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# Audit Quality and Financial Performance of Listed Manufacturing Companies in Nigeria

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**Abstract:** The discredit to independence of auditor in carrying out their function has raised doubt in the minds of investors about the reliability of the report given by external auditors. Consequently, the study assessed the effect of audit quality on the performance of listed manufacturing companies in Nigeria.

The study employed ex-post facto research design. Specifically, the study covered 105 quoted manufacturing companies in Nigeria, with data covering 10 years (2013 to 2022), out of which 40 companies were purposively selected. The proxies for audit quality were audit size, auditor's independence, and audit-fee size; whereas, firm performance was measured by Return on Assets (ROA).

From the results, with a p-value of β>0.000, and 0.263, it revealed that AUDTF is positively and statistically insignificantly related to the ROA while p-value of β>0.000, and 0.263 shows that AUDIN and ROA have a positive and statistically significant relationship. Also, AUDSZ displayed a statistically significant and a positive relationship with the ROA, having a p-value of b>0.014 as well as 0.043, respectively.

The study concluded that auditor independence and auditor size had positive and significant effect on return on asset. In line with the findings, the study recommended that management of firms should pay more audit fees to enhance the financial predominance and audit independence of their firms.

**Key words:** Audit fees, Auditor independence, Audit size, Return on assets.

## 1.0 Introduction

The auditing process is essential in financial reporting as it enhances reliability and credibility by detecting fraud, errors, and anomalies in financial statements. An auditor has a further obligation to prevent, discover, and disclose fraud, illegal activities, and errors to stakeholders and the public. Auditing is universally acknowledged as fundamental to the advancement and improvement of the worldwide economy and corporate enterprises (Ahmad, Suhara & Ilyas, 2016). In the corporate milieu, auditors must deliver impartial evaluations regarding the responsible and successful management of companies in relation to their targeted outcomes.

Investor trust is crucial for the effective functioning of global financial markets and is a topic of frequent discourse among auditors, politicians, media, regulators, and the public (Eshitemi & Omwenga, 2016 & Matoke & Omwenga, 2016).Moreover, this is essential for improving financial performance (FP) as customers depend on these statements to ascertain optimal investment opportunities (Monametsi & Agasha, 2020). The confidence in auditors' ability to produce high-quality reports persisted until the Enron scandal in 2002 and the subsequent failure of numerous firms worldwide, prompting extensive discourse over audit quality and the factors that may affect it. The audit profession had a setback over the fundamental principles of auditor independence and the audit report disclosed to the public. Consequently, academics, practitioners, and researchers have shown interest in the fees imposed by professional accounting firms (Alajo & Nzewi, 2020). Consequently, a new tendency has emerged in accounting regarding audit fees, specifically addressing their possible positive or negative impact on financial performance. Additionally, several studies regard the expense of an audit as an indicator of the quality of the audit being conducted (Rashid et al., 2021; Alrashidi et al., 2021).

Financial statements assist shareholders and other stakeholders in making commercial and economic decisions (Saddam, Mosab, Saleh, Jinyu, and Ahmed, 2020). The information is employed to evaluate management, associated enterprises, and financial conditions. The endeavours of external auditors influence the quality of financial reporting by companies listed on the Nigerian Stock Exchange. A financial statement audit mitigates information asymmetry and protects shareholder interests by verifying that management has not significantly distorted financial information. Inayah and Prasetyo (2021) assert that most organisations and their management lack the requisite accounting knowledge and resources to produce a public financial statement.

The purpose of an audit, as stated by Adenle, Anyanwu, Okafor, and Oyaleke (2022), is to collect adequate audit evidence to support the auditor's findings.The quality of audit reports is essential for bolstering the confidence of financial statements among stakeholders, hence mitigating investors' risk in the organisation (Rezaei & Shabani, 2014; Olowookere & Adebiyi, 2013). The conclusion of the auditing process is signified by a signed audit report containing the auditor's findings. The importance of these reports to investors and their contents remain unclear and necessitate more examination. Several variables influence the need for audit services, including the geographical separation between financial statement preparers and users, conflicts of interest among users, the intricacy of economic activities, and the anticipation that financial statements would impact decision-making.

Researchers have expressed significant worry regarding the direct impact of audit quality features on organisations' financial performance. This study evaluates audit quality qualities through three primary components: audit fee, auditor size, and audit independence, alongside Return on Assets (ROA) as a metric for financial success.

This study aims to investigate the impact of audit quality on the financial performance of publicly listed industrial firms in Nigeria. The study is motivated by recent concerns regarding the current state of audit quality practices among firms in Nigeria, where numerous companies have failed due to the lack of effective audit quality measures, exemplified by the case of "Nigerian Enron," commonly referred to as Cadbury Nigeria Plc, which occurred in 2006, along with African Petroleum and Oando Plc. It is clear that this has been a significant concern for investors in the Nigerian capital market.

Concerns regarding audit quality have emerged in the current climate, highlighted by significant failures such as the Enron scandal in 2001, Parmalat in 2003, Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009, WorldCom, Global Crossing, Cendant, BCCI, African Petroleum, Sunbeam (United States), Intercontinental Bank Plc in 2009, and Skye Bank Plc in 2018. The purpose of an audit, as stated by Adenle, Anyanwu, Okafor, and Oyaleke (2022), is to collect sufficient audit evidence to support the auditor's judgement. This signifies the completion of the auditing process when the auditor endorses an audit report containing their evaluation. The apparent surge in interest and attention towards general financial reporting stems from the recognised shortcomings of the audit process in identifying financial misstatements. Investors perceive that the audit inadequately informed equity and other claimants of misrepresentations, hindering their ability to make rational financial decisions affecting organisations overall. The quality of an audit is contingent upon multiple factors, including audit fee, auditor independence, and audit size. These attributes are distinctive to a specific audit firm and can collectively be termed the audit firm characteristics that may exert differing impacts on the firm. For example, delays in audit reports cause current and prospective shareholders to defer their share transactions (Ng & Tai, 1994, quoted in Apadore & Noor, 2013).Research indicates that the confidence of financial consumers has been significantly undermined by the subpar quality of audit reports included in the financial statements released in Nigeria (Enekwe, Onyekwelu, Nwoha & Okwo, 2016).

In light of the above, the major problem of this study is to determine the effect of audit quality (audit fee, auditor's independence and auditor size) on financial performance of listed manufacturing companies in Nigeria. The following research questions were raised:

i. what is the effect of audit fee on financial performance of listed manufacturing companies in Nigeria?
ii. to what extent does auditor independence affect financial performance of listed manufacturing companies in Nigeria?
iii. what is the influence of auditor size on financial performance of listed manufacturing companies in Nigeria?

Owing to the problem of the study, the main objective of this study is aimed at assessing the effect of audit quality on the performance of listed companies in Nigeria. Therefore, the specific objectives are to:

i. examine the effect of audit fee on financial performance of listed companies in Nigeria.
ii. explore the effect of auditors independence on the financial performance of listed companies in Nigeria.
iii. investigate the influence of auditor size on the financial performance of listed companies in Nigeria.

The following null hypotheses have been developed with a view to achieving the objectives of the study:

**Ho1**: The effect of audit fee on financial performance of listed companies in Nigeria is not significant.

**Ho2**: Auditors independence has no significant effect on the financial performance of listed companies in Nigeria.

**Ho3**: Auditors size has no significant influence on the financial performance of listed companies in Nigeria.

The study covered the period between 2013 and 2022. 2013 was chosen as the base year because

it was the year immediately following year 2012 when International Financial Reporting Standards (IFRS) were adopted in Nigeria. 2022 was chosen as the closing year because it was the year of which data were last available. The study would be of tremendous benefits to regulators, practising accountants, governments and academia.

Apart from the above introduction, the study had subsections of literature review, methodology, data analyses and discussions of findings, and summary, conclusion and recommendations.

## 2.0 Literature Review

The review was done through the subheadings of conceptual review, theoretical review, empirical review, gaps in the literature and conceptual framework.

### 2.1 Conceptual Review

The concepts that could be identified from the title of the study were audit quality and financial performance.

### 2.1.1 Audit Quality

The auditors' ability to detect problems correlates with their knowledge, but their willingness to report found issues correlates with their degree of independence, which consequently affects audit quality. Audit quality, by definition, refers to the market-assessed probability that a particular auditor would identify and disclose discrepancies in clients' accounting systems (Hua, Hla, & Isa, 2016). The quality of an audit can be evaluated by determining the auditors' ability to verify the accuracy of the information provided to investors by corporate management. The effectiveness of auditors can also be assessed by their capacity to identify and eliminate profit manipulations and cosmetic alterations in corporate financial statements (Tanko & Polycarps, 2019). An assessment of the auditor's proficiency in detecting and identifying discrepancies in corporate financial statements may serve as a valuable basis for measuring audit quality (Jeroh, Ekwueme & Okoro, 2015; Tanko & Polycarp, 2019). Prior research have shown discretionary accruals as a prevalent method for manipulating financial accounts, wherein managers exert control over accruals to produce figures that suggest heightened demand or income (Tahinakis & Samarinas, 2016; Ideh, Jeroh & Ebiaghan, 2021). Consequently, business managements exploit their authority to manipulate corporate reporting by taking advantage of perceived deficiencies and/or gaps in reporting standards, which are principle-based (Jeroh & Ebiaghan, 2021). The confidence levels of various stakeholders are positively connected with the quality of audits. The quality of financial statement audits impacts numerous stakeholders, both directly and indirectly (AL-Qatamin & Salleh, 2020). The quality of a firm's audit would deteriorate, compelling various stakeholders to determine their future relationship with the company if it received multiple audit quality notes highlighting auditors' concerns regarding various controls and audit procedures. Many stakeholders expect a satisfactory level of audit quality that has been endorsed and emphasised by auditors, along with an unqualified audit opinion (Tuovila, 2019). A qualified audit report by an auditor would result in several challenges. Audit quality is defined as an assessment performed by the market, wherein there exists a possibility that the auditor would identify and document a transgression within the client's accounting system (Aswar, Ermawati, Wiguna, & Hariyami, 2020).

Audit quality is fundamentally comprised of three essential components: inputs, outputs, and contextual variables. In addition to auditing requirements, other factors contribute to audit quality. The auditor's personal attributes, encompassing their ethical standards, perspective, and knowledge, are a crucial contributing component. The auditing procedure is a vital element (IAASB, 2023). In order to enable the execution of a quality audit, the audit process addresses issues including the validity of the audit methodology, the efficiency of the audit tools utilized, and the availability of sufficient technical support. The outputs of the audit significantly influence audit quality, as stakeholders often consider them when assessing the quality of the audit. If the auditor's report clearly conveys the audit's result, it is expected to positively impact audit quality (IAASB, 2023). The quality of audits can be enhanced by auditor contacts with those entrusted with governance (TCWG) regarding shortcomings in internal control and qualitative components of the entity's financial reporting processes (IAASB, 2023).

Contextual considerations, in general, also have an impact on audit quality. For instance, good corporate governance makes audit quality easier, particularly if it fosters an environment of ethics and openness within the organization. Regulation and law can also have a good impact on audit quality, if it establishes a structure that allows the audit to be carried out successfully, among other things. Similarly, regulatory oversight can be successful if it sets up a system that allows regulators and auditors to communicate effectively and monitor the caliber of the auditors' work (IAASB, 2023). On the other hand, audit quality may be impacted by the standard of the relevant financial reporting system. For example, using a structure for financial reporting that discourages thorough and open disclosures could have a negative impact on the quality of audits and associated external perceptions (IAASB, 2023).

According to DeAngelo (1981), audit quality is the jointly estimated market chance that a particular auditor will find major misstatements in the financial statements of the client and disclose such misstatements. Consequently, audit quality, as defined by DeAngelo (1981), depends on the auditor's capacity to identify major misstatements (technical capabilities) and disclose such misstatements (auditor independence). Audit quality is described by Palmrose (1988) in terms of assurance level. The likelihood that financial statements are free of major misstatements is known as audit quality as the goal of an audit is to provide assurance on financial statements. Actually, the dependability of the audited financial statements—the outcome of the audit—is used in this definition to indicate the quality of the audit. According to Baah and Fogarty (2018), audit quality is the degree to which an auditor's independence, integrity, and objectivity influence their opinions regarding the quality of financial accounts. Investors and auditors concur that an auditor's personal qualities are the most important factors in determining the quality of an audit (Ogungbade, Adekoya, & Olugbodi, 2021).

Current study holds that audit quality refers to the degree to which an audit accurately and effectively assesses the financial statements and internal controls of a company. High audit quality means that the audit provides reliable information and is performed in accordance with professional standards.

### 2.1.2 Financial Performance

The primary objective of financial statements is to provide information regarding a company's performance to assist users in making economic decisions. The ability of a business to utilise assets to generate revenue from its operations can also serve as an indicator of its financial health (Du & Lai, 2018). Metrics such as return on investment, return on assets, and value added serve as proxies for assessing performance, eventually reflecting the consequences of corporate policies and activities. In other words, performance quantifies an entity's value. Financial performance quantifies a company's capacity to generate profit or revenue (Fatihudin, Jusni, & Mochklas, 2018). Hamann and Schiemann (2021) identify four dimensions of organisational performance: growth, profitability, liquidity, and stock market performance.

Financial performance is a comprehensive measure that goes beyond simple profit and loss statements. It encompasses various financial metrics and ratios that provide insights into a company’s efficiency, profitability, liquidity, and solvency (Williams *et al.*, 2023). One key aspect to consider is profitability, which evaluates the company’s ability to generate earnings in relation to its expenses and other costs. A company’s net income, gross margin, and return on investment are vital indicators in assessing profitability (Zhang *et al.*, 2023). Efficiency is another critical dimension of financial performance. This involves evaluating how well a company utilizes its resources to generate revenue. Metrics such as asset turnover, inventory turnover and receivables turnover help gauge efficiency; effective management of assets and resources is essential for sustained success (Akinrinola *et al*., 2023). For the purpose of the current study, financial performance is tantamount to profitability and is measured by Return on Asset (ROA).

## 2.2 Theoretical Review

The concept of audit quality and financial performance can be explained by agency theory, stakeholders theory and legitimacy theory. This study examined audit quality and financial performance based on these three theories and the theory upon which this study is to be hinged on is stated thereafter.

### 2.2.1 Agency Theory

The agency theory proposed by Jensen and Meckling (1976) pertains to the interaction between the primary (shareholders) and the agents (business managers). It is the expense that emerges from costs incurred between the principal(s) (shareholders) and the agent(s) (management). The agency relationship is regarded as a contract wherein one or more individuals (the principal(s)) appoint another individual(s) (the agent) to execute services on their behalf. This entails conferring a portion of their authority to the agent to facilitate decision-making on behalf of the principle (company owner). If the agent neglects to follow the principal's directives in decision-making, the principal may choose to mitigate deviations from his interests by implementing suitable incentives for the agent and by incurring monitoring expenses aimed at curtailing the agent's errant behaviours (Aliyu, Musa & Zachariah, 2015).

Farouk and Hassan (2014) assert that auditing constitutes a bonding cost incurred by agents to a third party to fulfil the principals' requirement for responsibility. This represents the expense incurred by the Principals to safeguard their enterprise. In the context of the separation of powers, ownership and control are crucial, as a more dispersed ownership structure leads to greater divergence in the preferences of owners and managers, as well as increased observability and oversight of an agent's acts by the principals. The audits fundamentally promote confidence and reinforce trust in financial information among users and the wider public. The principal-agent connection, as illustrated in agency theory, is crucial for comprehending the auditor's role in producing high-quality business reports. This occurs because principals rely on their agents to operate in their best interests; but, knowledge asymmetries between principals and agents lead to divergent motives. Principals may distrust their agents and must use procedures, such as audits, to enhance that trust. Agency theory is a pertinent economic framework for accountability that elucidates the evolution of audit quality overall.

### 2.2.2 Stakeholders Theory

ICAN(2019) defines a stakeholder as any individual, group of individual, or outside organization that has an interest in the work the company undertakes or hopes to accomplish.Creditors, customers, employees, businesses, government, and the community are some of these stakeholders.In particular,stakeholder theory have become more popular as research shows that a company ‘s actions affect the outside world and require it to answer to stakeholders in addition to its investors.

Stakeholder theory, for instance, seems to be better at comprehending thr audit quality functions than other theories like the agency theory by highlighting the many components of organization.It’s important to remember that this truth has only recently come to be widely acknowledged. It is true that indivduals who come together and coperate voluntarily create economic value.

### 2.2.3 Legitimacy Theory

Suchman (1995) is the main proponent of legitimacy theory in the auditing and accounting literature. In order to fulfill their social contract which calls for the recognition of their goals and survival in a volatile business environment organizations must develop and implement voluntary social and environmental disclosure of information. Legitimacy theory plays a key role in explaining how these organizations behave in this regard. The organization reports its actions in a way that complies with societal norms. An organization will face social and moral consequences if it disregards these ideals; these consequences may even cause the organization to fail. It is anticipated that the organization will use justifiable social and economic initiatives that advance the interests of the community in which it operates to defend its survival. Due to the organization's environmental and financial difficulties, it is necessary for it to abide by societal norms, principles, and standards and to voluntarily provide social and environmental data as proof of compliance. Stakeholder, institutional, and management theory provide a strong disciplinary foundation for legitimacy theory. According to the literature on legitimacy, an organization's ability to survive rests on how well its processes for legitimation are implemented and how it handles the ongoing demands and obstacles it faces. As a result, the legitimacy principle required businesses to reveal important information that is essential to their continued existence. The firm's useful information contributes to the improvement of the audit quality. This study is thus, anchored on agency theory credited to Jensen and Meckling (1976).

### 2.3 Empirical Review

Yuniarti (2011) examined the relationship between the variables influencing the 2009 audit quality of 24 Bandung firms. He suggests that increased audit fees result in increased effort on the part of the auditors and that accounting firms should raise the amount of audit fees to achieve this goal. Additionally, he discovered that audit fees have a major and favorable impact on audit quality.

In Fagbemi and Uadiale (2011), 45 audited financial statements of quoted firms were used as a sample for the study. Both descriptive and inferential statistics were used to analyze the data that were gathered. Results indicate that once the year ends, financial reports are typically available for viewing after eleven days on average. Thirty-one days after the end of the year is the earliest date that the audit report is prepared. The findings suggest a connection between a company's affiliation with a foreign entity and the timeliness of its corporate reporting. The findings, however, did not reveal a relationship between business complexity, business leverage, or the timeliness of financial reporting.

Yassin and Nelson (2012) audit quality was proxied by the audit fee. They proposed that, in comparison to lower audit fees, higher audit fees signify that auditors offer the companies more effective audit services.

Moutinho (2012) examined the connection between firm performance and audit fees. A fixed effects model is presented to estimate firm operating performance using a sample of publicly traded, non-financial U.S. enterprises covering the years 2000–2008. Standard control factors including size, leverage, sales growth, and intensity of research and development were incorporated in the model. Furthermore, corporate governance procedures were implemented. More specifically, there is a correlation between drops (increases) in audit fees and increases (decreases) in operating performance.

Modugu, Erahbhe and Ikhatua (2012) analyze the connection between Nigerian company features and audit delay. For the years 2009 to 2011, a sample of twenty quoted businesses was chosen, and the analysis was conducted using the Ordinary Least Squares technique. The findings indicate that the main factors influencing audit delays in Nigeria are the size of the organization, the relationships among multinational corporations, and the audit fees given to the auditors. According to the survey, it takes a minimum of 30 days and a maximum of 276 days for Nigerian companies to publish their annual reports due to audit report lag. When it comes to being prepared to deliver the audited accounts to shareholders at annual general meetings, Nigerian listed businesses often require an additional two months after the balance sheet date.

Iyoha (2012) chose 61 companies' annual reports covering a ten-year period as a sample to investigate the effect of company qualities on the timeliness of financial reports in Nigeria. The Ordinary Least Square (OLS) Regression was used to analyze the data and estimate the findings. The results showed that the primary factor influencing the overall caliber and timeliness of financial reports was the age of the organization. The survey also found that there were notable differences between industrial sectors in the promptness of financial reporting. For example, compared to other industries, the banking industry was found to submit financial information more promptly.

Farouk and Hassan (2014) investigated the effect of audit quality on Nigerian listed companies' financial performance. The data was analyzed using multiple regression analysis, and the proposed hypotheses were tested. The analysis's conclusions demonstrate that the financial performance of Nigeria's listed cement companies is significantly impacted by the size and independence of the auditor. On the other hand, auditor independence has a greater impact on financial success than auditor size.

Ziaee (2014) investigated the connection between Iranian enterprises' financial performance and audit quality. The financial manager has been chosen for this demographic and is accepted by the Tehran Stock Exchange for the years 2008 to 2012. He discovered that audit quality may have an impact on a company's financial performance using primary data.

Okoye, Okaro and Okafor (2015) examined the relationship between the quality of audits and the financial performance of Iranian businesses. The Tehran Stock Exchange has approved the finance manager's selection for this group for the period of 2008 to 2012. Using primary data, he found that audit quality could affect a company's financial success.

Ndubuisi and Ezechukwu (2017), determined the factors influencing audit quality, concentrating on a subset of Deposit Money Banks that were listed between 2010 and 2015 on the Nigeria Stock Exchange. Secondary data from fact books, yearly reports, and the accounts of certain banks under investigation were used in this investigation. With the use of E-view 9.0, the pertinent data were statistically analyzed using the Granger causality test, Pearson coefficient of correlation, and Ordinary Least Square (OLS). The study's findings showed that audit fees, audit tenure, audit firm size, and audit quality are all positively and statistically significantly correlated. Additionally, an empirical verification revealed a statistically significant association between the audit quality of banks listed on the floor of the Nigerian Stock Exchange and audit fees, audit tenure, and audit firm size, all at the 5% significance level.

Mohammad and Chaudhory (2019) investigated how audit characteristics affected the success of the company. The study used the size of the audit committee, the frequency of meetings, and the external audit quality (BIG4) as proxies for audit characteristics. ROA, profit margin, and EPS were utilized to quantify business performance. The Dhaka Stock Exchange (DSE) listed manufacturing enterprises from 2013 to 2017 were sampled totaling 50 firms in order to determine the effect of audit characteristics on firm performance. This study made use of the pooled OLS approach for multivariate regression analysis. Additionally, as a strong check, the multivariate analysis's time dummy and lag model were examined. The findings of the multivariate regression showed that the size of the audit committee and the quality of the external audit (BIG4) were highly positively correlated with the success of the company. The results of this study also showed a strong inverse correlation between audit committee meetings and business success.

Ikpantan & Daferighe (2019) evaluated the impact of audit quality on Deposit Money Banks' (DMBs') financial reports in Nigeria. *Ex-post facto* research design was used. A sample of ten deposit money banks was purposefully chosen over a 14-year period, yielding 140 data points, using descriptive and inferential statistics. The source of the data was text analysis of publicly available financial statements, annual reports, and accounts. The study found a significant association between the amount of discretionary accruals of deposit money institutions in Nigeria and audit fees and auditor tenure, with a 3.4% and 3.3% negligible influence, respectively, using Pearson Product-Moment Correlation and Linear Multiple Regression. The positive combined association between financial reports and audit quality was found to be 85.8%. Audit fees were not as important as auditor tenure when it came to discretionary accruals.

The primary aims of Hyarat, Husin and Jos (2023) were to investigate the correlation between audit quality (AQ) and the non-financial performance of Jordanian enterprises, as well as the impact of ownership concentration on this relationship. The three main topics of this study are ownership concentration, FP, and AQ. The concept states that ownership concentration moderates the link between AQ and FP. Audit fees safeguard the interests of shareholders by assessing AQ and enhancing the trustworthiness of financial reports. From 2014 to 2018, 92 public companies in the services and industries sectors that were listed on the Stock Exchange of Amman (ASE) were the subject of the study. Partial least squares structural equation modeling (PLS-SEM) was the data analysis technique used. According to the study's findings, ownership concentration significantly and favorably affects FP, and AQ and FP are positively correlated. Furthermore, ownership concentration's moderating influence attests to AQ's statistically significant effect on FP.

Oroud et al. (2023) examine the role of audit quality in moderating the impact of financial performance indicators on the stock returns of enterprises listed on the Amman Stock Exchange (ASE). The panel data research utilised data from 95 ASE-listed enterprises spanning the years 2013 to 2021. This examination exhibits a substantial inverse correlation between a company's book value and its stock returns. A statistically inverse correlation was identified among cash flow, dividends per share, and stock performance. The empirical findings of this study validate the moderating effect of audit quality on the link between financial performance and stock return. Firstly, auditor fees significantly influence the correlation between company stock returns and earnings per share (EPS), book value (BV), dividends per share (DPS), and cash flows from operations (CFO). The magnitude of the auditing firm influences the correlation between corporate stock returns and EPS, DPS, and CFO, but not with book value (BV). The auditor's view influences the correlation between business stock returns and EPS, BV, and DPS, but does not affect the association between firm stock returns and cash flows (CFO). The report indicates that regulatory entities such as the Companies Control Department (CCD) and ASE should ensure that local audit firms in Jordan enhance their audit quality to align with the Big 4 audit firms, hence improving their financial performance metrics and stock returns.

### 2.4 Conceptual Framework

Figure 2.1 below showed the conceptual framework of this study. It highlighted the dependence between the dependent variable and the independent variables.

**INDEPENDENT VARIABLES** **DEPENDENT VARIABLE**

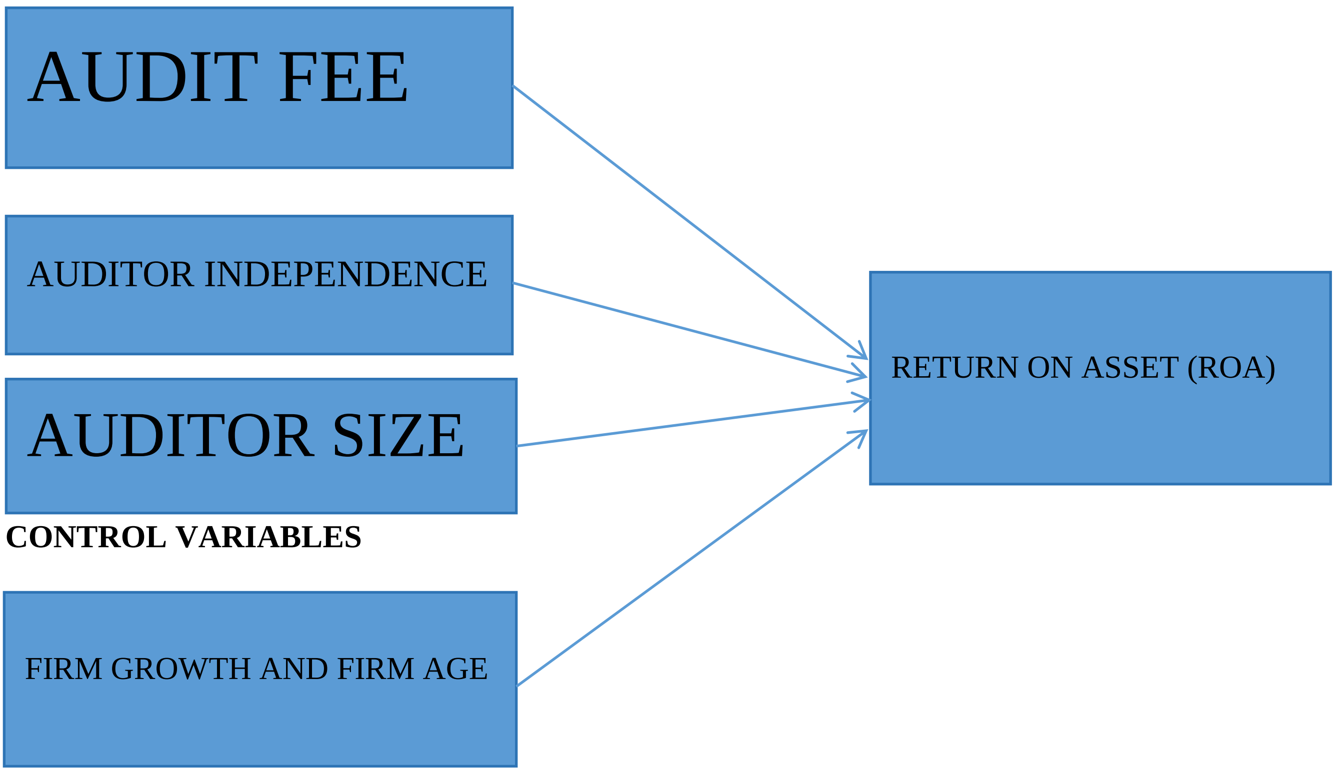


**FIGURE 2.1 Conceptual Framework of Audit Quality and Firm Performance**

**Source: Author's conceptualisation (2024)**

The conceptual framework depicted figuratively the effects of audit fee, auditor independence and auditor size (proxies for audit quality) on return on asset (proxy for financial performance) of listed manufacturing firms in Nigeria. It also showed the effects of firm age and firm growth (the two control variables of this study) on return on asset (ROA). Audit fee, auditor independence and auditor size constituted the independent variables while return on asset was the dependent variable.

## 3.0 METHODOLOGY

The ex-post facto research design also known as "After the fact" was adopted considering that the selected firms were not randomly selected and that the data were readily available. The reason for choosing the Ex-post facto research design is centered on that it helps to explain the relationship between explanatory and outcome variables which will further help to achieve the objective of the study. Secondary sources of data were used in this study in order to meet the objectives of the study. Data were gathered from selected companies' annual reports. The annual reports were accessed on the Nigerian Exchange Group website (www.nse.com) and the different manufacturing companies' corporate websites.

The population of the study consisted of 105 listed manufacturing companies in Nigeria on the Nigeria Stock Exchange as at December 2022. Purposive sampling technique was used to select the sample size of this study. The sample size selected was 40 listed manufacturing firms in Nigeria that are actively trading on the Nigerian Exchange Group from whose annual financial report forms the source of the secondary data for this study. The sampling technique is based on the following criteria: firstly, firms that do not have complete annual report during the period of the study 2013 – 2022 were left out from the total population of manufacturing firms. Secondly, firms that got listed after the start of the study period (2013) were also left out. Finally, firms that got delisted before the end of the study period (2023) were also dropped. A final sample of 40 firms, consisting of 756 firm-year observations were engaged. The period of this present study covers 10 years from (2013 to 2022).

The study adapted the model of Tarmid, Fitria and Ahmed (2019) which was stated as:

$ROA_{it} =\beta_0+ \beta_1 AUDFE_{it}+ \beta_2 AUDFSZ_{it}+ \beta_3 ASPEC_{it}+ \beta_4 AUDADJ_{it}+ U_{it}$ ------------ (1)

This model was adapted to include these new variables. The new model is stated as follows:

$ROA_{it} = Ø_0 + \beta_1 AUDTF_{it} + \beta_2 AUDSZ_{it} + \beta_3 AUDIN_{it} + \beta_4 FMGRH_{it} + \beta_5 FMAGE_{it} + Ɛ_{it}$ ---(2)

Where:

ROA = Return on Asset (Financial Performance)

Ø = Constant

AUDTF = Audit Fee

AUDSZ = Audit Size

AUDIN = Auditor Independence

FMGRH = Firm Growth

FMAGE = Firm Age

Ɛ = Error term

Descriptive statistics like mean and standard deviation were employed for the presentation of data for this study. To test the study hypotheses, inferential statistics like correlation analysis and panel regression analysis were performed.

## 4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

### 4.1 Descriptive Statistics

Table 4.1 below shows the result of descriptive statistics derived from the variables under study. According to Table 4.1, the average return on assets (ROA) for listed companies in Nigeria is 0.054, with minimum and maximum ROA values of -0.707 and 0.524 respectively demonstrating a successful outcome for the companies. It also shows that the listed firms in Nigeria paid for audit services through the AUDTF, which has a mean value of 32.063 and minimum and highest values of 0.29 and 1442 respectively. Moreover, the mean value of AUDSZ is 0.587, with 0 and 1 as the minimum and maximum values. This suggests that 50% of Nigerian listed businesses used the services provided by Big Auditors. With a minimum value of 0.009 and a maximum value of 7.274, AUDIN has a mean value of 2.027. The overall mean value of FMGRH is 0.150, with -0.192 and 1.822 being the lowest and maximum values respectively. Lastly, FMAGE has an estimated mean value of 22 years and minimum and maximum values, respectively, ranging from 2 to 53 years.

**Table 4.1: Descriptive Statistics**

| Variables | Obs | Mean | Std.Dev. | Min | Max |
|---|---|---|---|---|---|
| ROA | 506 | 0.054 | 0.096 | -0.707 | 0.524 |
| AUDTF | 506 | 32.063 | 101.518 | 0.29 | 1442 |
| AUDSZ | 506 | 0.587 | 0.493 | 0 | 1 |
| AUDIN | 506 | 2.027 | 1.534 | 0.009 | 7.274 |
| FMGRH | 506 | 0.150 | 0.201 | -0.192 | 1.822 |
| FMAGE | 506 | 22.321 | 13.390 | 2 | 53 |

**Source: Author Computation 2024**

Note: ROA = Return on Asset; AUDTF= Audit Fee; AUDSZ = Auditor Size; AUDIN = Auditor Independence; FMGRH = Firm Growth; FMAGE = Firm Age.

### 4.2 PRE-ESTIMATION TESTS

The pre-estimation tests carried out included correlation matrix and variance inflation factor (VIF). Table 4.2's correlation analysis shows that, at the 1% significance level, there is a positive and statistically significant association between the AUDIN and the ROA. As a result, this provides information on how the relationship between AUDIN and ROA in the regression model is developing. Furthermore, it was discovered that AUDTF and AUDSZ were statistically significantly and favorably correlated with ROA at the 1% significance level. Table 4.2 shows that FMGRH is analytically and negatively substantial linked with ROA at the 5% significant level. Lastly, a positive and substantial correlation between FMAGE and ROA is also seen at the 5% level of significance.

**Table 4.2: Correlation Statistics**

| | ROA | AUD_TF | AUD_SZ | AUD_IN | FMGRH | FMAGE |
|---|---|---|---|---|---|---|
| ROA | 1.000 | | | | | |
| AUD_TF | 0.275** | 1.000 | | | | |
| AUD_SZ | 0.193** | 0.175* | 1.000 | | | |
| AUD_IN | 0.403** | 0.614* | 0.347** | 1.000 | | |
| FMGRH | -0.081* | 0.029 | 0.018 | -0.003 | 1.000 | |
| FMAGE | 0.0718 | 0.151* | 0.212** | 0.325** | 0.037 | 1.000 |

**Source: Author Computation 2024**

Note: ROA= Return on Asset; AUDTF= Audit Fee; AUDSZ= Auditor Size; AUDIN= Auditor Independence; FMGRH= Firm Growth; FMAGE= Firm Age

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The multicollinearity issue's outcome is shown in Table 4.3 below, where tolerance values and variance inflation factor (VIF) values for each independent variable are less than 1 and less than 10, respectively, indicating that the study's independent variables fall within a normal range. As a result, it is assumed that multicollinearity does not exist in this study.

**Table 4.3: Collinearity Diagnostics**

| Variables | Collinearity Statistics | |
|---|---|---|
| | Tolerance | VIF |
| AUDTF | 0.526 | 1.90 |

| | | |
|---|---|---|
| AUDSZ | 0.618 | 1.62 |
| AUDIN | 0.867 | 1.15 |
| FMAGE | 0.879 | 1.14 |
| FMGRH | 0.996 | 1.00 |
| *Mean VIF* | | 1.36 |

**Source: Author Computation 2024**

Note: AUDTF= Audit Fee; AUDSZ= Auditor Size; AUDIN= Auditor Independence; FMGRH= Firm Growth; FMAGE= Firm Age

### 4.3 Regression Results

For 40 companies listed on the NSE, the study uses the statistical method of linear regression analysis to examine the relationships that emerge between a specific dependent variable and a set of three independent variables, including audit fee, auditor size, and auditor independence, as well as the two control variables, firm growth and firm age. The examination of the linear regression model's results is shown in Table 4.4 below.

**Table 4.4: The Relationship between Return on Asset and Audit Quality**

| ROA | Coef. | Std. Err. | t-value | P> [t] | VIF | 1/VIF |
|---|---|---|---|---|---|---|
| AUD_TF | 0.000 | 0.000 | 1.12 | 0.263 | 1.90 | 0.526 |
| AUD_SZ | 0.014 | 0.007 | 2.03* | 0.043 | 1.62 | 0.618 |
| AUD_IN | 0.023 | 0.003 | 8.14*** | 0.000 | 1.15 | 0.867 |
| FMGRH | -0.038 | 0.016 | -2.42** | 0.016 | 1.00 | 0.867 |
| FMAGE | -0.000 | 0.000 | -1.95* | 0.052 | 1.14 | 0.879 |
| CONS | 0.014 | 0.008 | 1.82* | 0.070 | | |
| F (5,750) | | | | 32.57 | | |
| Prob > F | | | | 0.000 | | |
| $R^2$ | | | | 0.178 | | |
| Adj $R^2$ | | | | 0.173 | | |
| Linktest (Hatsq) | | | | 0.539 | | |
| Ovtest (F) | | | | 1.91 | | |
| Prob > F | | | | 0.126 | | |
| *Mean VIF* | | | | | 1.36 | |
| Number of Obs | 506 | 506 | 506 | 506 | 506 | 506 |

**Source: Author Computation 2024**

Note: ROA= Return on Asset;

AUDTF= Audit Fee;

AUDSZ= Auditor Size;

AUDIN= Auditor Independence;

FMGRH= Firm Growth;

FMAGE= Firm Age

Table 4.4 reveals that the regression model's $R^2$ value is 0.178. This further shows that 17.84% of the variation in financial performance as determined by ROA can be explained by the model. Nonetheless, this is thought to be a good outcome. The results demonstrate that the model is statistically significant (P<0.01), indicating the model's strength. Overall, Table 4.4 results showed that the four research factors were statistically significant when paired with the financial success predictor variable (as determined by ROA).

### 4.4 Discussion of Findings

The data in table 4.4 indicates that the AUDTF and ROA exhibit a positive albeit statistically insignificant correlation. Table 4.4 demonstrates this with a regression coefficient of 0.263 and a p-value of β>0.000, respectively. This indicates that AUDTF is favourably and statistically insignificantly correlated with ROA. This positive number indicates that a reduction in the fees paid to auditors for audit services may lead to an enhancement in the financial performance of listed companies in Nigeria. The result parallels findings from Moutinho's (2012) study on the impact of audit costs on corporate performance. They identified a positively and statistically insignificant correlation between audit fees and return on assets (ROA). The impact of auditor independence on the financial performance of listed manufacturing enterprises in Nigeria is seen in Table 4.4, which presents a regression coefficient of 0.263 and a p-value of β>0.000. AUDIN and ROA have a positive and statistically significant correlation, as demonstrated in Table 4.4. This corroborates the findings of Farouk and Hassan (2014). Furthermore, it was shown that FMGRH and FMAGE exhibited a negative and statistically significant correlation with ROA. This indicates that there is no significant association between FMGRH and FMAGE and the financial performance of Nigerian listed manufacturing firms. The size of auditors (AUDSZ) exhibits a statistically significant and positive correlation with the return on assets (ROA) of listed manufacturing firms in Nigeria, evidenced by a regression coefficient of 0.043 and a p-value of β>0.014. This clearly demonstrates that AUDSZ is positively and statistically significantly associated with ROA at the 1% significance level. The positive value indicates that an increase in the proportion of auditing conducted by major auditing firms would correspondingly elevate financial performance (ROA). This aligns with the conclusions of Farouk and Hassan (2014).

## 5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

The study looked at how the performance of Nigerian listed manufacturing companies was affected by the audit quality. It focuses on the relationship between the audit fees and the performance of the firm, the effect of the auditor's independence on the financial performance of Nigerian listed manufacturing companies, and the effect of the auditor's size on that association. In section two, the study expounded pertinent concepts. These concepts included audit quality and financial performance. The theoretical component of the study as well as relevant empirical investigations were reviewed. The Agency theory was the central theory of the investigation. The study's goal was accomplished through the utilization of secondary data. The study's population consisted of 105 listed manufacturing companies. Based on easily accessible data, the study used a purposive sample technique to choose 40 listed manufacturing companies in Nigeria. Data were collected for the period 2012-2022, these were obtained from the annual reports of selected listed manufacturing firms. The collected data were analyzed using the multiple regression and descriptive statistics such as mean, median and standard deviation.

The study revealed the following findings: Two of the examined variables, auditor size and auditor independence, were shown to be positively and significantly correlated with financial success as determined by return on asset (ROA), according to the results of the balanced panel data analysis. The additional variable according to ROA, AUDTF is positively and marginally significant. Our results are consistent with agency theory, which holds that a company's financial performance improves with the number of big audit companies performing its audit functions. Because big auditors have a reputation to uphold, it may be practically challenging to persuade them to make decisions that are contrary to accepted auditing standards.

### 5.2 Conclusion

The financial performance and auditor independence were found to be positively correlated. This means that the level of audit services increased in proportion to the amount paid in audit fees, and it also resulted to increased monitoring and commitment from the auditors. Ultimately, this lessened the likelihood that a business would experience losses due to excessive spending by management or a failure to follow accounting standards. Audit fees did not, in any way, compromise the objectivity of the auditor, which was typically perceived as a factor that reduced the auditor's willingness to challenge management's attempts to fully exploit information abnormalities in the agent-principal relationship. Nevertheless, the results also implied that paying auditors for audit services demonstrated to them a strong sense of dedication and a will to ensure that the firm got the best value for its money by providing the best audit service available.

### 5.3 Recommendations

Based on the findings of the study, the following recommendations were made by the study: By paying the audit firm more audit fees, management of Nigerian listed manufacturing companies could enhance the financial performance and audit independence of their firms. Although this move might first appear to be a reduction in profits, the company would benefit from it in a way that greatly exceeded the expense. Given that the large audit firms' morality and ethics were unquestionable, it was advised that the management of listed manufacturing companies engage their services.

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