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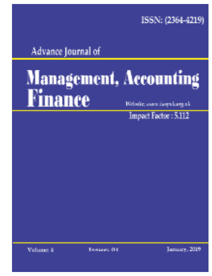

EFFECT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA (2006-2016).

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Abstract: *This study examined the effect of audit quality on financial performance of listed manufacturing firms in Nigeria from 2006-2016. The study specifically investigated the effects of auditor's independence, audit committee and audit fee on return on assets of listed manufacturing firms. Ex- post facto research design was adopted for the study. Stratified purposive sampling technique was used to select 24 firms from the 80 listed manufacturing firms in Nigeria. Secondary data were gathered from the published annual financial statements of the companies. 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.The study recommended, among other things, that auditor's independence should be increased through improved internal control, integrity tests and adequate utilization of auditor's experience in order to enhance financial performance of manufacturing firms.*

1.0 Introduction

Before the global auditing scandal in 2002 by one of the five (5) big audit firms in the world, Arthur Andersen, auditors have been the trust of the users of financial statements. An auditor has a secondary responsibility of preventing, detecting and reporting of fraud and other illegal acts and errors to the stakeholders and the general public. It is widely recognized that auditing is a cornerstone in developing and enhancing the global economy and business firms (Ahmad, Suhara & Ilyas, 2016). In the business environment, auditors are required to provide objective assessments concerning whether companies are managed responsibly and effectively to achieve the intended results or not. The confidence of investors is very important in the successful operation of the world's financial markets, and is one of the most frequently debated areas amongst auditors, politicians, media, regulators and the public (Eshitemi & Omwenga, 2016 & Matoke & Omwenga, 2016).

The trust of auditors in delivering high quality report continued until after the Enron Scandal in 2002 and the collapse of both small and big corporations across the globe which resulted in a heavy debate about audit quality and the factors that might influence the quality of an audit. The audit profession suffered a hit on the basic principles of independence of an audior and audit report presented to the public.

The auditors' opinion is very important in attesting and validating the financial statements prepared by clients'management, and if the quality of the performance of the auditor is not objective, it would mean that the auditor's opinion does not add anything to the credibility and reliability of financial statements. Therefore, an independent audit

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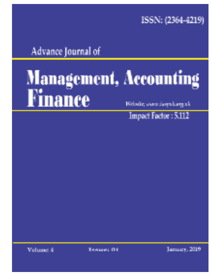


provides reasonable basis for an unbiased assessment of the quality of the information provided in financial statements. Quality of audit reports is a basic requirement to enhance the credibility of financial statements within the stakeholders to reduce investors' risk in the organization (Rezaei & Shabani, 2014 and Olowookere & Adebiyi, 2013).

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 manufacturing 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 beauty fame of auditor and professional care of auditor have increasde the quality of financial reports in Nigerian manufacturing firms.

Over the last decades, quality of audit report 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 whistle blowers 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 manufacturing firms in Nigeria (Chukwu, 2015). The question is, has the auditors' opinion or reports shown high audit quality on financial performance of quoted manufacturing firms in Nigeria?

1.1 Statement of the Problem

The financial crises and collapse of a number of industries which prompted accounting regulators to examine carefully, as never before, the reporting practices and accounting standards have helped in generating pressures that motivated changes in the audit quality reporting in the financial statements in the country. The financial scandals have shown the incapacity of these concepts (auditor's competence and independence) to guarantee audit quality on their own. These have created a revolution in the design and evaluation of the audit quality which needs total reinforcement in order to solve this problem. The need for high quality external audit has become a global concern following corporate scandals involving Enron; World Com; Global Crossing; Cendant; Sunbeam (United States); BCCI; Independent Insurance; Equitable Life; Maxwell (United Kingdom); Metallgesellscheft (Germany); Lever Brothers; African Petroleum; Cadbury; Savanna Bank; Wewa Bank and Intercontinental Bank (Nigeria). The persistent firms' failures all over the world have raised some fundamental issues on the quality of audit, independence of the external auditors, among others. 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). In the light of the above, the major problem of this study is to determine the effect of audit quality (auditor's independence, audit committee, and audit fee) on financial performance of quoted manufacturing firms in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to determine the effect of audit quality on financial performance of listed manufacturing firms in Nigeria.

The specific objectives are:

1. To examine the effect of Auditor's Independence (AUDIND) on Return on Assets (ROA) of listed manufacturing firms in Nigeria.
2. To evaluate the effect of Audit Committee (AUDCOM) on Return on Assets (ROA) of listed manufacturing firms in Nigeria.
3. To determine the effect of Audit Fee (AUDFEE) on Return on Assets (ROA) of listed manufacturing firms in Nigeria.

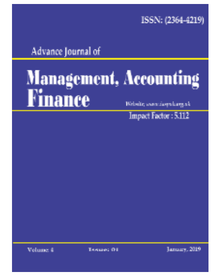
1.4 Research Questions

The following research questions are posed for the study:

a. What is the extent of effect of Auditor's Independence (AUDIND) on Return on Assets (ROA) of listed manufacturing firms in Nigeria?
b. To what extent does Audit Committee (AUDCOM) affect Return on Assets (ROA) of listed manufacturing firms in Nigeria?
c. What effect does Audit Fee (AUDFEE) have on Return on Assets (ROA) of listed manufacturing firms in Nigeria?

1.5 Statement of Hypotheses

The following null hypotheses were formulated for the study:



HO_1 Auditor's Independence (AUDIND) has no significant effect on Return on Assets (ROA) of listed manufacturing firms in Nigeria.

HO_2 There is no significant effect of Audit Committee (AUDCOM) on Return on Assets (ROA) of listed manufacturing firms in Nigeria.

HO_3 There is no significant effect of Audit Fee (AUDFEE) on Return on Assets (ROA) of listed manufacturing firms in Nigeria.

2.0 Review of Related Literature

2.1.1 Auditor's Independence

Enofe, Mgbame, Okunrobo and Izon (2012) describe auditor's independence as a metal state of objectivity and lack of bias. The researchers also state that public faith in the reliability of a corporation's financial statements is dependent on the public perception of the outside auditor as an independent professional. Thus, the level of auditor's independence is joint outcome of the policies and procedures implemented by the audit firm and the state of mind of the individuals involved in the particular audit assignment (Tepalagul & Lin, 2014).

Harrison (2015) defines audit independence as the independence of the auditor in executing his duties. It is characterized 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 describeindependence 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.

2.1.2 Audit Committee

Smii (2016) describes 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 organizations. The researcher adds that the presence of 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.

Ancella (2011) sees audit committee as a committee established by the board of commissioners in order to assist the board of commissioners in carrying out their duties and functions. The researcher adds that the objective of the audit committee formation in the corporate governance structure is to increase the company's accountability and transparency to its stakeholders by providing a more relevant and reliable financial information.

Ilaboya (2012) defines audit committee as the governance body that is charge with oversight of the organization's audit and control function. 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.

2.1.3 Audit Fees

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 discharging their duties in the company.

Enofe, et al (2012) argue that audit fee is the amount of money received by an audit firm in carry out audit assignment. 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 balance sheet as well as the changes that have occurred in the institutional and accounting frame work since the audit was last conducted.

Yuniarti (2011) says that the amount of audit fee depends on the risk of assignment, the complexity of services provided, expertise, and other professional considerations. It shows that the higher audit fee will provide a higher quality audit as well. The researcher also adds that the amount of audit fee can affect the independence of public accountants' appearance because the big fee can make accounting firms become reluctant to oppose the will of the client, while small fee can limit the time and cost to perform complete audit procedures. Members must be able to show the work done professionally and meet the specified quality requirements and meet the needs of the client.

2.2 Theoretical Framework

Agency Theory

The agency theory propounded by Jensen and Meckling (1976) had to do with the relationship between the principal (shareholders) and the agents (company's manager). It is the cost that arises because of expenses incurred between the principal(s) (shareholders) and the agent(s) (management). The agency relationship is seen as a contract under which one or

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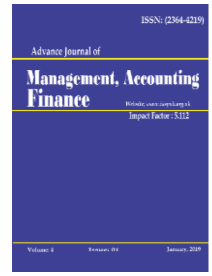

more persons (the principal (s)) engage another person (s) (the agent) to perform some services on their behalf. This involves delegating some of their authority to the agent in order to make some decision for the principal (owner of the business). If the agent fails to act on the direction of the principal in making his decisions, the principal can decide to limit divergences from his interest by establishing an appropriate incentive for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent (Aliyu, Musa & Zachariah, 2015).

Lawal, Edwin, Monica and Adisa (2014) pointed that agency problem associated with free cash flow problem can be somehow controlled by increasing the stake of managers in the business or by increasing debts in the capital structure, which will help in reducing the amount of available cash inflow to managers. The debt can also be adopted as control mechanism in which lenders and shareholders become the principal parties in the structure of corporate governance in the organization.

Estitemi and Omwenga (2016) opine that since the principals do not have access to all the available information as at the time the agent makes his decision, the principals are unable to determine whether the decision made by the agent is favorable or unfavorable for the interest of the firm. In order to avoid the moral hazard, the principals decide to establish a monitoring process such as auditing to control the action of the agent (s) in making some decisions for the firm. They describe auditing as a bonding cost paid by agent (s) to a third party to satisfy the principals' demand for accountability. Any other cost incurred in running the business is borne by principals to protect their economic interests.

Hassan and Farouk (2014) believe that auditing is a bonding cost paid by agents to a third party to satisfy the principals' demand for accountability. This is the cost the Principals bear to protect their business. In the separation of power, ownership and control are very important because the more diffused the ownership of a company is, the higher the divergence in preferences of the owners and managers, and the higher the observability and control of an agent's actions by the principals. The audits serve as a basic purpose in promoting confidence and reinforcing trust in financial information by the users and general public. The principal – agent relationship as depicted in agency theory is important to understand the role of an auditor in the development of high quality report in the business. This is because the principals place their trust in their agents to act in the best interest of principals but the results of information asymmetries between principals and agents have different motives. Principals may lack trust in their agents and need to put in place some measures or mechanisms, such as the audit, to reinforce the trust. The agency theory is a useful economic theory of accountability which helps to explain the development of audit quality in general.

2.3 Empirical Review

Harrison (2015) researched on influence of internal audit independence on the financial performance of small and medium enterprises in the construction industry in Mombasa County of Kenya. The study was specifically concerned with determining the effect of four components of internal audit independence such as records accessibility, reporting structure, internal auditors' qualification and internal audit roles on the financial performance of small and medium enterprises in the construction industry in Mombasa County. The primary source of data (questionnaire) was used for the collection of data. The questionnaire was both structured and unstructured. The sample size was thirty-two (32) audit professionals in the construction industry in class NCA 8 construction companies. The results showed that internal audit independence has significant effect on financial performance of small and medium enterprises in the construction industry in Mombasa county of Kenya.

In the study of Babatolu; Aigienohuwa and Uniamikogbo (2016) on auditor's independence and audit quality, a study of selected deposit money banks in Nigeria. The secondary source of data was used for the collection of information for the study. The population of the study comprised of twenty (20) listed deposit money banks in Nigeria. The purposive sampling technique was used to select sample size of seven (7) banks. The data analysis techniques that were adopted consisted of descriptive statistics, correlation and ordinary least squares (OLS) regression. The result of the study revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality. The result also indicated that there exist negative relationship between audit firm tenure and audit quality.

Smii (2016) studied the impact of the audit quality on that of the accounting profits, the case of companies listed on the Tehran stock exchange (TSE). The ordinary least squares (OLS) technique and multiple regressions were employed for this study. The result of the study confirmed the significant impact of the audit quality on that of the accounting profits.

Matoke and Omwenga (2016) investigated audit quality and financial performance of companies listed in Nairobi Securities Exchange. The researchers employed both primary and secondary source of data. While primary data were collected through semi-structured questionnaire secondary data were collected from published annual statements of selected State Corporations.The data collected were analysed using multiple

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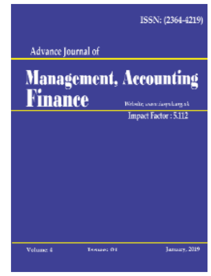

regression. The results showed that audit quality has positive and significant effect on financial performance.

Kamolsakulchai (2015) investigated the impact of the audit committee effectiveness and audit quality on financial reporting quality of listed company in Stocks Exchange of Thailand. The panel data were collected from the form 56-1 and financial statements of listed companies in Stocks Exchange of Thailand for five years from 2008 to 2012. The multiple regression was adopted for the study. The results showed that the audit committee effectiveness had a significant positive relationship with financial reporting quality. Audit quality was found to be positively associated with financial reporting quality significantly.

Al-Mamun, Yasser, Rahman, Wickramasinghe and Nathan (2014) studied the relationship between audit committee characteristics, external auditors and economic value added (EVA) of public listed firms in Malaysia. The study adopted correlation and multiple regression analyses for the study. The result revealed that audit independence was positively associated with firm performance while audit quality was negatively associated with firm performance. The result also indicated that audit committee characteristics had a positive effect on firm performance while 4 firms had a negative effect on economic value added.

Moses, et al (2016) examined audit committee characteristics and quality of financial reporting in quoted Nigerian Banks. They used secondary source of data collected from fifteen (15) banks financial statement reports and accounts for the period of five (5) years, 2010 to 2014. The Pearson Correlation and linear regression analyses were used for the study. The results indicated that audit committee characteristics had no significant effect on earnings management of quoted Nigerian bank during the period of the study.

Abdulkadir (2012) investigated audit committee characteristics and financial reporting quality; evidence from Nigerian listed companies. The researcher sampled the Nigerian listed companies prior to and after the introduction of mandatory audit committee requirements in the code of corporate governance in 2003. Secondary sources of data were employed. Correlation analysis was also used for the study. The results showed that there was a weak association between the audit committee characteristics and improved financial reporting quality. The results also indicated that audit committee independence and expertise had significant association with improved financial reporting quality.

Aryan (2015) determined the relationship between audit committee characteristics, audit firm quality and companies' profitability. The researcher adopted both correlation and regression analyses for the study. The correlation analysis result indicated a positive relationship between audit committee size, audit committee meeting and profitability and a negative relationship between audit committee composition, audit committee members literacy, audit quality and companies' profitability. The regression analysis result also showed that audit committee size and audit committee composition had a positive significant effect on gross profit margin (profitability) while audit committee meeting, audit committee members literacy and audit firm size had no significant effect on gross profit margin (profitability).

Chen, Hsu, Huang and Yang (2013) examined the relationship between audit quality, audit firm size and financial performance. Secondary data collected from the annual reports of audit firms in Taiwan were used. The samples used in the study were pooled data, which combined both cross-sectional and time series data. The correlation analysis was adopted. The results showed a positive association between audit firm size and audit quality; and positive relationship between audit quality and financial performance.

Eshitemi and Omwenga (2016) evaluated the effect of audit quality on the financial performance of listed Parastatals in Nairobi Securities Exchange. The study specifically examined the relationship between the auditor's independence; size of the audit firm; attributes of the audit team and experience of the auditor and financial performance of listed parastatals in Nairobi Securities Exchange. The researchers used both primary and secondary sources of data for a period of five (5) years, 2009 to 2013. The multiple regression analysis was employed for the study. The findings of the study indicated that the effect of audit quality on financial performance was positive and significant and the greater the degree of an auditor's independence; the greater the propensity of a firm making substantial net profit margin. The auditor size has positive and significant effect on Return on Equity (ROE) and Return on Assets (ROA).

Ilaboya and Ohiokha (2014) investigated audit firm characteristics and audit quality in Nigeria. This study examines the impact of audit firm characteristics on audit quality of food and beverage companies listed on the Nigerian Stock Exchange market. The data for the study came from the financial statements of eighteen (18) food and beverage companies listed on the Nigerian Stock Exchange market from 2007 to 2012. The multivariate regression technique with emphasis on logit and probit method were used. They found a positive relationship between firm size, board independence and audit quality as well

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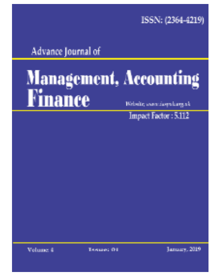

as a negative relationship between auditor's independence, audit firm, audit tenure and audit quality.

3.0 Materials And Methodology

The study adopted *ex-post facto* research design.The study was carried out in Nigeria, with particular reference to selected manufacturing firms that are listed on the Nigerian Stock Exchange (NSE).

Secondary data were sourced from the annual reports and accounts of listed manufacturing firms in Nigeria from 2006 to 2016. The population of the study comprised all the listed manufacturing firms on Nigerian Stock Exchange (NSE). In Nigerian Stock Exchange (NSE), the total sectors of manufacturing firms is eight (8) namely Automobile & Tyre Sector, Breweries Sector, Building Materials Sector, Chemical & Paints Sector, Food, Beverages &Tobacco Sector, Health Care Sector, Oil & Gas Sector and Textiles Sector. These eight (8) sectors of listed manufacturing firms in Nigeria have a total of eighty (80) manufacturing firms. See attached appendix for details. Of these eight (8) sectors and eighty (80) manufacturing firms, only six (6) sectors and twenty- four (24) manufacturing firms that is, four (4) firms each from each sector were selected for the study through purposive sampling technique.

The study used Ordinary Least Square (OLS) method of estimation to analyse pool panel data generated for the period of 11 years.

The following models were employed in the study**:**

Model one:

$$ROA_{ij} = f\left(AUDIND_{ij}, LEV_{ij}, FSIZE_{ij}, CFO_{ij}\right) \ldots\ldots\ldots (1)$$

$$ROA_{ij} = \beta_0 + \beta_1 AUDIND_{ij} + \beta_2 LEV_{ij} + \beta_3 FSIZE_{ij} + \beta_4 CFO_{ij} + U_t \ldots\ldots (2)$$

Model Two:

$$ROA_{ij} = f\left(AUDCOM_{ij}, LEV_{ij}, FSIZE_{ij}, CFO_{ij}\right) \ldots\ldots\ldots (3)$$

$$ROA_{ij} = \sigma_0 + \sigma_1 AUDCOM_{ij} + \sigma_2 LEV_{ij} + \sigma_3 FSIZE_{ij} + \sigma_4 CFO_{ij} + U_t \ldots\ldots (4)$$

Model Three:

$$ROA_{ij} = f\left(AUDFEE_{ij}, LEV_{ij}, FSIZE_{ij}, CFO_{ij}\right) \ldots\ldots\ldots (5)$$

$$ROA_{ij} = \alpha_0 + \alpha_1 AUDFEE_{ij} + \alpha_2 LEV_{ij} + \alpha_3 FSIZE_{ij} + \alpha_4 CFO_{ij} + U_t \ldots\ldots (6)$$

Where:

ROA = Return on Assets (measured by Profit after tax divided by total assets).

AUDIND = Audit Independence (measured by Ratio of audit fee to company's revenue)

AUDCOM = Audit Committee (measured by Natural logarithm of number of audit committee)

AUDFEE = Audit Fee (measured by Natural logarithm of audit fees)

LEV = Leverage (measured by Total liabilities divided by total assets).

FSIZE = Firm Size (measured by Natural logarithm of end of the year total assets)

CFO = Operating Cash Flow (measured by Operating Cash Flow divided by total assets).

$\sigma_0, \alpha_0, and \beta_0. =$ Intercept or conctant term.

$\sigma_1\sigma_2, \alpha_1\alpha_2, and \beta_1\beta_{2,}.$

= Slope or Coefficient of the independent variables.

U_t = Stochastic term or error term.

i = time dimension of the series.

j =cross-sectional dimension of the series.

4.0 Results And Discussion

Test of Hypothesis One

Auditors Independence (AUDIND) has no significant effect on Return on Assets (ROA) of Listed Manufacturing Firms in Nigeria.

Table 1: Regression Analysis For Hypothesis One

Dependent Variable: ROA
Method: Panel Fully Modified Least Squares (FMOLS)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFO	0.263973	0.022296	11.83939	0.0000
FSIZE	0.020639	0.001264	16.33291	0.0000
LEV	-0.193684	0.013157	-14.72138	0.0000
AUDIND	2.376964	1.165906	-2.038727	0.0426

Source: Authors'computation, 2019.

The long run result of panel Fully Modified Ordinary Least Square (FMOLS) model shown above indicates that the coefficient of AUDIND is 2.376964 while the probability value of t-stat is 0.0426 which is less than 0.05 and this implies that auditors' independence has a positive and significant effect on financial performance proxied by ROA for the period under consideration. This however shows that in the long run, the more independent that the auditor enjoys, the better the financial performance of the firm. The result also shows that CFO and FSIZE which were included in the model as control variables positively and significantly affect ROA for the period

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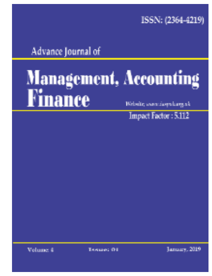

under study. This however, suggests that a percentage increase in CFO and FSIZE will lead to about 26 and 2 percent increases in the firms ROA respectively while LEV has a negative and significant effect on the firms ROA, implying that a percentage increase in LEV will result to about 19% decrease in the firms ROA for the period under study.

From the result of FMOLS shown above, the probability of t-statistics is 0.0426 which is less than 0.05 and so, we reject the null hypothesis and conclude that Auditor's Independence (AUDIND) has significant effect on Return on Assets (ROA) of listed manufacturing firms in Nigeria for the period under investigation.

Test of Hypothesis Two

There is no significant effect of Audit Committee (AUDCOM) on Return on Assets (ROA) of Listed Manufacturing Firms in Nigeria.

Table 2: Regression Analysis for Hypothesis Two

Dependent Variable: ROA Method: Panel Fully Modified Least Squares (FMOLS)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDCOM	0.272565	0.120381	2.264186	0.0254
CFO	0.398859	0.158429	2.517595	0.0147
FSIZE	0.008771	0.018287	0.479651	0.6333
LEV	-0.315640	0.077812	-4.056424	0.0002

Source: Authors'computation, 2019.

The result of long run panel FMOLS shown in the table above indicates that the coefficient of AUDCOM is 0.272565 with a probability value of t-statistics of 0.0254 which is less than 0.05, suggesting that AUDCOM positively and significantly affects firms' ROA for the period under review. This also implies that a percentage increase in AUDCOM will lead to about 27% increase in ROA. On the other hand, the result of FSIZE and CFO which was included in the model as a control variable indicates a positive effect on the firms' ROA with CFO showing a statistical significance while FSIZE has insignificant effect. Similarly, LEV which was also included as a control variable in the model reveals negative and statistically significant effect on ROA of the firms under consideration. It therefore, suggests that an increase in FSIZE will lead to increase in the firms' ROA but the increase in the ROA will not be proportionate to increase in the firms' size. On the same note, an increase in CFO will lead to a proportionate increase in the firms' ROA for the period under investigation. As the liability of the firm increases in the long run, the result shows that this will lead to a reduction in the ROA of the firms.

From the result of the long run panel FMOLS model shown above, the probability of t-statistics is 0.0254 which is less than 0.05 and so, we reject the null hypothesis and conclude that there is significant effect of Audit Committee (AUDCOM) on Return on Assets (ROA) of listed manufacturing firms in Nigeria for the period under review.

Test of Hypothesis Three

There is no significant effect of Audit Fee (AUDFEE) on Return on Assets (ROA) of Quoted Manufacturing Firms in Nigeria.

Table 3: Regression Analysis for Hypothesis Three.

Dependent Variable: ROA Method: Panel Fully Modified Least Squares (FMOLS)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFO	0.262360	0.020705	12.67134	0.0000
FSIZE	0.007733	0.007971	0.970196	0.3329
LEV	-0.207539	0.011296	-18.37323	0.0000
AUDFEE	-0.051242	0.014097	-3.635083	0.0003

Source: Authors' computation, 2019.

The result of FMOLS model shown above indicates that the coefficient of AUDFEE is -0.051242 while the probability value of t-statistics is 0.0003 which is less than 0.05 and this implies that AUDFEE has a negative and significant effect on the ROA of the firm for the period under consideration. This however, shows that a percentage increase in the AUDFEE will lead to about 5% decrease in the firms' ROA. Similarly, the result of CFO included in the model as a control variable shows a positive and significant impact on the firms' ROA for the period under study which suggests that an increase in CFO will result to a corresponding increase in the firms' ROA. FSIZE which is also one of the control variables reveals a positive but statistically insignificant effect on the firms' ROA, implying that an increase in FSIZE will lead to a less than proportionate increase in the firms' ROA. The result of LEV, a control variable, reveals that it has a negative and significant impact on the firms' ROA. This however, implies that an increase in LEV will lead to a proportionate decrease in the firms' ROA.

From the result of FMOLS model above, the probability of t-statistics is 0.0003 which is less than 0.05 and based on this, we reject the null hypothesis and accept the alternative hypothesis; and conclude that there is significant effect of Audit Fee (AUDFEE) on Return on Assets (ROA) of listed manufacturing firms in Nigeria for the period under review.

The regression result indicated that Auditors independence (AUDIND) has effect on Return on Assets (ROA). The extent

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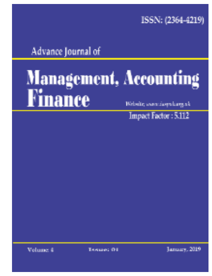

of the effect on Return on Assets (ROA) by the auditors' independence was significant and positive. This result is in consonance with the findings of Harrison (2015); Al-Mamun, et al (2014); and Eshitemi and Omwenga (2016).

The result of test of hypothesis two showed that Audit Committee (AUDCOM) affects Return on Assets (ROA) significantly and positively. This result is consistent with the views of Matoke and Omwenga (2016); and Aryan (2015) while Moses, et al (2016) found no significant effect on earnings management.

The findings of test of hypothesis three revealed that Audit Fee (AUDFEE) has a significant and negative effect on Return on Assets (ROA). The extent of the effect on Return on Assets (ROA) by the audit fee (AUDFEE) was significant and negative. The result is in contrast with that of Matoke and Omwenga (2016) that found positive and significant effect of audit quality on financial performance.

5.0 Conclusion and Recommendations

The results emanating from the study showed that all the proxies of audit quality (Auditor's independence and Audit Committee) have positive and significant effect except Audit fee (AUDFEE) which exert negative and significant effect on financial performance (Return on Assets) of listed manufacturing firms in Nigeria. This implies largely that auditor's independence (AUDIND) and audit committee (AUDCOM) promote high quality audit report as they influence financial performance of listed manufacturing firms in Nigeria. Based on the specific findings, the study recommends as follows:

1. That auditor's independence should be increased greatly in order to enhance financial performance (ROA) 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 utilization of experiences of the auditor.
2. 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 report mearnt for the use of the general public.
3. That appropriate policy on audit fees should be instituted by firms to enable them pay for their audit work timely.

6.0 Areas for Further Studies

The following areas are recommended for further study:

1. Effect of audit quality on financial performance of quoted companies in financial services sector. The non-inclusion of financial institutions in this study is an invitation for further studies in this area.
2. The unquoted companies and other businesses located within the informal sector in Nigeria also need to be evaluated in order to be able to make general policies that will favourably affect such institutions and consequently the entire economy.

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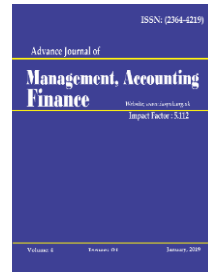

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Appendix

Listed Manufacturing Firms on the Nigerian Stock Exchange (NSE)

S/No	Names of Company	Sectors
1	AFRIK Pharmaceuticals Plc	Health Care
2	Ekocorp Plc	Health Care

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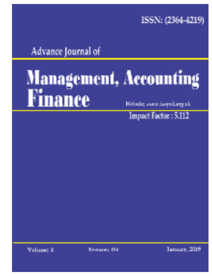

3	Evans Medical Plc	Health Care
4	Fidson Healthcare Plc	Health Care
5	Glaxo Smithkline Consumer Nig. Plc	Health Care
6	May and Baker Plc	Health Care
7	Morison Industries Plc	Health Care
8	Neimeth International Pharmaceuticals Plc	Health Care
9	Nigeria-German Chemicals Plc	Health Care
10	Pharma-Deko Plc	Health Care
11	Union Diagnostic and Clinical Services Plc	Health Care
12	Anino International Plc	Oil and Gas
13	Capital Oil Plc	Oil and Gas
14	Eterna Plc	Oil and Gas
15	Forte Oil Plc	Oil and Gas
16	Japaul Oil & Martitime Services Plc	Oil and Gas
17	Mobil Oil Nigeria Plc	Oil and Gas
18	MRS Oil Nigeria Plc	Oil and Gas
19	Oando Plc	Oil and Gas
20	RAK Unity Petroleum Company Plc	Oil and Gas
21	Seplat Petroleum Development Company Ltd	Oil and Gas
22	Total Nigeria Plc	Oil and Gas
23	Conoil Nigeria Plc	Oil and Gas
24	BECO Petroleum Product Plc	Oil and Gas
25	Navitus Energy Plc	Oil and Gas
26	7-up Botting Company Plc	Consumer Goods/Foods, Beverage & Tobacco
27	Cadbury Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
28	Dangote Flour Mills Plc	Consumer Goods/Foods, Beverage & Tobacco
29	Dangote Sugar Refinery Plc	Consumer Goods/Foods, Beverage & Tobacco
30	Flour Mills Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
31	Honeywell Flour Mills Plc	Consumer Goods/Foods, Beverage & Tobacco
32	Northern Nigeria Flour Mills Plc	Consumer Goods/Foods, Beverage & Tobacco
33	Nestle Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
34	Union Dicon Salt Plc	Consumer Goods/Foods, Beverage & Tobacco
35	Ferdinand Oil Mills Pl	Consumer Goods/Foods, Beverage & Tobacco
36	National Salt Company Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
37	Pz Cussons Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
38	Unilever Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
39	Big Treat Plc	Consumer Goods/Foods, Beverage & Tobacco
40	Nigerian Bottling Company Plc	Consumer Goods/Foods, Beverage & Tobacco
41	Tate industries Plc	Consumer Goods/Foods, Beverage & Tobacco
42	Pz Mandrides and Company Plc	Consumer Goods/Foods, Beverage & Tobacco
43	UTC Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
44	Champion Breweries Plc	Consumer Goods/Breweries
45	Golen Guinea Breweries Plc	Consumer Goods/Breweries
46	Guiness Nigeria Plc	Consumer Goods/Breweries

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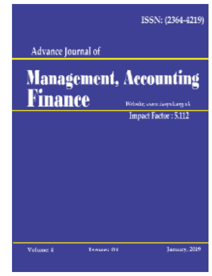

47	International Breweries Plc	Consumer Goods/Breweries
48	Nigerian Breweries Plc	Consumer Goods/Breweries
49	Jos International Breweries Plc	Consumer Goods/Breweries
50	Premier Breweries Plc	Consumer Goods/Breweries
51	African Paints (Nigeria) Plc	Industrial Goods/Chemical & Paints
52	Berger Paints Nigeria Plc,	Industrial Goods/Chemical & Paints
53	CAP Plc	Industrial Goods/Chemical & Paints
54	DN Meyer Plc	Industrial Goods/Chemical & Paints
55	Paints and Coating Manufacturers Plc	Industrial Goods/Chemical & Paints
56	Portland Paints and Products Nigeria Plc	Industrial Goods/Chemical & Paints
57	Premier Paints Plc	Industrial Goods/Chemical & Paints
58	IPWA Plc	Industrial Goods/Chemical & Paints
59	Nigerian- German Chemicals Plc	Industrial Goods/Chemical & Paints
60	Ashaka Cement Plc	Industrial Goods/Building Materials
61	Cement Company of Northern Nigeria Plc	Industrial Goods/Building Materials
62	Dangote Cement Plc	Industrial Goods/Building Materials
63	Lafarge (WAPCO) African Plc	Industrial Goods/Building Materials
64	West African Portland Cement Company Plc	Industrial Goods/Building Materials
65	Niger Cement Plc	Industrial Goods/Building Materials
66	Nigeria Wire Industry Plc	Industrial Goods/Building Materials
67	Ceramic Manufacturer Nigeria Plc	Industrial Goods/Building Materials
68	Nigerian Ropes Plc	Industrial Goods/Building Materials
69	Bewac Nigeria Plc	Consumer Service/Automobile & Tyre
70	DN Tyre and Rubber Plc (Dunlop Nigeria Plc)	Consumer Service/Automobile & Tyre
71	Incar Nigeria Plc	Consumer Service/Automobile & Tyre
72	Intra Motors Plc	Consumer Service/Automobile & Tyre
73	R.T. Briscoe Plc	Consumer Service/Automobile & Tyre
74	Rietzcot Nigeria Company Plc	Consumer Service/Automobile & Tyre
75	Aba Textiles Mills Plc	Industrial Goods/Textiles
76	Asaba Textile Mills Plc	Industrial Goods/Textiles
77	Nigeria Textile Mills Plc	Industrial Goods/Textiles
78	United Nigeria Textiles Plc	Industrial Goods/Textiles
79	Afriprint Nigeria Plc	Industrial Goods/Textiles
80	ENPEE Industries Plc	Industrial Goods/Textiles

Source: Nigerian Stock Exchange (NSE)

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