



Effect of Audit Quality on Market Value of Quoted Industrial Goods' Firms in Nigeria

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Abstract

Research Purpose: In the context of industrial goods firms, this study explores the effect of audit quality on market value in Nigeria. Given the importance of transparent financial reporting, understanding how audit quality influences earnings per share is crucial for stakeholders.

Methodology: The study employs an ex-post facto research design, analysing data from annual reports published by the Central Bank of Nigeria. Descriptive statistics and panel least square regression models were used to assess the impact of auditor independence, audit committees, and audit fees on earnings per share.

Findings: The results indicate that auditor independence and audit committee presence do not significantly affect earnings per share. Similarly, audit fees show no significant impact on earnings per share.

Conclusion: Audit quality, measured through auditor independence, audit committees, and audit fees, did not significantly influence the financial performance of listed industrial goods firms in Nigeria during the study period. However, auditor independence and audit committees are essential for high-quality audit reports, indirectly supporting financial performance.

Recommendations: To enhance financial performance, firms should increase auditor independence through improved internal controls and integrity tests. Utilising auditor experience effectively will further promote audit quality and, consequently, firm performance.

Key words: *Audit committee, Earnings per share, Auditors independence.*



1.0 INTRODUCTION

Audit quality is fundamental to an effective and efficient financial reporting systems. External audits provide confidence to investors in the quality of financial reports and improve trust in corporate reporting. The objective of external auditing is to provide reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, enabling the auditors to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, report and communicate auditor's findings in accordance with generally accepted accounting practice and standards. External audit is expected to however play a significant and critical role in enhancing and/or achieving high quality financial reporting among companies. No doubt, financial reporting and audit quality has remained crucial to various aspects of regulatory and supervisory thrusts overtime. The quality of audited financial information is important not only to a number of people, but to organisations, governments and regulators (Odjaremu & Jeroh, 2019; Ivungu, Anande & Ogirah 2019). The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. Auditors need to be independent in the opinions they express, while the work they have to do to form their opinions is highly dependent on, and the real world and may become particularly challenging in some national environments.

Auditing and audit procedures generally, are monitoring tools that serve the purpose of helping to decrease information asymmetry thereby safeguarding the welfare of diverse stakeholders by ensuring that companies' financial statements are free from substantial misstatements. The belief of stakeholders therefore is that auditors have a fiduciary role of significantly contributing to both financial reporting and financial performance as it stands to lower the risk of severe misleading statements by guaranteeing that financial statements are prepared in accordance with established norms, regulations and standards. No doubt, having financial reports with high quality is of immense benefit in several ways. For instance, when the risk of misstatements is low, it boosts confidence in capital markets and lowers the cost of finance for businesses (Ugwunta, Ugwuanyi & Ngwa 2018). Not only that, financial statements' users require accurate financial data otherwise, making informed



judgement and investment choices would seriously be marred. Also, when an institution's financiers have faith and trust in the financial reports presented by management, the tendencies of possibly investing more funds in such organisations is higher.

Suffice it to say that high quality financial reporting depends on the role the external audit plays in supporting the audit quality of financial reporting. It is an important part of the regulatory and supervisory infrastructure, and thus an activity of significant public interest. External audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. The statutory audit can reinforce confidence because auditors are expected to provide an objective opinion on the preparation and presentation of financial statements. In the quest to improve audit quality in the financial reports of quoted industrial firms in Nigeria, some variables have been observed, such as auditors independence; audit fee; audit committee; and so on. Various audit quality frames for high quality financial reporting as embedded in the beauty of the auditor and professional care of the auditor have increased the quality of financial reports in Nigerian industrial firms.

Over the last decades, the quality of audit reports has gained considerable momentum around the world because of the fall of Arthur Andersen in 2002, following its involvement in the Enron scandal. This is sequel to the fact auditors are required to show a high standard in their audited financial reporting as well as act as whistleblowers in any fraud committed by their client firms. The combined effect of transparent and comparable financial reporting will drive down information asymmetry; improve the audit quality of quoted industrial goods' firms in Nigeria (Chukwu, 2015). Therefore, the questionable role of auditors in enhancing the quality, reliability, and credibility of financial performance and firm value has been controversial. This is because auditor's independence from their clients can be tampered with through poor regulation and supervision of the auditing practice, provision of non-audit services to the client, auditor's personal interest in the client's business among others. Basically, the quality of reported earnings and the ability of audit quality to effectively constrain earnings misrepresentation and financial statement manipulations of companies across the world and Nigeria in particular,



have become considerably questionable due to recent corporate accounting scandals (Badawi, 2008; Enofe, 2010). The study therefore examined the Audit Quality and Market Value of Quoted Industrial Goods' Firms in Nigeria.

1.2 Statement of Problem

The needs for trustworthy and reliable financial statements are imperative for making sustainable decisions in corporate organisations. This is because both current and potential investors, government and all other stakeholders rely on the financial statements for investment decisions and any other contractual relationship with the reporting entity. However, these financial statements are prepared by management and presented to the entire users for their varying needs. The authenticity and reliability of these financial statements is always doubtful and questionable, hence management may manipulate the reports for their personal interests. With regards to lack of confidence in the reported financial statements, the demand for the services of an external auditor becomes necessary to monitor, prevent, detect, and report fraud and other illegal acts and errors if found in the financial reports.

The poor audit reports from companies have made attraction of quality and sustainable foreign investments in Nigeria elusive. Studies have shown that the confidence of users of financial statements has been increasingly destroyed by the poor quality of audit reports presented in the financial statements issued in Nigeria (Enekwe, Onyekwelu, Nwoha, & Okwo 2016). The spate of audit failure in the world, especially in Nigeria, has brought great disappointment to the user of financial reports. The bane of the problem has been linked to long term of audit firm tenure which has also been linked with creative accounting. In Nigeria's audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical study beyond mere anecdotal opinions (Mgbame, Eragbhe, & Osazuwa 2012).

There have been concerns about audit quality in the present environment, where severe failures have come to light, for example; Enron scandal of 2001; Parma in 2003; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009; Intercontinental Bank Plc in 2009 and Skye Bank Plc in 2018 (Badawi, 2008; Enofe, 2010). Low-quality financial reporting has also been a contributing factor in many high-profile corporate scandals, leading stakeholders in many countries to demand higher quality corporate governance (Amahalu, Egolum & Obi, 2019). The acknowledged failure of the audit



process to capture financial misstatements has provoked the ostensible outburst of interest and attention in general financial reporting. The perceived failure of the audit to fully alert equity and other claimants concerning misrepresentations has made investors helpless and inept to undertake rational financial decisions affecting entities generally. This therefore necessitated the need to examine the Audit Quality and Market Value of Quoted Industrial Goods' Firms in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

The starting point in defining audit quality that is cited by most audit researchers is that of DeAngelo (1981) who defines audit quality as the market-assessed joint probability that an auditor will discover a breach in the client's accounting system and be able to report the breach. The definition emphasises two important aspects of audit quality viz: the professional competence of the auditor firm that determines the likelihood of detecting misstatement and the independence and objectivity of the auditor that determines the decision about a detected misstatement. Audit quality, in this context, is perceived as a function of both auditor competence and auditor independence. That is, discovering misstatements and reporting them. The most well-known definition of audit quality, which has been broadly accepted by scholars, is the one by DeAngelo (1981) which states that the quality of audit services is defined to be the market-assessed joint probability that a given auditor will both discover a breach in the client's accounting system and report the breach. This definition broadly means that audit quality depends on the probability that the auditor discovers a misstatement in a financial statement and actually reports the misstatement. Many researchers and authors have written about the dimension of audit quality. According to DeAngelo (1981) audit quality dimension or proxy accrual quality, discretionary accruals, accounting reinstatement, audit reinstatement, going concern report.

By definition, audit quality explains the market-estimated joint likelihood that a specific auditor would detect and report violations in customers' accounting systems (Hua, Hla, & Isa, 2016). Audit quality can be gauged by assessing the extent in which auditors can ascertain the correctness of the information delivered to investors by companies' management. It can also be measured by the extent to which auditors are able to detect and eradicate earnings manipulations and window dressed indicators in financial statements of companies.



Auditor's Independence

Harrison (2015) defines audit independence as the independence of the auditor in executing his duties. It is characterised by integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner.

Okolie and Izedonmi (2014) see Audit Independence as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting. They describe independence as the quality of being free from influence, persuasion or bias because in the absence of independence, the value of the audit service will be greatly impaired. If an auditor lacks independence, it will increase the possibility of being perceived as not being objective in his opinion or report. This means that the auditor will not likely report a discovered breach.

Audit Committee

Smii (2016) describes the audit committee as one of the controllable mechanisms put in place to ensure the relevance and consistency of the accounting policies adopted for the preparation of the financial statements for the organisations. The researcher adds that the presence of an audit committee within the firm will help improve the transparency of the information disclosure and limit the degree of the manager's involvement in the process of the management result.

Ilaboya (2012) defines an audit committee as the governance body that is charged with oversight of the organisation's audit and control functions. The researcher adds that it is a committee of the board of directors whose sole aim typically focuses on aspects of financial reporting on the entity's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical and regulatory requirements.

Audit Fee

Smii (2016) says an audit fee is audit remuneration received by the auditors in discharge of their duties for the company or client. The researcher continues that the audit remuneration received by the auditor will determine the quality of service that will be provided by auditors in the discharge of their duties in the company.



Enofe, et al (2012) argue that an audit fee is the amount of money received by an audit firm in carrying out audit assignments. The normal or expected rate of change in the audit fee reflects objective factors such as firm size, the complexity of the audit issues affecting the items appearing on the firm's profit and loss account and its financial statement as well as the changes that have occurred in the institutional and accounting framework since the audit was last conducted.

Market Value

Lin and Wang (2017) reported that market value is the price at which an asset would trade in a competitive market. It is the price an asset would fetch in the market price or the value that the investment community gives to a particular equity or business. Miettinen (2011) noted that market value is total share outstanding multiplied by the current price per share. Market value is commonly used to refer to the market capitalization of publicly traded companies. A company's market value is a good indicator of investors' perceptions about its business prospects. Market value gives an indication of whether a company's shares are over or undervalued depending on the difference because of market value and fair value. Market value is the value of an asset/security as determined by the forces of demand for and supply of the assets. It is the perceived or observed value of an asset on the market. It is also known as current value. It is in fact the mutually accepted worth (cost or price depending on the individual) of the asset after negotiation. Most assets that have market values have their values determined by specialised markets such as the stock exchange. The acceptance of any asset depends on the perception of the potential investor after comparing the market value to the intrinsic value. An asset is undervalued or under-priced or favourably priced if the market value of the asset is less than the intrinsic value. If the intrinsic value of the asset is less than the market value, then the asset is overvalued, over-priced or favourably priced. Where the latter occurs, the investor would ordinarily be acquiring an asset at more expensive value than he would ordinarily have paid. An investor would acquire an overpriced asset if he expects the asset to record a bullish price movement such that if the anticipated price movement crystallises, the investor can make capital gain.

Earnings per share (EPS): is the portion of a company's profit allocated to each share of common stock. It serves as an indicator of a company's profitability. The financial and income statements are used to find the weighted average number of common



shares, dividends paid on preferred stock (if any), and the net income or earnings. Mathematically; it can be calculated as:

$$EPS = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Common Shares}}$$

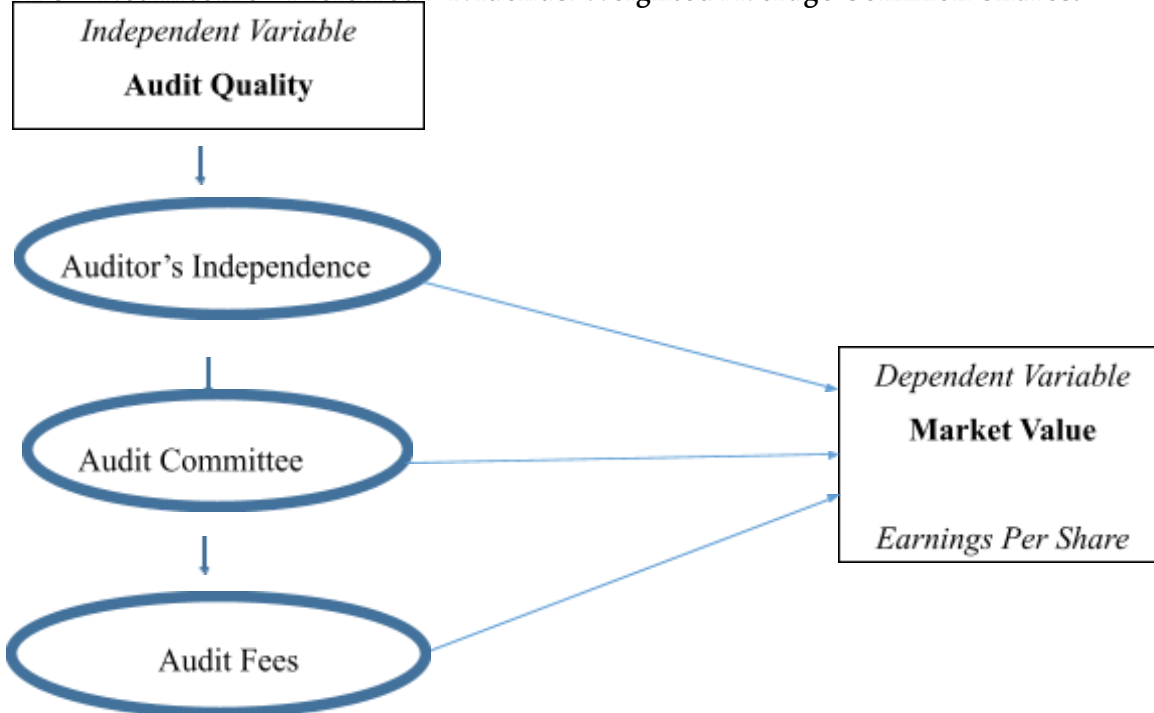


Figure 2.1: Conceptual Framework

Source: Author's Conceptualization, 2023.

Theoretical Framework

Auditors' Theory of Inspired Confidence

Developed in the Netherlands by the Limperg Institute in 1985, the theory of inspired confidence recognises the auditor as a confidential agent who derives his function from the need for expert and independent examination as well as the need for an expert judgement supported by the audit work. This theory offers a connection between the users' needs for reliable financial reports and the ability of the audit work to meet those needs. Thus, auditors are required to know that the public expects a low rate of audit failure. Therefore, auditors are required to plan and perform their audit in a manner that will reduce to the barest minimum the risk of undetected material misstatements. The auditor is under obligation to conduct his work in a manner that does not betray his confidence (Limperg Institute, 1985).



The main importance of this theory is that the duties and responsibilities of the auditors are derived from the confidence and trust that the public bestowed on the success of the audit and the assurance given by the auditor. According to Carmichael (2004), the confidence that the society has in audited financial statements is misplaced when the audit process fails to address the societal expectations giving rise to a loss in the value relevance of even the audit.

Empirical Studies

Enekwe, Nwoha and Udeh (2020) examined the effect of audit quality on financial performance of listed manufacturing firms in Nigeria from 2006-2016. Ex- post facto research design was adopted for the study. Ordinary Least Square method of regression was employed in the analysis of data. The study revealed that auditor's independence has a positive and significant effect on financial performance of listed manufacturing firms, among others. It was concluded that attributes of audit quality influence financial performance of manufacturing firms in Nigeria.

Ezejiofor and Erhirhie (2018) investigated the effect of audit quality on the financial performance of deposit money banks in Nigeria. The study adopted ex post facto research design, data for the study were collected from annual reports and accounts of quoted Nigerian deposit money banks. Regression analysis and coefficient correlation were employed to test the formulated hypotheses. Findings revealed that there is a significant effect between audit quality and financial performance of Nigerian deposit money banks.

Tyokoso, U-ungwa and Ojonimi (2017) examined the effect of audit quality, represented by audit firm size, auditor tenure, client importance and auditor specialisation on the performance, represented by Tobin's Q, of listed Deposit Money Banks (DMBs) in Nigeria. Secondary data extracted from annual report and accounts of 8 DMBs was analysed using panel multiple regression technique. Result of the Hausman specification test suggests that the Ordinary Least Square (OLS) regression result was most appropriate for the dataset. The regression result indicates that auditor tenure has a significant positive effect on Tobin's Q of DMBs in Nigeria. In contrast, client importance has a significant negative relationship with Tobin's Q while audit firm size and auditor specialisation respectively have insignificant positive and negative effect on Tobin's Q of DMBs in Nigeria.



Eneisik & Nmecha (2021) focused on Audit Quality and Market Value of Quoted Banks in Nigeria. Hypotheses were tested using panel least squares regression through pooled effect, fixed effect and random effect determined by Hausman test, fixed effect was accepted, with the aid of E-views 10 econometric statistical software. Findings show that audit fees have a negative and insignificant impact on market price per shares. Empirical evidence indicates that audit tenure had a negative and significant impact on market price per shares. Empirical evidence suggests that audit firm size had a negative and insignificant impact on market price per shares. The study concludes that audit quality improved market value of quoted banks in Nigeria.

Ugwunta and Ugwuanyi (2018) examined the effect of audit quality on share prices of Nigerian oil and gas firms using the regression and covariance analyses. Findings from the regression analysis suggest that the composition of the audit committee and auditor type has significant effect on the market prices of quoted firms. There is a positive and significant relationship between audit committee composition and share prices. The covariance analysis suggests that while auditor type (BIG4/NONBIG4), auditor independence, and composition of the audit committee have a positive and significant relationship with market price of shares, tenure of external auditors has a negative relationship with the market price of shares.

Wijaya (2019) examines the effect of audit quality on firm value in manufacturing companies listed on the Indonesian Stock Exchange in 2013 to 2017. Population of the study is all manufacturing companies listed on the Indonesian Stock Exchange. Sampling was carried out using a purposive sampling method. Research data were tested using multiple regression analysis. Findings: The results from this study show that audit quality has a positive effect on firm value in manufacturing companies on the Indonesian Stock Exchange. Practical Implications: The Indonesian capital market gives a positive appreciation to companies that have higher quality audits. Higher audit quality is expected to reduce agency costs, reduce information asymmetry and increase firm value.

Abba and Sadah (2020) examined the impact of audit quality on firm value of listed deposit money banks in Nigeria. The study adopted correlational research design. The study employed pool multiple regression as a technique of data analysis. The result shows that industry specialist auditors have a significant positive influence on the firm value of listed deposit money banks in Nigeria. Audit size has no significant



influence on the firm value of the banks. This finding implies that the more deposit money banks in Nigeria are audited by industry specialist auditors the higher the firm value of the banks. Therefore, the study concluded that industry specialist auditors have better understanding of the complexity in the banking industry thereby improving the firm value by providing quality audit service.

Cheng, Chen and Chen (2018) examined the association between auditor size and performance. Empirical data of the study were obtained from the 1989–2006 census report of audit firms in Taiwan. In terms of market segment, audit firms were divided into public company audit market firms (PCAMFs) and non-public company audit market firms (NCAMFs). Based on path analysis, the study found that auditor size has direct effect on performance and indirect effect through auditor quality. Auditor quality associates with both auditor size and performance positively. Furthermore, auditor size has more contribution to performance of PCAMFs than that of NCAMFs. Auditor quality of PCAMFs explained more variation of financial performance than do NCAMFs. The results indicated that PCAMFs earned more financial performance through the upgrade of auditor quality.

Sayyar, Basiruddin, Abdul-Rasid and Elhabib (2018) examined the impact of audit quality on firm performance for Malaysian listed companies for the period of 2003 to 2016 using Pearson correlation and pooled regression analysis. The study used audit fees and audit firm rotation as proxies for audit quality. Return on assets and Tobin's q were used as measures for firm performance. The study found that there is an insignificant relationship between audit quality proxies (audit fees and audit firm rotation) and ROA. The study also found that an audit fee is significantly and positively related to Tobin's Q. However, audit firm rotation is insignificantly related to Tobin's Q.

Türel, Taş, Genç and Özden (2017) examined the association between audit firm tenure and audit quality in Turkey between 2009-2016. The study used three measures to proxy audit quality such as propensity to issue modified audit reports and discretionary accruals determined by two models. It was found that audit quality does not increase with limited audit firm tenure. Given the additional costs associated with the audit switch, it was concluded that there are minimal benefits of mandatory firm rotation. The results of the study will be useful for the regulators who are in charge to improve the audit quality.



Table 2.1: Summary of Empirical Review

S/ N	Author(s))	Year	Area of the Study	Topic	Methodology	Result
1	Tyokoso, U-ungwa and Ojonimi	2017	Nigeria	Effect of audit quality, represented by audit firm size, auditor tenure, client importance and auditor specialisation on the performance, represented by Tobin's Q, of listed Deposit Money Banks (DMBs) in Nigeria.	Ordinary Least Square	The regression result indicates that auditor tenure has significant positive effect on Tobin's Q of DMBs in Nigeria
Table 2.1 Contd.						
2	Türel, Taş, Genç and Özden	2017	Turkey	The association between audit firm tenure and audit quality in Turkey between 2009-2016.	Regression Analysis	It was found that that audit quality does not increase with limited audit firm tenure



3	Sayyar, Basirudd in, Abdul-Rasid and Elhabib	2018	Malaysia	Impact of audit quality on firm performance for Malaysian listed companies for the period of 2003 to 2016	Pearson correlation and pooled regression analysis	The study found that there is insignificant relationship between audit quality proxies (audit fees and audit firm rotation) and ROA
4	Cheng, Chen and Chen	2018	Taiwan	The association between auditor size and performance. Empirical data of the study were obtained from the 1989–2006	Regression Analyses	The study found that auditor size has direct effect on performance and indirect effect through auditor quality. Auditor quality associates with both auditor size and performance positively
5	Ezejiofor and Erhirhie	2018	Nigeria	Effect of audit quality on the financial performance of deposit money banks in Nigeria.	Regression analysis and coefficient correlation	Findings revealed that there is a significant effect between audit quality and financial performance of Nigerian deposit money banks.
6	Ugwunta and	2018	Nigeria	Effect of audit quality on	Regression Analysis	There is a positive and significant



	Ugwuanyi			share prices of Nigerian oil and gas firms using the regression and covariance analyses.		relationship between audit committee composition and share prices.
7	Wijaya	2020	South –South Nigeria	Effect of audit quality on firm value in manufacturing companies listed on the Indonesian Stock Exchange in 2013 to 2017	Regression and Duncan multiple coefficient	The study further revealed that there was a significant difference and the analysis detail that rivers state recorded the highest social and rural communal conflict, delta state
8	Enekwe, Nwoha and Udeh	2020	Nigeria	Effect of audit quality on financial performance of listed manufacturing firms in Nigeria from 2006-2016	Ordinary Least Square method of regression	The study revealed that auditor's independence has a positive and significant effect on financial performance of listed manufacturing firms, among others.
9	Abba and Sadah	2020	Nigeria	Impact of audit quality on firm value of listed	Multiple regression	The result shows that industry specialised auditors have a significant positive



				deposit money banks in Nigeria.		influence on the firm value of listed deposit money banks in Nigeria. Audit size has no significant influence on firm value of the banks
10	Eneisik & Nmecha	2021	Nigeria	Audit Quality and Market Value of Quoted Banks in Nigeria.	Ordinary Least squares regression	Findings show that audit fees have a negative and insignificant impact on market price per shares.

Source: Author's Compilation, 2023

2.4 Gap in Empirical Review

From the empirical studies reviewed, it can be noted that studies were conducted in the area of Audit Quality and financial performance of firms in Nigeria and other countries using Return on Asset (ROA) as a measure for firm performance. Only few studies employed audit committee size, auditors' independence and audit fee as a measure of the audit quality, equally, the previous studies failed to examine the Audit Quality and Market Value of Quoted Industrial Good Firms in Nigeria, the present study filled the gap.

3.0 METHODOLOGY

The research adopted an *Ex-post facto* design. This is considered appropriate since it dealt with data that had already taken place. It relied on historical data from 2012 to 2022. *Ex post facto* design is a quasi-experimental study examining how an independent variable present prior to the study affects a dependent variable.

Area of the Study

The study focused on Audit Quality and Market Value of Quoted Industrial Goods' Firms in Nigeria. The industrial sector is one of the most active sectors of the Nigerian economy. The sector is one major driver of the economy and it occupies a strategic



position in the Nigerian economy. This sector is made up of many listed companies in the Nigerian Exchange Group (NGX).

Sources of Data

Data was sourced from secondary sources. The justification for the use of secondary data in this research is that; it is available in the annual reports and accounts of the companies which is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem.

Population of the Study

The population of this study is 32 (thirty-two) firms in the industrial goods sector of the Nigerian Economy as at 2022. The sample size consists of only companies in the industrial goods sector. The choice of this sub-sector was due to the fact that the country has high labour in the manufacturing sector.

Sample Size Determination

The sample size were five selected firms in the industrial goods sector in Nigeria which were considered for the purpose of this study based on the availability of data from the year 2012 to the 2022. The selected companies include: Lafarge Africa West Africa, Beta Glass Plc, Dangote Flour Plc, DanCement Plc as well as Cadbury Nigeria Plc. Purposive sampling technique was used in selecting the firms for investigation. All the selected firms were purposely chosen based on the availability of data and adequacy of data as the researcher intended at using listed firms on the Nigerian Exchange Group.

Description of the Variables

Variable Acronym	Variable Name	Variable Type	Measurement
EPS	Earnings per share	Dependent	EPS_{it} : Net Income after tax and preference divided by the number of shares in issue for firm i in year t .



AUDIND	Auditor's Independence	Independen t	Ratio of non-executive directors in audit committee to total members
AUDCOM	Audit Committee	Independen t	Total number of Audit Committee members/directors
AUDFEE	Audit Fee	Independen t	Audit Fee (measured by Natural logarithm of audit fees)

Specification of Model

The specification of a model is based on the available information relevant to the study in question. The study adopted Ordinary Least Square Regression (OLS).

The functional form of the model can be specified as follows;

$$EPS = f(AUDIND, AUDCOM, AUDFEE)$$

The econometric form is;

$$EPS = \beta_0 + \beta_1 AUDIND + \beta_2 AUDCOM + \beta_3 AUDFEE + U_i, \dots \dots \dots$$

Where

EPS : Net Income after tax and preference divided by the number of shares in issue for firm *i* in year *t*.

AUDIND : Audit Independent

AUDCOM : Audit Committee Size

AUDIFEE : Audit Fee

Method of Data Procedure

In view of the important nature of the study, an econometric equation was formulated on the basis of which the relationship between the variables (dependent and independent) was determined. The regression of the independent variables of wages and salaries, bonuses and gratuity, fringe benefits were estimated using the Multiple Regression method due to its characteristics of being the best linear unbiased estimator (Katsoyiannis, 2006).

Decision Rule:

- I. Reject H_0 if the P-Value $cal < 0.05$ at 5% level of significance.



2. Otherwise, accept the null hypothesis (H_0).

4.0 DATA PRESENTATION AND ANALYSIS

Descriptive Statistics for firms in Industrial Goods Sector

	EPS	AUDIND	AUDCOM	AUDIFEE
Mean	178.5877	7.505923	4.317692	122.4402
Median	59.00500	7.299000	4.110000	6.951500
Maximum	1343.000	8.939000	6.410000	6023.000
Minimum	1.870000	5.962000	3.010000	4.578000
Std. Dev.	275.4509	0.839291	1.217945	834.3052
Skewness	2.213323	-0.090167	0.759859	7.001388
Kurtosis	8.018428	2.171427	2.258421	50.01949
Jarque-Bera	97.02294	1.557951	6.195539	5214.972
Probability	0.000000	0.458876	0.045150	0.000000
Sum	9286.560	390.3080	224.5200	6366.892
Sum Sq. Dev.	3869534.	35.92486	75.65292	35499325
Observations	52	52	52	52

Source: Author's Computation from Eviews 10.0 Statistical Software

Table 4.1 reveals the variable description of the 52 observations of the panel data for sampled firms in the Industrial Goods sector in Nigeria. From the table, the industry's minimums include Earnings Per Share (1.870000), Audit Independent (5.962000), Audit Committee Size (3.010000), and Audit Fee (4.578000). However, the industry's maximum includes Earnings Per Share (1343.000), Audit Independent (8.939000), Audit Committee Size (6.410000), and Audit Fee (6023.000). The industry means for the variables studied are Earnings Per Share (178.5877), Audit Independent (7.505923), Audit Committee Size (4.317692), and Audit Fee (122.4402).



The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 4.1, the probability of the Jarque-Bera Statistics for Audit Independent have an insignificant p-value as follows; Audit Independent (0.458876). The insignificant p-values depict that the variable is normally distributed. This was further confirmed by the skewness coefficients which are not greater than one with the following outcomes Audit Committee Size (0.045150), Audit Fee (0.000000).

Table 4.2: Pearson Correlation Matrix Results

	EPS	AUDIND	AUDCOM	AUDIFEE
		0.33760431098345	-0.3754803833802	-0.0901978965337
EPS	1	93	281	5179
		0.33760431098345	-0.5452347396613	-0.0853733188984
AUDIND	93	1	711	4715
		-0.3754803833802	-0.5452347396613	0.0240274366021
AUDCOM	281	711	1	0072
		-0.0901978965337	-0.0853733188984	0.0240274366021
AUDIFEE	5179	4715	0072	1

Source: Author's Computation from EViews 10.0 Statistical Software

The use of a correlation matrix in most regression analyses is to check for multicollinearity and to explore the association between each explanatory variable (AUDIND, AUDCOM, and AUDFEE) and the dependent variable (EPS). Table 4.2 focused on the correlation between Earnings per Share and the independent variables (AUDIND, AUDCOM, and AUDFEE). The finding from the correlation matrix table shows that most of our independent variables, (AUDIND = 0.3376043109834593; AUDCOM = -0.3754803833802281, AUDFEE = -0.09019789653375179 were observed to be positively associated with Earnings Per Share.

Table 4.3: Regression Result for firms in Industrial Goods Sector

Dependent Variable: EPS

Method: Panel Least Squares

Date: 09/06/23 Time: 12:07



Sample: 2012 2022

Periods included: 11

Cross-sections included: 5

Total panel (unbalanced) observations: 52

Variable	Coefficient		t-Statistic	Prob.
	t	Std. Error		
AUDIND	59.76228	51.65300	1.156996	0.2530
AUDCOM	-62.09488	35.47456	-1.750406	0.0864
AUDIFEE	-0.022469	0.043571	-0.515679	0.6084
C	0.874247	490.1603	0.001784	0.9986
R-squared	0.170706	Mean dependent var	178.5877	
Adjusted R-squared	0.118876	S.D. dependent var	275.4509	
S.E. of regression	258.5609	Akaike info criterion	14.02194	
Sum squared resid	3208980.	Schwarz criterion	14.17204	
		Hannan-Quinn		
Log likelihood	-360.5705	criter.	14.07949	
F-statistic	3.293530	Durbin-Watson stat	1.071518	
Prob(F-statistic)	0.028297			



Source: Author's Computation from EViews 10.0 Statistical Software

Regression coefficient

$$EPS_{it} = 0.874247 + 59.76228 - 62.09488 + - 0.022469$$

Interpretation of Regression Coefficient

Table 4.3 shows the coefficient of regression result for the firms in the industrial goods sector. The coefficient of Earnings Per Share is positive for Audit Independent, while it is negative for Audit Committee Size and Audit Fee. It indicates that a unit/one naira change in the explanatory variable of Audit Independent will yield an increase of 59.76228. On the other hand, a unit/one naira change in the explanatory variables of Audit Quality as explained by Audit Committee Size and Audit Fee will yield a decrease of 62.09488 and 0.022469 in EPS in the Industrial Goods sector.

In table 4.3, R-squared and its adjusted R-squared values were (0.170706) and (0.118876) respectively. This is an indication that all the independent variables jointly explain about 17% of the systematic variations in Earnings Per Share (EPS) of firms in the industrial goods sector over the ten years (2012-2022) while 83% of the systematic variations are captured by the error term.

4.2.2 Test of Hypotheses

Test of Hypotheses Formulated for Firms in the Industrial Goods Sector

In order to examine the effect of the dependent variable EPS and the independent variables (AUDIND, AUDCOM, and AUDFEE) and to also test the formulated hypotheses given, the study used multiple regression analysis. The result of the regression analysis is presented in table 4.3 and is interpreted above.

Decision Rule:

3. Reject H_0 if the P-Value $\text{cal} < 0.05$ at 5% level of significance.
4. Otherwise, accept the null hypothesis (H_0).

4.2.2.1 Hypothesis One:

H_0 : Auditor's Independence (AUDIND) has no significant effect on the Earnings per share of industrial goods firms in Nigeria.



Hi: Auditor's Independence (AUDIND) has a significant effect on the Earnings per share of industrial goods firms in Nigeria.

Decision: From the panel regression analysis in Table 4.3, based on the t-value of 1.156996 and P-value of 0.2530, in table 4.3 was found to Auditor's Independence have a positive influence on the industrial goods sector's Earnings per Share (EPS) and this influence is statistically insignificant at 5% level of significance as the P-value is not within 5% significance level. This result, therefore, suggests that we should accept our alternate hypothesis one (H_1) which states Auditor's Independence (AUDIND) has no significant effect on the Earnings per share of industrial goods firms in Nigeria.

4.2.3.2 Hypothesis Two:

Ho: Audit Committee (AUDCOM) does not have a significant effect on Earnings per share of industrial goods firms in Nigeria.

Hi: Audit Committee (AUDCOM) does have a significant effect on Earnings per share of industrial goods firms in Nigeria.

Decision: From the panel regression analysis in Table 4.3, based on the t-value of -1.750406 and P-value of 0.0864, in table 4.3, it was found that Audit Committee have a positive influence on the industrial Goods Sector's Earnings per Share (EPS) and this influence is statistically insignificant at 5% level of significance as the P-value is not within 5% significance level. This result, therefore suggests that we should accept our null hypothesis two (H_{02}) which states Audit Committee (AUDCOM) does not have a significant effect on Earnings per share of industrial goods firms in Nigeria

4.2.2.3 Hypothesis Three:

Ho: Audit Fee (AUDFEE) has no significant effect on Earnings per share of industrial goods firms in Nigeria.

Hi: Audit Fee (AUDFEE) has a significant effect on Earnings per share of industrial goods firms in Nigeria.

Decision: From the panel regression analysis in Table 4.3, based on the t-value of -0.515679 and P-value of 0.6084, in table 4.3, it was found that Audit Fee have a negative influence on the industrial goods sector's Earnings per Share (EPS) and this influence is statistically significant at 5% level of significance as the P-value is not within 5% significance level. This result, therefore, suggests that we should accept our



alternate hypothesis three (H_3) which states Audit Fee (AUDFEE) has no significant effect on Earnings per share of industrial goods firms in Nigeria.

Discussion of Findings

Auditor's Independence (AUDIND) and Earnings per Share

From the test of hypothesis one. It was found that Auditor's Independence (AUDIND) has no significant effect on the Earnings per share of industrial goods firms in Nigeria. This is where the t-value of 1.156996 and P-value of 0.2530. This finding disagrees with the work of Enekwe, Nwoha and Udeh (2020) examined the effect of audit quality on financial performance of listed manufacturing firms in Nigeria from 2006-2016. The study revealed that auditor's independence has a positive and significant effect on financial performance of listed manufacturing firms, among others. It was concluded that attributes of audit quality influence financial performance of manufacturing firms in Nigeria.

Auditor's Independence and Earnings per Share (EPS)

The result of hypothesis two revealed that the Audit Committee (AUDCOM) does not have a significant effect on Earnings per share of industrial goods firms in Nigeria. This is where the t-value = -1.750406 and P-value = 0.0864. The study result is not collaborated by the findings of Ezejiofor and Erhirhie (2018) who investigated the effect of audit quality on the financial performance of deposit money banks in Nigeria. Findings revealed that there is a significant effect between audit quality and financial performance of Nigerian deposit money banks.

Audit Fee (AUDFEE) and Earnings per Share

The result of hypothesis two revealed that Audit Fee (AUDFEE) has no significant effect on Earnings per share of industrial goods firms in Nigeria. This is where the t-value of -0.515679 and P-value of 0.6084. The finding falls in line with the finding of Eneisik & Nmecha (2021) on Audit Quality and Market Value of Quoted Banks in Nigeria. Findings show that audit fees have a negative and insignificant impact on market price per shares. Empirical evidence indicates that audit tenure had a negative and significant impact on market price per shares. The study concludes that audit quality improved market value of quoted banks in Nigeria.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS



The summary of the findings of this study includes the following:

- i. It was found that Auditor's Independence has no significant effect on the Earnings per share of industrial goods firms in Nigeria. This is where the t-value of 1.156996 and P-value of 0.0470.
- ii. The Audit Committee does not have a significant effect on Earnings per share of industrial goods firms in Nigeria. This is where the t-value = -1.750406 and P-value = 0.0864.
- iii. Audit Fee has no significant effect on Earnings per share of industrial goods firms in Nigeria. This is where t-value = -0.515679 and P-value = 0.6084.

Conclusion

The study concluded that Auditor's Independence, Audit Committee and audit fee did not affect significantly the performance of industrial goods firms in Nigeria during the period of study. However, this is sequel to the fact that auditors are required to show a high standard in their audited financial reporting as well as act as whistleblowers in any fraud committed by their client firms. The combined effect of transparent and comparable financial reporting will drive down information asymmetry; improve the audit quality of quoted industrial goods firms in Nigeria

Recommendations

As a result of the findings of this study, the following are recommended.

- i. That auditor's independence should be increased greatly in order to enhance financial performance (EPS) of firms. This is because of the positive and significant influence it exerts on the firm's financial performance. This can be done through improved internal control, integrity tests and adequate utilisation of experiences of the auditor.
- ii. That the shareholders should monitor and control the number of audit committee members appointed in the firm and ensure that those appointed have wealth of experience. Furthermore, members of professional bodies that engage in audit should be people of high integrity in order to maintain the expected quality of audit reports meant for the use of the general public.
- iii. That appropriate policy on audit fees should be instituted by firms to enable them to pay for their audit work timely.



Contribution to Knowledge

The study has established a framework for general assessment of the contributions of audit quality on the market value of firms in Nigeria. Auditor's Independence (AUDIND), Audit Committee (AUDCOM) and Audit Fee (AUDFEE) are closely related to market value as the study affirmed.

Suggestion for Further Study

The study recommend that future researcher should focus on

- i. Audit quality and firm value of listed deposit money banks
- ii. The impact of audit quality on the share prices of quoted companies in Nigeria.
- iii. The effect of audit quality on firm performance

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