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INFLUENCE OF ATTRIBUTES OF AUDIT QUALITY ON RETURN ON ASSETS: A STUDY OF SELECTED QUOTED MANUFACTURING FIRMS IN NIGERIA

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Abstract: *This study investigated the influence of attributes of audit quality on return on assets of selected quoted manufacturing firms in Nigeria from 2006 to 2016. Its specific objectives were to examine the effect of audit firm size and auditor's tenure on return on assets of quoted manufacturing firms. Ex-post facto research design was employed. Secondary data from publisbhed financial statements of 24 out of the 80 quoted manufacturing firms on the Nigerian Stock Exchange were used. Stratified purposive random sampling technique was utilized to select the sample size. Ordinary Least Square statistical method was the analytical tool. It was discovered that audit firm size had a positive and significant effect on return on assets of quoted manufacturing firms in Nigeria, among others. It was therefore, concluded that attributes of audit quality influence return on assets of quoted manufacturing firms in Nigeria.The study recommended, in addition to others, that auditors should be given subsequent opportunities for any audit assignment as this will enable them to discover inadvertent errors thereby improving the quality of the audit.*

Keywords: Attributes of audit quality, audit firm size, audior's tenure, return on assets, Nigeria

1.0 Introduction

Every profession strives not only to contain the challenges imposed by global competition but also to remain on top of technological waves across the universe. This is particularly so because many educated people are no longer ignorant of the technicalities of many professions.They are now equipped with essential tools for assessing quality professional service or otherwise.This means that professionals cannot continue to be indifferent. One of the ways through which the public genuinely assess the quality of work of professional accountants is through audit reports.

Audit quality is the ability of an independent auditor to decrease abnormalities of the reflected information in the financial statements and the increased in the accuracy of this information. It is also the process of systematic examination of a quality system carried out by an internal or external quality auditor or an audit team. It is an important part of organisation's quality management system and is a key element in the International Standard Organisation or International Organisation for Standardisation (ISO) quality system standard (Rezaei & Shabani, 2014).

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 rooted in the real world and may become challenging in some business environments. Sound audits can help reinforce strong corporate governance, risk management and internal control in firms, thus contributing to financial performance. Audit quality is one of the most important issues in audit practice today (Farouk & Hassan, 2014 and Okoye, Okaro & Okafor, 2015).

In order to reduce the scandals observed in audited financial statements of companies, and increase the quality of audit, the professional bodies introduced some professional ethics to be followed. The professional ethics concern moral issues that arise due to specialist knowledge that professionals acquire and how the knowledge should be applied when providing professional service to the public (Nwagboso, 2008). Furthermore, some codes of practice were introduced, but questions arise as to the ethical limits of the professional's responsibility, and how power and authority should be used in service to the client and society. The disciplinary codes allow the profession to draw a standard of conduct and ensure that individual practitioners meet this standard, by disciplining them from the professional body if they do not practice accordingly. This helps to maintain public trust in the profession and guarantees continued patronage of services.

1.2 Statement of the Problem

Lack of concensus among contemporary scholars about what constitutes attributes of audit quality continues to generate academic debate. Notwithstanding the controversial nature of ensuing debates, the scenario provides a veritable platform for knowledge exposition. It undoubtedly helps to extend the frontiers of professional knowledge.

While some researchers contend that it is only the core attributes of audit quality such as auditor's independence, audit fee and audit committee that have the potentiality of influencing audit quality, others oppose such views. People in the latter group insist that extended attributes of audt quality, namely audit size and auditor's tenure are essentially important. They believe that a useful index of measuring audit beauty is size, which translates to the larger the auditor's size, the better the audit quality while auditor's tenure is the yard stick for measurement of professional care and supervision ability (Salehi & Kangarlouei, 2010; Rezaei & Shabani, 2014 and Aliyu & Ishaq, 2015).

Even when efforts have been made to resolve this argument empirically, the contrasting results appear to be more perplexing, thus increasing the desirability for studies in this field. It is therefore, in a bid to contribute our qorta towards resolving this seemingly intractable problem that this study has been designed.

1.3 Objectives of the Study

The main objective of this study is to determine the influence of attributes of audit quality on corporate performance of selected manufacturing firms in Nigeria from 2006 to 2016.

However, the specific objectives are:

1 To investigate the effect of Audit Size (AUDSIZE) on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

2. To ascertain the effect of Auditor's Tenure (AUDTEN) on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

1.4 Research Questions

Taking into consideration the objectives stated above, this study addresses the following research question:

a. How does Audit Size (AUDSIZE) affect Return on Assets (ROA) of quoted manufacturing firms in Nigeria?

b. To what extent does Auditor's Tenure (AUDTEN) affect Return on Assets (ROA) of quoted manufacturing firms in Nigeria?

1.5 Statement of Hypotheses

The following null hypotheses were formulated for this study:

1. Audit Size (AUDSIZE) has no significant effect on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

2. Auditor's Tenure (AUDTEN) has no significant effect on Return on Assets (ROA) of
Quoted manufacturing firms in Nigeria.

2.0 Review Of Related Literature

2.1 Conceptual Framework

2.1.1 Concept of Audit Quality

Setyaningrum, Gani, Martani and Kuntadi (2013) say that audit quality is extracted from the principle component analysis techniques and outcomes indicate three major factors such as education, experience and training.The greater the auditor monitoring strength, the more closely financial report will reflect the true economic circumstances of the client and the higher information quality.

Kaklar, Kangarlouei and Motavassel (2012) view audit quality as an auditor who will detect and correct or reveal any material omission or misstatements in the financial statements in order to give high quality report. There are two major drivers of audit quality such as litigation costs and reputation loss which

considers large investment on building their brand name, the big audit firms have an incentive to lower litigation risk and protect their reputational capital by providing more credible financial reports to the users of the accounting or financial information. It is expected that high audit quality lead to high financial reporting quality which in turn is a tool to prevent financial crises globally.
In other to maintain the quality of audit report presented to the users of the financial information from companies, the professional bodies made the most critical decision that all auditors and members of professional bodies must show high level of integrity because they are the builders of societies, the organizers of economies, the transformers of social systems and those who make the political system.
In the opinion of Al-Matari, Al-Swidi and Fadzil (2014), audit quality is internal audit which determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Ahmad, Suhara and Ilyas (2016) add that audit quality is related to the quality and effort of the auditor to identify material misstatement in the financial statements. It also concerned with the auditor willingness to disclose an unbiased audit report based on the audit result.
Sayyar, Basiruddin, Rasid and Elhabib (2016) view audit quality as those technics the auditors use to recognize misstatements in clients accounting system or information and report the misstatements to the appropriate person. The 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. Therefore, it is a basic ingredient in enhancing the credibility of financial statements to users of accounting information by providing an independent verification of financial reports presented by management.
Mostafa and Hussien (2010) define audit quality as the probability that an auditor will both discover and report a breach in the client's accounting system. The probability of discovering a breach depends on the auditor's technical capabilities while the probability of reporting the errors depends on the auditor's independence. The auditing firm must not compromise their integrity because of financial benefits from their client.
Okolie, Izedonmi and Enofe (2013) identify audit quality as the assessment of the financial statement by an auditor in order to discover any breach in the clients accounting data and report the breach to the general public. It will further influence the financial reporting and strongly impact on investors' confidence in the audited financial reports.
In our own view, audit quality is a measure of professional training, competence, skill and experience that was brought to bear on an audit assignment. It is a mirror through which total personality of an auditor or audit firm is assessed. Both professional bodies and the public can, to a large extent, rely on it for an unbiased evaluation.

2.2 Theoretical Framework

Theory of Inspired Confidence

The theory of inspired confidence was developed by Dutch Professor, Theodore Limperg. The Limperg theory Institute in Netherlands in 1985 stated that the auditor as a confidential agent derives his broad function in society from the need for expert and independent examination as well as the need for an expert and independent judgement supported by the examinations (Mahdi, 2011 and Salifu & Mahama, 2015).
The demand for audit services is the direct consequence of the participation of third parties in the company in which they demand accountability from the management, in return for their investments in the company (Sarens & Beelde, 2006). The theory of inspired confidence addresses both the demand and supply for audit services. Accountability in the manufacturing firms may be realised through the issuance of periodic financial reports concerning the financial performance of various quoted manufacturing firms in Nigeria. However, since this information provided by the management may be biased and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information in order to have high quality report for the users of the financial statements. With regard to the supply of audit assurance, the auditor should always strive to meet public expectations (Harrison, 2015 and Appah & Bariweni, 2013).
Estitemi and Omwenga (2016) added that auditors' theory of inspired confidence provide a link between the users of information requirement for credible and reliable financial report and the capability and capacity of the audit processes to meet those needs. The importance of the theory of inspired confidence is that the duties and responsibilities of the auditors are derived from the confidence that is contributed by the public on the success of the audit process and assurance which the opinion of the accountant communicates. Since the confidence of the

general public determines the existence of the process, a betrayal of the confidence logically means a termination of the whole audit process or function. Therefore, auditors are expected to maintain high audit quality given that an audit failure is effectively end of audit profession activity.

2.3 Empirical Review

Listya and Sukrisno (2014) investigated influence of auditor's independence, audit tenure and audit fee on audit quality of members of capital market accountant forum in Indonesia. The study used primary data collected through questionnaire from 143 respondents. Linear regression model was employed for the study. The results indicate that auditor's independence and audit fee have positive significant effect on audit quality while audit tenure has no significant effect on audit quality.

Sayyar, Basiruddin, Rasid and Elhabib (2016) studied the impact of audit quality on firm performance, evidence from Malaysia. The researchers used audit fee and audit firm rotation as proxies for audit quality and return on assets and Tobin's Q as proxies for firm performance. Secondary data collected were analyzed with the aid of multiple regression. It was found that there is insignificant relationship between audit quality (audit fee and audit firm rotation) and return on assets. It was also shown that audit fees have positive significant relationship with Tobin's Q while audit firm rotation is insignificantly and positively related to Tobin's Q.

Cheong, Boom, Org and Hong (2015) examined the relationship among audit quality, earnings management and financial performance of Malaysian Public listed Companies. The researchers employed audit firm size, audit fees and audit partner tenure as proxies for audit quality; and earnings management as a mediating variable while financial performance as dependent variable was proxied by return on assets. Secondary data collected were analyzed with correlational technique. The result shows that audit fees, audit firm size, and audit partner tenure have positive significant relationship with financial performance while the mediating variable, earnings management indicates no significant relationship between audit quality and financial performance.

Daphne (2013) studied the longitudinal effect of auditor industry specialization on audit quality from 2004 to 2007. The multiple regression analysis was used for the model. The regression results show that there is no significant longitudinal effect of auditor industry specialization on audit quality.

In the study of Ahmad, Suhara and Ilyas (2016) on the effect of audit quality on earnings management within manufacturing companies listed on Indonesian Stock Exchange, they used secondary data.They sampled 420 firms from manufacturing companies listed on the Indonesian Stock Exchange for four (4) years, 2010 to 2013. Multiple regression analysis was applied for the study. The result reveals that audit firm size and industry specialist auditors have significant and negative effect on discretionary accruals of manufacturing companies listed on Indonesian Stock Exchange. The result also indicates that audit firm size and industry specialist auditors have significant and negative relationship with earnings management.

Abbasali, Naser, Milad and Elham (2013) evaluated the effect of audit quality on earnings management, evidence from Iran. The audit quality was proxied as audit firm size while earnings management proxied as discretionary accruals. They sampled one hundred and forty (140) of listed companies in Tehran Stock Exchange for six (6) years, 2006 to 2011. The result reveals that there is no significant effect of audit quality on earnings management of companies.

Yu-Shu, Yahn-Shir and Yu-Cheng (2013) examined the association between auditor size and performance. The audit firms were divided into public company audit market firms (PCAMFs) and non-public company audit market firms (NCAMFs). The result shows that auditor's size has significant effect on performance and indirect effect through audit quality. It also indicates that auditor's quality associates with both auditor size and performance positively.

Kaklar, Kangarlouei and Motavassel (2012) investigated the relationship between audit quality and financial reporting quality of Tehran stock exchange (TSE). They utilized financial statements from ninety-one (91) firms for a period of six (6) years, 2004 to 2009. Audit firm size and audit tenure were used as independent variables while financial reporting quality was dependent variable. Results of the study reveal that while there is a weak and negative significant relationship between audit firm size and financial reporting quality, there is weak and positive significant relationship between auditor tenure and financial reporting quality. The result further indicates that changes in financial reporting quality were affected by both audit firm size and audit tenure.

Morteza (2014) studied the effect of audit quality on the performance of listed companies in Tehran Stock Exchange from

2008 to 2012. Audit quality was proxied as auditor tenure, audit firm reputation and audit firm experience. Results of the regressional analysis reveal that audit quality has positive and significant effect on financial performance of listed companies in Tehran Stock Exchange.

Ahmet; Nihat; Mustafa and Burcu (2017) examined the association between audit firm tenure and audit quality. The cross-sectional version of modified Jones Model was used to estimate discretionary accruals. The result indicates that there is no association between long audit tenure and audit quality.

Mgbame and Oshodin (2015) investigated the relationship between audit firm's characteristics and audit quality in the Oil and gas, Manufacturing and Insurance Sectors of Nigerian economy from 2007 to 2013. Ordinary Least Square analytical method was used. Multivariate regression and Pearson Correlation techniques were applied for the analysis. The result shows that there is a significant but negative relationship between audit fees and audit quality in the Oil and gas sector, negative and insignificant relationship between audit fees and audit quality in the insurance sector, and no significant positive relationship between audit fees and audit quality in the manufacturing sector. Again, the result indicates that negative and insignificant relationship exists between audit tenure and audit quality in the three sectors. Finally, the result reveals that there is a positive and significant relationship between audit firm's size and audit quality in the oil and gas sector, and positive significant relationship between audit firms' size and audit quality in both insurance and manufacturing sectors of Nigerian economy.

3.0 Materials And Methodology

Ex-post facto research design was adopted in this study. Secondary data were collected from published annual financial statements of quoted manufacturing firms in Nigeria from 2006 to 2016. The population of the study comprised the 80 quoted manufacturing firms on Nigerian Stock Exchange while the sample size, selected through a stratified purposive sampling technique, was 24. Ordinary Least Square (OLS) method of analysis was employed.

To achieve the objectives set out for this study, the following models were used to enable us estimate the effect of independent variables on the dependent variable. This provides us with the opportunity to test for the stated hypotheses with a view to determining the acceptability or unacceptability of the hypothesis, offering us a statistical ground to draw conclusion. The modelswere specified in such a way that each model addresses a particular objective. That is to say that we have six (6) models, five (5) models for each stated specific objectives and one (1) model for the main objective (overall) of the study.The model for the study is as shown below:

$$ROA_{ij} = f(AUDSIZE_{ij} + AUDTEN_{ij}) \ldots\ldots\ldots\ldots\ldots\ldots\ldots .1$$

$$ROA_{ij} = \rho_0 + p1AUDSIZE_{ij} + p2AUDTEN + U_t \ldots 2$$

Where:

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

AUDSIZE = Audit Size (measured by Dummy variable (One (1) if the firm is audited by a Big four audit firms and Zero (0) if otherwise).

AUDTEN = Audit Tenure (measured by Dummy variable (One (1) if the length of auditor-client relationship is more than three (3) and Zero (0) if otherwise).

4.0 Results And Discussion

Hypothesis One

Audit Size (AUDSIZE) has no significant effect on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

Table 1: Result of Regression Analysis for Hypothesis One

Dependent Variable: ROA Method: Panel Fully Modified Least Squares (FMOLS)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDSIZE	0.357241	0.123122	2.901520	0.0075
CFO	0.041406	0.055566	0.745166	0.4585
FSIZE	0.030757	0.004062	7.571710	0.0000
LEV	-0.313416	0.036920	-8.488965	0.0000

Source: Authors'computation, 2019.

The long run result of panel Fully Modified Ordinary Least Square (FMOLS) model shown in the table above indicates that the coefficient of AUDSIZE is 0.357241 while the probability value of t-statistics is 0.0075 which is less than 0.05. This implies that audit size has a positive and significant effect on ROA. This however, shows that in the long run, increase in audit size will result to a corresponding increase in ROA. The result also showed that CFO and FSIZE which were included in the model as control variables positively affected ROA. CFO showed a statistically insignificant effect while that of FSIZE was

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significant. Meanwhile, LEV was shown to exert a negative and significant effect on the firms ROA.

From the result above, the probability of t-statistics is 0.0075, which is less than 0.05 and so, the null hypothesis is rejected. This implies that Audit Size (AUDSIZE) has significant effect on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

This result is in consonance with the findings of Yu-Shu, et al (2013) that audit size has a significant and positive effect while Ahmad, et al (2016) found negative and significant effect on financial performance. On the contrary, the result negates the submissions of Abbasali, et al (2013) that audit quality has no significant effect on earnings management.

Hypothesis Two

Auditor's Tenure (AUDTEN) has no significant effect on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

Table 2: Result of Regression Analysis for Hypothesis Two

Dependent Variable: ROA Method: Panel Fully Modified Least Squares (FMOLS)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFO	0.090112	0.017688	5.094553	0.0000
FSIZE	-0.056169	0.015309	-3.668918	0.0009
LEV	-0.219521	0.025734	-8.530397	0.0000
AUDTEN	0.025508	0.010307	2.474823	0.0016

Source: Authors' computation, 2019.

Table 2 shows that FMOLS model has a coefficient of -0.025508 for AUDTEN while the probability value of t-statistics is 0.0016 which is less than 0.05. The implication of this is that AUDTEN has a positive and statistically significant effect on the ROA of the firms. This means that a percentage increase in the AUDTEN will lead to about 2.5% increase in the firms' ROA. Similarly, the result of CFO which was included in the model as a control variable showed a positive and significant impact on the firms ROA. This implies that an increase in in CFO will result to a corresponding increase in the firms' ROA. Furthermore, the results of FSIZE and LEV in the model as control variables reveal that FSIZE and LEV have negative and significant impact on the firms' ROA.

The FMOLS model has a probability of t-statistics of 0.0016, which is less than 0.05. Therefore, the null hypothesis is rejected which leads to the conclusion that Auditor's Tenure (AUDTEN) has significant effect on Return on Assets (ROA) of quoted manufacturing firms in Nigeria.

This result is consistent with the discovery made by Morteza (2014) that audit quality hapositive and significant effect on financial performance while it contrasts with the findings of Listya and Sukrinso (2014) that auditor tenure has no significant effect on financial performance.

5.0 Conclusion and Recommendations

The results emanating from the study proved that the attributes of audit quality proxied by audit size (AUDSIZE) and auditor's tenure (AUDTEN) had significant and positive effect on return on assets of quoted manufacturing firms in Nigeria.

Consequent on the findings of this study, the following recommendations are proferred:

1. Since size of audit firm has significant and positive effect on audit quality, clients should consider this during audit engagements.This is in line with a long standing maxism that two good heads are better than one.
2 Auditors should be given subsequent opportunities for any audit assignment. This will not only enable them to improve on their previous work but also provide an excellent opportunity to discover any advertent error that may bring the image of the audit firm to disrepute.

6.0 Areas for Further Studies

The following areas are suggested for further studies:

1. A similar study should be conducted in other sectors of the economy to broaden the scope of the study and provide bases for comparison.
2. More variables such as auditor's reputation, auditor industry specialization, auditor's experience, audit team attributes, auditor's competence, audit evidence, etc should be used to assess audit quality.

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