Abdullah et al. (2008), Enofe, et al (2013b) and Ejeagbasi, Nweze, Eze and Nze (2015) which showed empirical evidence that board composition has a negative and non-significant relationship with audit quality.

From the testing of hypothesis six (H_{O6}), the result showed that managerial ownership (MOWN) has negative significant impact on audit quality. The negative coefficient sign is in line with the apriori expectation of the study and implies that companies where the top directors own large proportion of shares may likely have lower audit quality. This outcome is explainable because since the owners (principals) cede the running of the affairs to the management (in line with agency theory), thereby allotting immense powers to the latter. Thus, in an event where the ownership structure is concentrated on the management (i.e. where management controls significant proportion of shares) it would further trigger the agency problem since the minority shareholder might not have the required voting rights to effect changes in the board. Empirically, the negative coefficient sign negates the findings of Abdullah et al (2008); Adeyemi and Fagbemi (2010) Ejeagbasi et al (2015) and Enofe, et al (2013a) whose studies showed that ownership by both executive and non-executive directors has the possibility of increasing the quality of auditing. However, none of the aforementioned studies found it statistically significant in improving audit quality. On the other hand, the result is consistent with Enofe, et al (2013b) which showed evidence that ownership structure asserts significant negative impact on audit quality.

Further, in respect to the null hypothesis seven (H_{O7}), the variable of audit committee effectiveness was found to be positive and statistically significant with a coefficient of (0.251617) and a low probability value of (0.0147). This means that audit committee effectiveness (measured by the frequency of audit committee meetings) is a significant determinant of audit quality. This positive sign conforms to the expectation of the study because the underlying assumption is that the audit committees that meet more regularly will most likely perform better supervisory roles in financial reporting process than those who do not meet regularly. The significant positive result tallies with those of Amin, et al (2018); Beasley et al. (2000) and Xie, Davidson and DaDalt (2003) whose empirical evidences show that companies whose audit committees meet regularly experience improved audit quality because of better transparency in reporting. However, the result is not entirely the same with those of Asiriuwa, Aronmwan, Uwuigbe and Uwuigbe (2018), Salawu, Okpanachi, Yahaya and Dikki (2017); Onyabe, Okpanachi, Nyor, Yahaya and Mohammed (2018) which gave similar conclusions that although an audit committee that meets at least 4 times in a year (as required) can aid audit quality, but the extent of its impact may not be significant – which can be translated to mean that frequent meetings of the audit committees, in isolation, may not be enough to meaningfully influence audit quality.

CONCLUSION AND RECOMMENDATIONS

Based on the outcomes, it can be concluded that in terms of the determinants of audit quality in Nigerian listed companies, the major variables of interest (irrespective of sector types) include: auditor independence, auditor tenure, auditor reputation, audit fees, board independence managerial ownership and audit committee effectiveness, while the variables of firm profitability is not statistically significant in any of the models and can thus be considered as not of crucial importance within the context of this study. Another major observation as a result of the outcome of this study is that when the sample are segmented based on financial and non-financial companies, the impact of some selected audit firm and client attributes on audit quality differed (are not same) across both sub-samples. Based on the findings of this study, the following policy recommendations are put forward:

i. Management should put in place strong corporate governance structure that would ensure that external auditors remain independence and guide against insiders' influence.
ii. Longer audit firm tenure should be discourage as it has the likelihood of reducing audit quality, therefore the relevant regulatory bodies in Nigeria should enforce the three years maximum audit tenure limit and sanction companies and audit firms that failed to comply.
iii. Auditors' reputation in terms of number of years of operation play a major role in the audit quality therefore, companies should base their criteria of auditor selection and engagement on competency, expertise and existing pedigree, in favour of whether the audit firm is among the Big 4 or not.

iv. Since audit fee is capable of undermining audit quality, the professional regulatory bodies should adopt measures to regulate the audit practices procedures in Nigeria in order to adopt measures that would mitigate the incidence of either over-charging or under-charging (abnormally high or abnormally low audit fees). If possible, there should be a benchmark of what an appropriate normal audit fee should be, in respect to the size (or subsidiaries) of the company.
v. Management should ensure a board structure (independence) that will guarantee formulation of policies which will ensure effective and efficient operation. This will strengthen the audit quality.
vi. Considering the rigorous nature of required capturing the managerial ownership information from the annual financial reports, it is recommended that the disclosure of ownership structure should be reported in the form of a pyramid (with the percentages clearly stated), in order to aid the understandability for the benefit of all stakeholders - both financial and non-financial experts. Even researchers can easily know who the real controllers of the entity are by the proportion (in percentage) of shares they control.
vii. Audit committee should meets regularly and frequently as this will help in the overall process and ensure the auditor produces reports with high audit quality.

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