EXAMINATION QUALITY AND PERFORMANCE OF SELECTED MANUFACTURING COMPANIES ON NIGERIAN EXCHANGE LIMITED

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Abstract
The study investigated audit quality and performance of selected listed manufacturing concerns on the Nigerian exchange. The statement of the problem stem from the seemingly negative relationship between audit quality and performance as conducted by some author researchers thereby necessitating more research to be carried out in that respect. The methodology was an ex-post facto research design predicated on the secondary data of the publicly listed companies. The theoretical underpinning was agency theory. The result shows a significant relationship between audit quality and performance and concluded that audit quality is not an end in itself as to always ensure performance. 1.58 (p-value = 0.114> 0.05) and 1.95 (p-value = 0.051> 0.05) respectively. Noticeably, the Fcal (4, 615) in the work was 11.27 (p-value = 0.0000), thus confirming that audit quality measures exert joint significant effect on ROA. The study recommends that the country's Financial Reporting Council and other regulators should develop policy guidelines to specifically moderate auditors' tenure vis-à-vis compliance to existing regulatory framework for financial reporting. A reasonable threshold of the level of independence for auditors should be stipulated by regulators so as to ensure that the auditors do not suffer any untoward injury in the conduct of their core auditing mandate.

Keywords: Agency theory, Audit quality, financial reporting, performance

Introduction
The accentuated economic turbulence that was orchestrated by the global financial crisis has shown that there is crucial need of trustworthy, high-quality and very reliable financial reporting systems. External audit is expected to however play significant and critical role in enhancing and/or achieving high quality financial reporting among companies. No doubt, financial reporting andaudit 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 organizations, governments and regulators (Odjaremu & Jeroh, 2019; Ivungu, Anande & Ogirah 2019).

The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements, many companies have experienced accounting scandals in the last decade, mostly due to the way details in annual reports are handled by managers, who had the ability to mislead stakeholders by using a variety of accounting options in financial statement planning (Kurawa and Ahmed 2020). The main objective of this study is to investigate the impact of audit quality on performance of selected Manufacturing companies on the Nigerian exchange. The specific objectives are set out below; to determine the effect of audit committee size on return on assets of selected manufacturing companies in Nigeria; to determine the influence of auditors' independence on the financial performance of selected manufacturing companies in Nigeria and to assess the influence of conformity to rules on return on investment. In this study, few research questions were posed; how does audit committee size affect the financial performance of manufacturing firms in Nigeria? How does the influence of auditor's independence affect the financial performance of manufacturing firms in Nigeria? and how the conformity to rules on return on investment does affects the financial performance of manufacturing firms in Nigeria?

While previous researches have focused on the relationship between audit quality and financial performance in developed countries, there has been relatively little empirical work on this relationship in developing countries. The aim of this study is to empirically test the impact of audit quality on performance of selected manufacturing companies in Nigeria exchange. Research into the history of how auditors conducted their work and the quality of audit has been of little existence (Lee, 1981:11, Matthews, 2002). This study is expected to close this gap in our knowledge. This study is expected to provide meaningful answers to the problem of audit quality. Particularly, as this study provided evidence from Nigerian manufacturing companies, a developing country.

Literature Review

To achieve the objective of this paper, this section reviews extant literature on the effect of audit quality on performance of manufacturing companies. It is structured into the following sub-heads; conceptual review, theoretical review and empirical review of the studies.

Conceptual Review

The concepts reviewed in this study are; audit quality, audit firm size and financial performance, audit firm size and financial performance, auditors' independence firm value and firm performance.

Audit Quality (AQ)

From all the attempts to define audit quality in the past, none have resulted in a definition that has achieved universal recognition and acceptance, because audit quality is, in essence, a complex and multifaceted concept (IAASB, 2011; PCAOB, 2013; CAQ, 2016).From a practitioner's perspective, audit quality is defined in relation to the degree to which the audit conforms to applicable auditing standards, and promotes a reasonable level of assurance on the truth and fairness of the financial statements for users (IFAC, 2009: ISA 200). From a research perspective, DeAngelo (1981) presented a widely cited definition, in which audit quality is viewed as the joint probability of detecting and reporting material misstatement.

Auditors' capacity to possibly discover errors is proportional to their expertise just as their conviction to report identified faults is proportional to the level of independence which of course has implications for audit quality.

Firm performance

The major goals of financial statements are to present information about the company's performance to suit the users in making economic decisions. The capability of an entity to employ assets to produce money from its operation can also be used to measure its financial health (Du & Lai, 2018). Metrics like return on investments, return on assets and value added, among others are used as proxy for measuring performance which ultimately represents outcomes of companies' policies and operations. To put it another way, performance is a measure of entity's worth. In practical terms, performance can be measured in two ways: accounting metrics and market performance measures.

Audit Firm Size and Financial Performance.

Audit firms are service–driven professional and expertise-intensive organizations set up to uphold high-quality reporting among public entities. Results from extant researches suggests that the size of audit firms have been used as proxy for audit quality given that larger audit firms are known with a reputation of upholding and guaranteeing impartial and high-quality audit services. In comparison to smaller audit firms, the financial resources of large audit firms alongside their research facilities, technologies, and ability to attract talented workforce provides a platform for them to have larger client base and higher capacity to resist management pressure; thereby reducing their overall dependency level on a single or group of clients when necessary.

Auditor Independence and Firm Value

Audit independence is described by Okolie and Izedonmi as an auditor's unbiasedness in making choices during an audit. Independence entails being free of inspiration, stimulus, or guidance, and the usefulness of audit function will be severely compromised if independence is not achieved. According to previous research, a large audit fee given by a corporation to its external auditor strengthens their economic links and, as a result, may jeopardize the auditor's independence.

Theoretical Review

Agency Theory

The agency theory was used to underpin this study. Agency theory focuses on how to deal with or resolve difficulties that can arise in agency relationships involving principals (shareholders) and their agents (companies' executives). Many problems arises because most times, principals' and agents' interest or aims fail to align such that principals sometimes find it very difficult to verify what their respective agents (companies' executives) are actually doing. The agency theory therefore, explains this concept in relation to issues arising when the principals and their agents have different attitudes towards risks and expectations.

In achieving the research objectives of the study, the following null hypotheses have been formulated:

$H0_1$: Audit committee size does not have a significant influence on the financial performance of manufacturing firms in Nigeria.

$H0_2$: Auditors independence has no significant impact on the financialperformance of manufacturing firms in Nigeria

$H0_3$: Conformity to rules on return on investment does not have a significantimpact on the financial performance of manufacturing firms in Nigeria.

Empirical Review

Awa and Obinabo (2020) examined the impact of audit quality on the profits of Nigerian listed industrial goods companies on shareholders 'dividends. Nigerian listed industrial products businesses were studied for the impact of auditor independence, audit firm size, and auditor tenure on earnings. In the light of the findings, investors and other stakeholders should pay close attention to the duration of the audit tenure of companies audited by independent auditors and large audit firms (the Big 4), as a longer audit tenure may affect audit quality and hence the dependability of reported earnings.

Ishaku, Musa, and Mubarakaku (2020) examined a five year (2015-2019), annual reports and financial statements for listed manufacturing businesses were used to gather data. It was discovered that the size of an audit firm has a statistically significant negative impact on the value of the company. Although there is a correlation between audit firm lifetime and firm valuation, the association is not statistically significant. An increase in the size of a firm can have a significant impact on its value. In contrast, there is a positive correlation between a company's age and its firm worth, which is not statistically significant.

Methodology

Research Design

Our study adopts cross sectional and ex-post factor search design because this design enables us to test the effect between audit quality and value of manufacturing firms in Nigeria without altering or manipulating what has already been documented.

Population of the study

The population of the study comprises all the sixty-one (61) quoted manufacturing firms in Nigeria as at 31 December, 2021.

Sampling and Sampling Techniques

The sample is made up of 34 listed manufacturing companies chosen based on data availability. The thirty-four manufacturing companies chosen for the study are those who provide complete information about their auditors, to enable us measure the study variables. Because of the vast representation of the population that is the hallmark of sampling, the sample represents 58 percent of the research population, which is considered adequate. Independence, and Audit-firm size were used for the analysis.

Data and Analytical Procedure

The study made use of secondary source of data contained in the annual financial reports of the companies under investigation. These annual reports were collected from the Nigerian Exchange with data spanning from 2011 to 2020. With the use of Review software, the data acquired for the study was analyzed using the panel multiple regression technique. The choice of this statistical tool is because of the fact that it gives a more robust result for studies of this nature. For robustness purposes, the study subjected the model to both descriptive statistics and correlation analysis.

Model Specification

This study expresses return on asset as a function of statutory audit services, audit tenure, auditor’s independence, and audit-firm size. Accordingly, equation from the regression analysis is predicted as follow:

$$ROA = \alpha0 + \beta1SAU + \beta2AUDT + \beta3AUDI + \beta4AUFS + \varepsilon it$$

Where: ROA = Return on asset; SAU = Statutory audit services; AUDT= Audit tenure; AUDI=Auditor’s Independence; AUFS = Audit-firm size; βo = Intercept or Constant coefficients (the constant term); β1-β5 = Regression Coefficients; εit= Schocastic, disturbance error term (noisy variable)

Apriori Expectation: Following trends of extant empirical documentations, we therefore expect a mixed result between audit quality and firm performance.

DATA PRESENTATION AND ANALYSIS

Summary Statistics and Diagnostics

Studying publicly traded manufacturing organizations from 2011 to 2020, the paper examined the connection between audit quality and firm performance. Descriptive statistics, correlations, variance inflation factor (VIF) analyses were conducted as part of preliminary data testing. The descriptive data of the selected consumer goods firms that make up our sample are shown in the table are linked to one another in terms of the stability and volatility of the regression estimates. Variance Inflation Factor (VIF) was used to check for multi-collinearity and to test if the independent variables were perfectly correlated. The following table 4 shows the outcome of the Variance Inflation Factor (VIF) attracting clients, thereby improving productivity with a multiplier effect on improved turnover levels, profitability, and investments.

Discussion

The summary statistics and Diagnostics of audit quality on performance of selected manufacturing companies to oversee the connection between audit quality and firm valuation over that time period. Descriptive statistics, correlations, and variance inflation factor (VIF) analyses were conducted as part of preliminary data testing. Findings show that on the average, ROA for the selected firms is 2.5228 while the maximum level of ROA obtained is approximately 176.27. For AUDT, the average audit tenure for the selected firms is approximately 0.766 with a minimum value of 0 and maximum value of 1 indicating the existence of companies whose external auditors had spent either below, or over 3 straight years respectively.

Conclusion

The quality of reported earnings and the audit function's capacity to successfully increase the value of industrial companies across the country are now seriously in doubt. Quality of audited reported accounting information, and how it relates to corporate value, is a major source of concern. This raises the question of whether company failures and stock price volatility are not the result of a bad audit function, particularly when it comes to catching earnings falsification. This research examined the impact of audit quality on the value of company. It was found that auditor independence has an enormous impact on the value of publicly traded companies, therefore making them more valuable. Based on the results presented and discussed in the earlier section of this study, the study therefore concludes that the quality of audit work attributed specifically to statutory audit and auditors' independence are dominant variables that explains profitability, with specific reference to ROA differentials among companies. Audit tenure which exhibits an inverse relationship with statutory audit was not able to individually exert significant influence on ROA. Notwithstanding, the results from the model estimation, our conclusion is that audit quality measures jointly influence the ROA of companies in Nigeria.

Recommendations

Based on the findings of this study, we present our recommendations thus:

i. The country's Financial Reporting Council and other regulators should develop policy guidelines to specifically checkmate auditors' tenure vis-à-vis compliance to existing regulatory framework for financial reporting.
ii. A minimum threshold for the level of independence for auditors should be stipulated by regulators. This will largely put to check the activities of auditors.
iii. Depending on the nature and industrial activities of companies, a monitoring mechanism should be put in place to regulate the fees paid by clients for statutory audit services.
iv. The tenure for external auditors should be reasonably long enough to enable the auditors understand and implement the right measures towards achieving the objectives of their audit especially for firms with very high volume of transactions.

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