

# The Composite Determinants of Audit Quality in the Nigerian Manufacturing Firms

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**Abstract:** *The composite determinants of audit quality in Nigerian manufacturing firms refer to the various factors that contribute to the overall quality of audits conducted in the manufacturing sector in Nigeria. Audit quality is crucial for ensuring the reliability and credibility of financial statements, which in turn enhances investor confidence and promotes economic growth. The study adopted a combination of ex-post facto and correlational designs. This is because the author collected existing data from the financial statements of the selected manufacturing firms to determine the effect of the determinant factors on audit quality. The population of the study consists of the 30 manufacturing firms listed in Nigeria Exchange Group (NEG) as at 31st December, 2022. The sample size of Eight (8) manufacturing firms was determined using the taro Yamane. Data on the identified variables of the manufacturing firms in Nigeria for the period of the study (2015 to 2022). The study concluded audit quality largely depends on the audit independence, and that the audit firm size is a good factor and determinant of Audit Quality. It was also shown in the study that Audit Committee independence from management has a positive and significant effect on the Audit Quality. The study recommends the independence of the audit committee should be maintained and improved upon to build the faith of stakeholders owing to the Audit Quality produced from such independence.*

**Keywords:** Audit Quality, Manufacturing firms, Professional Skepticism, Regulatory Environment.

## Introduction

The composite determinants of audit quality in Nigerian manufacturing firms refer to the various factors that contribute to the overall quality of audits conducted in the manufacturing sector in Nigeria. Audit quality is crucial for ensuring the reliability and credibility of financial statements, which in turn enhances investor confidence and promotes economic growth. In Nigeria, the manufacturing sector plays a significant role in the country's economy, contributing to employment generation, foreign exchange earnings, and industrial development. As such, it is essential to have reliable and high-quality audits in this sector to ensure accurate financial reporting and effective corporate governance (Ozegbe, & Jeroh, 2022).

The audit quality in the Nigerian manufacturing firm is influenced by various factors known as audit quality determinants. These determinants play a crucial role in ensuring the reliability and credibility of financial statements and reports produced by manufacturing companies (Uwhejevwe-Togbolo, Okoli, & Ubogu, 2023). This comprehensive response will discuss five key audit quality determinants in the Nigerian manufacturing industry and their impact on overall audit quality. The determinants to be accentuated in this study will be auditor independence, Audit Firm Size, Audit Committee Effectiveness, Professional Skepticism, and Regulatory Environment (Ayora, & Ogeto, 2022).

The independence of auditors is very important to the quality of audit responsibility of an audit to a firm. It enables the auditors to have a fair view of the firm's financial information during the process of carrying out their audit responsibility. Auditor independence is a critical determinant of audit quality (Al-Ajjimi, 2009). Thus, Auditor independence refers to the auditor's ability to perform their duties objectively and without any bias or influence from the audited entity. In the Nigerian manufacturing firms, auditor independence is crucial to ensure that auditors can provide unbiased opinions on financial statements. Independence is achieved when auditors are free from any conflicts of interest, financial or otherwise, that may compromise their objectivity. It may also be connected to the audit firm size (Almomani, 2018).

The size of the audit firm is another determinant of audit quality in the Nigerian manufacturing firms. Larger audit firms often have more resources, expertise, and experience compared to smaller firms. These factors can positively influence the quality of audits conducted by larger firms. Additionally, larger firms are subject to stricter regulatory oversight, which further enhances their commitment to maintaining high-quality audits. Again, it is essential to establish that since the size of audit firm plays an important role in the audit quality, the effectiveness of the audit committee in the out of audit quality is essential (Alpheaus, 2020). The effectiveness of the audit committee is a significant determinant of audit quality of the firm. The audit committee plays a crucial role in overseeing the financial reporting process and ensuring the integrity of financial statements. An effective audit committee consists of independent members with relevant financial expertise who can provide oversight and guidance to auditors. Their involvement enhances the overall quality of audits conducted within manufacturing companies. Consequently, the audit committee in their oversight function should be able to monitor the audit of the auditing firm to achieve the needed quality, while the auditors

should as questions regarding the entirety of information needed to achieve quality without any compromise. The auditor's professional skepticism should be fully activated in the audit function (Almomani, 2018).

Professional skepticism refers to an auditor's questioning mindset and critical evaluation of evidence during an audit engagement. It is an essential determinant of audit quality as it helps auditors identify potential misstatements or irregularities in financial statements. In the Nigerian manufacturing industry, auditors with a high level of professional skepticism are more likely to detect and report material misstatements, thereby enhancing audit quality (Kusumawati, & Syamsuddin, 2018).

The regulatory environment in which audits are conducted significantly impacts audit quality in the Nigerian manufacturing industry. A robust regulatory framework that includes clear auditing standards, ethical guidelines, and enforcement mechanisms promotes high-quality audits. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) play a vital role in ensuring compliance with auditing standards and maintaining audit quality (Knechel, 2016; Beattie, Fearnley, & Hines, 2010).

The study is centered on the composite determinants of audit quality in the Nigerian manufacturing firms which include auditor independence, audit firm size, audit committee effectiveness, professional skepticism, and the regulatory environment. These factors collectively contribute to the reliability and credibility of financial statements produced by manufacturing firms which play significant roles in ensuring high-quality audits. Consequently, by addressing these determinants effectively, stakeholders can have confidence in the reliability and accuracy of the firm's financial statements.

Consequently, Enofe, Mgbame and Ehi-Osho, (2013) stated that, the necessity for good audit quality has become more evident in today's modern economy where a large number of persons are depending on reliable financial information in making informed economic decisions. The complexity of today's economic transactions, the separation in aspect, time and expertise between shareholders, managers and potential investors has made the auditors and audit procedures more demanding than ever. These circumstances have brought all the questionable accounting practices engaged in by the firms and their auditors under pressure and created the need to ensure that audit reports contain reliable assurance statements to corporate investors and other stakeholders (Eberechi, 2020)

In the light of the above, this study is consequent upon determining the critical composite factors that influence the audit report quality of manufacturing firms in Nigeria. The specific objectives are:

1. To analyse the influence of auditor independence on audit quality in Nigerian manufacturing firms.
2. To ascertain the effect of audit firm size on audit quality in Nigerian manufacturing firms.
3. To identify the influence of audit committee independence on audit quality in Nigerian manufacturing firms.
4. To investigate the effect of professional skepticism on audit quality in Nigerian manufacturing firms.
5. To ascertain the effect of regulatory environment on audit quality. in Nigerian manufacturing firms.

Thus, the following hypotheses are formulated for the study:

**H01:** The effect of auditor independence on audit quality is not significant in Nigerian manufacturing firms.

**H02:** Audit quality is not significantly affected by the audit firm size in Nigerian manufacturing firms

**H03:** Audit committee independence do not have any significant effect on audit quality in Nigerian manufacturing firms.

**H04:** Professional skepticism does not have any significant effect on audit quality in Nigerian manufacturing firms

**H05:** The effect of regulatory environment on audit quality is not significant in Nigerian manufacturing firms

## Conceptual Framework

### Auditors Duties and Responsibilities

The function of an auditor carries a lot responsibility. Their work affects the credibility and reputation of a firm. Compliance, regulation, law, and taxation are possible areas of specialization for auditors. A qualified auditor should be engaged in helping businesses optimize their operations and make sure that their policies and regulations are in compliance with the law. The

auditors knowledgeable about their functions should unbiased, logical, and meticulous. Aiding firms in enhancing the precision, effectiveness, or caliber of various aspects of their operations is one of the roles and obligations of an auditor. While many auditors work in the manufacturing sector as internal and external auditors, these professionals may also have experience in other sectors as they carry out their audit functions in almost all sector of the economy. Thus, the auditor's duties also include alerting management to the firm's strengths and weaknesses and guiding them as they develop solutions or fixes for these issues (Alaraji, Dulaimi, Sabri, & Ion, 2017).

Auditor are designated firms that examines and confirms the accuracy of financial documents and makes sure that businesses adhere to tax regulations and other regulations. Their main goal is to safeguard firms from fraud and, among other things, to draw attention to any inconsistencies in accounting practices. In general, being an auditor is not a simple job. The auditor has subjected himself to the obligations of different parties and those that come along with them because the auditors is a recognized professional. The trustworthiness of the financial statements and the information they contain essentially depends on the auditor's view. Compared to unaudited financial statements, audited financial statements have a very high level of validity and dependability (Finney, 2023).

Eberechi (2020) stated that, is unfair to anticipate that the audited accounts will be error-free. Auditors try to reduce the possibility of financial data being falsified. By Auditors offer an assessment of how accurately the financial statements are presented to stakeholders like investors and shareholders when conducting the audit of the financial statements. It is crucial that the auditor is, or is seen to be, independent of the entity, its management, and all other influences if readers of financial statements are to believe and rely on the auditor's opinion. Accordingly, Bahram (2007) underlined that it is required that audit work is undertaken with due consideration for audit quality in order to carry out an audit in a manner that meets the reasonable expectations of users of audited financial statements. Auditors serve critical roles in ensuring that investors and other stakeholders of audited entities have confidence in and are appropriately informed about the financial health of the entities when making investment choices by producing high-quality audit-quality reports.

### **Audit Quality**

Audit quality is a critical component in ensuring the accuracy and reliability of financial reporting, particularly among financial institutions (King, & McKennie, 2023). According to the Public Company Accounting Oversight Board (2020), audit quality is defined as the “degree to which an audit report provides reliable and relevant information about the financial statements and related disclosures” (PCAOB, 2020). In recent years, there has been growing interest in the role of audit quality in enhancing financial stability and promoting investor confidence.

Several studies have highlighted the importance of audit quality in manufacturing firms and other institutions. A study conducted by the European Central Bank (ECB) (2021) found that audit quality is positively correlated with financial performance of banks, suggesting that high-quality audits can contribute to the stability of the financial system and other sectors. Again, in consonance of the earlier study, the ECB, (2021) in a study also found that the quality of the level of disclosure in the financial statements increased, indicating that high-quality audits can also promote transparency in financial reporting.

Consequently, audit quality is a critical component in ensuring the accuracy and reliability of financial reporting among financial institutions. High-quality audits can contribute to financial stability, promote transparency, and improve corporate governance. However, several factors can affect the effectiveness of audit quality, including auditor independence, expertise, and objectivity. Regulators and financial institutions must continue to work together to promote high-quality audits through the adoption of clear and consistent standards, greater oversight and monitoring, and effective measures to hold auditors accountable for their work (King, & McKennie, 2023).

### **Auditor Independence as a Determinant of Audit Quality**

Auditor independence is a crucial factor in ensuring the quality and reliability of audits. It refers to the ability of auditors to perform their duties objectively and impartially, without any conflicts of interest or undue influence from the audited entity. The concept of auditor independence is rooted in the fundamental principle that auditors should be independent both in fact and in appearance. The importance of auditor independence stems from the fact that audits play a vital role in providing assurance to stakeholders about the accuracy and fairness of financial statements. Stakeholders, such as investors, creditors, and regulators, rely on audited financial statements to make informed decisions. If auditors are not independent, their objectivity and integrity may be compromised, leading to a decline in audit quality.

Auditor independence is a critical determinant of audit quality. When auditors are independent, they can perform their duties with objectivity, integrity, and professional skepticism. This enhances the reliability and credibility of financial statements, providing stakeholders with confidence in the information presented. Research has shown a positive relationship between auditor independence and audit quality. Studies have found that audits conducted by independent auditors are more likely to detect material

misstatements and provide reliable assurance. Additionally, auditor independence has been linked to higher financial reporting quality and lower incidence of financial fraud.

### **Firm Size as a Determinant of Audit Quality**

Firm size is one of the most significant determinants of audit quality, and it has been the subject of extensive research in the field of auditing. The size of a firm can have a profound impact on the quality of its financial statements, and therefore, on the effectiveness of the audit process. Numerous studies have examined the relationship between firm size and audit quality, and the empirical evidence suggests that larger firms tend to have higher audit quality. For example, a study by Novie, and Leny, (2018), found that larger firms tend to have lower material weaknesses and better financial reporting quality compared to smaller firms. Similarly, a study by Chen-Chin, Fan-Hua., and Kai-Hsun, (2014) found that larger firms tend to have higher audit quality as measured by the likelihood of auditor dismissal.

The reasons for the positive relationship between firm size and audit quality are not surprising. Larger firms tend to have more resources, such as larger audit fees, more experienced auditors, and more advanced technology, which enable them to conduct more comprehensive and effective audits. Additionally, larger firms tend to have more established internal control systems, which can help to prevent material misstatements and errors in financial statements.

### **Audit Committee Independence as a Determinant of Audit Quality**

The audit committee is essential to maintaining the caliber and efficiency of the auditing process. It improves the dependability and credibility of financial reporting by providing oversight, independence, and experience, which serves as a primary determinant of audit quality. A firm's audit committee is a subcommittee of the board of directors charged with monitoring financial reporting, internal controls, and the external audit process. Its main goal is to improve the integrity and transparency of financial statements, protecting the interests of shareholders and other stakeholders (Andreea, & Hategan, 2019). Thus, an audit committee independence may contribute great to the quality of financial report. Consequently, the fundamental roles of an audit committee is to provide independent oversight of the firm's financial reporting process by acting independently from management (Azizkhani, Daghani, & Shailer, 2018).

It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Dao, Hongkang, & Long, 2019). The Code of Corporate Governance states that majority of audit committee members must be independent and the chairman should be an independent non-executive director (Alpheaus, 2020). It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem (Alpheaus, 2020; Hategan, 2019).

Audit committee independence serves as a determinant of audit quality through its independent opinion from the management. The independent nature of the audit committee, combined with diverse expertise, enhances the reliability and credibility of financial reporting processes. By fulfilling its responsibilities effectively, the audit committee independence contributes significantly to maintaining high standards of audit quality.

### **Professional Skepticism as a Determinant of Audit Quality**

Professional skepticism is a crucial determinant of audit quality. It refers to the attitude of auditors that includes a questioning mind and a critical assessment of audit evidence (Holstrom, 2015). According to Glover, and Prawitt, (2014) professional skepticism helps auditors to maintain an independent and objective mindset throughout the audit process, enabling them to identify and address potential risks and errors in financial statements effectively. Furthermore, Endrawes, and Monroe (2012) states some of the vital roles professional skepticism plays in enhancing audit quality for several reasons:

- i. **Identifying Fraudulent Activities:** Professional skepticism helps auditors in detecting fraudulent activities or misstatements in financial statements. By maintaining a skeptical mindset, auditors are more likely to question management's assertions and exercise professional judgment when evaluating the reliability of evidence. This skepticism can lead to the discovery of irregularities or inconsistencies that may indicate fraudulent activities.
- ii. **Challenging Assumptions and Estimates:** Auditors often encounter situations where management makes significant assumptions or estimates that have a material impact on the financial statements. Professional skepticism allows auditors to critically evaluate these assumptions and estimates, ensuring they are reasonable and supported by appropriate evidence. By challenging management's assertions, auditors can provide a more accurate assessment of the financial statements' reliability.

- iii. **Enhancing Professional Judgment:** Professional skepticism enhances auditors' professional judgment by encouraging them to consider alternative explanations and interpretations of audit evidence. It helps auditors avoid confirmation bias, which occurs when they seek evidence that supports their initial beliefs or expectations while ignoring contradictory evidence. By maintaining a skeptical mindset, auditors can make more informed decisions based on objective analysis rather than personal biases.
- iv. **Addressing Management Bias:** Professional skepticism helps auditors address potential management bias by independently assessing the reasonableness of management's judgments and decisions. It ensures that auditors do not rely solely on management's representations but instead critically evaluate the underlying evidence supporting those representations. This reduces the risk of undue influence from management and enhances the objectivity and independence of the audit process.
- v. **Promoting Audit Quality Culture:** Professional skepticism is a fundamental component of an audit quality culture within an audit firm. When auditors consistently demonstrate skepticism, it sets a tone at the top that emphasizes the importance of critical thinking and independent judgment. This culture promotes a thorough and rigorous approach to auditing, ultimately leading to higher audit quality.

professional skepticism is a crucial determinant of audit quality. It enables auditors to identify fraudulent activities, challenge assumptions and estimates, enhance professional judgment, address management bias, and promote an audit quality culture. By maintaining a skeptical mindset throughout the audit process, auditors can provide reliable and objective assurance on the financial statements (Center for Audit Quality, 2018).

### **Regulatory Environment as a Determinant of Audit Quality**

The regulatory environment plays a crucial role in determining audit quality. It sets the standards and guidelines that auditors must adhere to when conducting audits, ensuring that they perform their duties with integrity, objectivity, and independence. The regulatory framework provides a structured approach to auditing, which enhances the quality and reliability of financial statements (Xiaowen, John, & Soon-Yeow, 2022). One of the key ways in which the regulatory environment influences audit quality is through the establishment of auditing standards. These standards outline the procedures and methodologies that auditors must follow when conducting an audit. They provide a framework for auditors to assess the effectiveness of internal controls, evaluate the reasonableness of financial statements, and express an opinion on their fairness and accuracy.

According to Foerster and Garcia (2015), they stated that, auditing standards are typically set by professional bodies or government agencies responsible for regulating the accounting profession. These standards are continuously updated to reflect changes in business practices, accounting rules, and auditing techniques. By setting clear expectations for auditors, these standards help ensure consistency and uniformity in audit practices, thereby enhancing audit quality. Consequently, the regulatory environment also establishes ethical requirements for auditors. Ethical codes outline the professional behavior expected from auditors, emphasizing principles such as integrity, objectivity, confidentiality, and professional competence. These ethical requirements help maintain public trust in the auditing profession by ensuring that auditors act in the best interest of their clients and the general public.

The regulatory environment also plays a significant role in enforcement. Regulatory bodies have the authority to investigate complaints against auditors and take disciplinary actions if necessary. This enforcement function acts as a deterrent against unethical behavior and provides a mechanism for addressing audit failures or misconduct. By holding auditors accountable for their actions, the regulatory environment helps maintain the integrity and quality of audits. Furthermore, regulatory bodies may conduct quality control reviews of audit firms to assess their compliance with auditing standards and ethical requirements. These reviews aim to identify any deficiencies in audit practices and provide recommendations for improvement. By monitoring the performance of audit firms, regulatory bodies can identify systemic issues and take corrective actions to enhance audit quality (Brant, Lijun, Sydney, & Wayne, 2022).

The regulatory environment also influences audit quality through its impact on auditor independence. Independence is a fundamental principle of auditing that ensures auditors remain unbiased and objective when conducting audits. Regulatory bodies establish rules and regulations to safeguard auditor independence, such as restrictions on providing non-audit services to audit clients or maintaining financial relationships that could compromise objectivity. By promoting independence, the regulatory environment helps maintain the integrity and credibility of audits (Xiaowen, John, & Soon-Yeow, 2022). Thus, regulatory environment is a critical determinant of audit quality. It establishes auditing standards, ethical requirements, continuing professional education programs, enforcement mechanisms, quality control reviews, and rules for auditor independence. These regulatory measures contribute to enhancing the reliability and credibility of financial statements by ensuring that auditors perform their duties with integrity, objectivity, and independence.

### **Theoretical Framework**

The study adopted the agency theory. The theory is used to understand the relationships between agents and principals. This relationship arises when one or more principals (e.g. an owner) engage another person as their agent (or steward) to perform a service on their behalf. The agent is expected to represent the best interests of the principal without regard for self-interest which leads to the principal-agent problem. According to the agency theory, principals lack trust in their agents because of information asymmetries and self-interest. To address these concerns, principals will put in place mechanisms that will align agents' interests with their own and limit the opportunity for information asymmetries and opportunistic behavior. According to the argument, no agent is reliable, and if an agent can benefit personally at the expense of a principal, he will. The audit is one method for keeping tabs on the agent and offering a check on the agent's loyalty. In order to foster confidence and strengthen trust in financial information, audits serve a key purpose.

The disciplines of institutional theory and economics were joined to create the principal and agent theory in the 1970s. There is some disagreement about who first proposed the theory, with Stephen Ross and Barry Mitnick both claiming credit. Undoubtedly, the two researchers were the first to separately and roughly concurrently suggest that a theory of agency be developed and to really start that process. Although the fundamental ideas underpinning these approaches are similar, Ross is credited with developing the economic theory of agency, while Mitnick is given the credit for developing the institutional theory of agency (ICAEW, 2005).

The context for the current study is provided by agency theory, a valuable economic theory of accountability that sheds light on the evolution of the audit function. The theory is frequently used in the accounting literature to explain and make predictions about the selection, effectiveness, and existence of external auditors. The theory also explains how internal auditors are assigned roles and tasks by organizations and how organizational change may impact internal audit functions. As a result, the theory offers a solid foundation for extensive research that can be advantageous to both the academic community and the internal auditing profession.

### **Empirical Review**

Oji, Oliver, Ofegbu, and Grace (2017) examined how the caliber of the audit committee affected the financial reporting of Nigerian listed businesses in a different study. To gather the necessary information for hypothesis testing, they developed a structured questionnaire that was distributed to a sample of 145 administrative staff members of chosen listed companies in Rivers State. The ordinary least square regression analysis was the statistical method used to analyze and assess the hypotheses. The analysis's findings revealed that the audit committee's independence, composition, and monitoring role all significantly improve the quality of financial reporting for Nigerian listed companies.

Yuniarti (2011) examined the determinants of audit quality by proposing the hypothesis that the audit firm size and audit fees have an effect on audit quality. A descriptive verification was carried out by describing the variables and observing the correlation. The paper examined the hypothesis; through simultaneous test and individual test, using the t-test and f-test. Results showed that the CPA firm size does not significantly affect the audit quality, whereas audit fees significantly affect the quality of audit. However, simultaneously, firm size and audit fees do not significantly affect audit quality.

Enofe, Mgbame, Aderin and Ehi- osho ((2013) analysed the determinants of audit quality in the Nigerian business environment. The study examined the relationship between audit quality, engagement and firm related characteristics such as audit tenure, audit firm size, board independence and ownership structure. A regression model was used to analyse the existence of significant relationships between audit quality and the firm/audit related characteristics. Audit firm size and board independence exhibited a significant relationship with audit quality.

Siregar, Amarullah, Wibowo and Anggraita (2012) carried out their research in the Indonesian environment where regulators had made it compulsory to rotate the appointments of public accountants every three (3) years and the appointment of public accounting firms every five (5) years. The purpose of their study was to investigate the effects of auditor rotation and audit tenure of the public accountant and the public accounting firm, on audit quality. Their results showed that mandatory auditor rotation did not increase audit quality; and that shorter audit tenure (both partner and firm level) did not also increase audit quality.

Adeyemi and Fagbemi (2010). Conducted a study on evidence of corporate governance, audit quality, and firm related attributes from Nigeria. Their findings show that ownership by non-executive directors had the possibility of increasing the quality of auditing. Evidence from the study also indicates that company size and business leverage are important factors of audit quality for companies quoted on the Nigerian Stock Exchange.

Alaraji, Aldulaimi, Sabri and Ion (2017) investigated the factors affecting the quality of external auditing services in Iraq. The research findings revealed the existence of significant difference between the interested parties in the profession of external audit around the concept of external auditing quality. The study also shows that there is no significant difference in the opinions of

interested parties in the process of external audit about the factors affecting the audit quality and no significant difference between the opinions of interested parties in the process of external audit regarding most methods for improving the external audit quality.

The empirical reviews presented in this study considered different factors that affect audit quality in a variety of sectors, but no author appears to have comprehensively examined the composite determinants of audit quality of Nigerian manufacturing firms.

**Methodology**

The study adopted a combination of ex-post facto and correlational designs. This is because the author collected existing data from the financial statements of the selected manufacturing firms to determine the effect of the determinant factors on audit quality. The population of the study consists of the 30 manufacturing firms listed in Nigeria Exchange Group (NEG) as at 31st December, 2022. The sample size of Eight (8) manufacturing firms was determined using the taro Yamane model viz:

$$n = N/(1+N(e)^2)$$

Where n = sample size. N = Population of the study and e = error term.

$$\text{Thus: } n = 40 / (1+40(0.05)^2)$$

$$= 40 / (1+4.0) = 40/5.0 = 8$$

Data on the identified variables of the manufacturing firms in Nigeria for the period of the study (2015 to 2022). Consequently, data of the eight (8) manufacturing firm was sourced for the period of 8 years.

**Model Specification**

The model used in this study will be guided by the econometric model specified as follows;

$$\text{Aud} = (\text{AudInd}, \text{AudFS}, \text{AudCInd}, \text{ProSkep}, \text{RegEnv})$$

$$\text{LogAudQ} = \beta_0 + \beta_1\text{AudInd} + \beta_2\text{AudFS} + \beta_3\text{AudCInd} + \beta_4\text{ProSkep} + \beta_5\text{RegEnv} + \mu$$

**Where**

AudQ = Audit Quality

AudInd = Auditors Independence.

AudFS = Audit Firm Size

AudCInd = Audit Committee Independence

ProSkep = Professional Skepticism

RegEnv = Regulatory Environment

$\beta_0$  and  $\beta_1$  = Parameter to be estimated.

$\mu$  = Error term.

Multiple regression technique was used in analyzing the data

**Results**

Results on the Factors affecting Audit Quality in Nigerian banks.

Model	Unstandardized	Standardized		T	Sig.
	Coefficients	Coefficients			
	B	Std. Error	Beta		
(Constant)	12.233	2.001		6.113	.000
AudInd	2.173	.000	.783	16.112	.000
AudFS	.427	.173	.134	2.548	.017

AudCInd	.440	.216	.113	2.026	.026
ProSkep	-.006	.024	-.013	-.230	.008
RegEnv	-.074	.026	-.149	-2.981	.009
R		.965	Durbin-Watson		1.009
R Square		.913	F-Ratio		72.811
Std. Error of the Estimate		.15009	Sig of F-ratio		.000

From the above table, the f-value of 72.811 (P-value = .000 @ 0.05) indicates that the model is properly fitted and that the independent variables used are appropriate predictors of audit quality. The coefficient of determinant,  $r^2$ , of 0.913 indicates that about 91.3% of the variations observed in the audit quality are explained by the predictor variables with only 8.7% of the variability in audit quality due to factors other than the independent variables used in this study. The results in the table are therefore used in testing the formulated hypotheses.

### Hypotheses Testing

The five hypotheses formulated for this study is restated and tested respectively below:

#### Hypothesis 1:

**Ho<sub>1</sub>:** The effect of auditor committee independence on audit quality is not significant in Nigerian manufacturing firms.

As indicated in the table above, the t-value of 16.112 (P-value = .000 @ 0.05) for AudInd indicates the presence of a positive and significant effect of AudInd on AudQ. Based on this result, the first null hypothesis (Ho<sub>1</sub>) is rejected and we conclude that auditor independence has a significant effect on audit quality. Enofe, Mgbame, Adeyemi, and Ehi-Oshio, (2013) stated that the effect of board independence and audit quality in the Nigerian business environment is not significant, they further highlighted the importance of independence in the sustenance of quality in corporate financial management and reporting.

#### Hypothesis 2

**Ho<sub>2</sub>:** Audit quality is not significantly affected by the audit firm size in Nigerian manufacturing firms

The t-value for AudFS of 2.548 (P-value = .017 @ 0.05) shows that the relationship between this variable and audit quality is positively significant. Consequently, the null hypothesis (Ho<sub>2</sub>) is rejected and the alternative hypothesis is accepted. The study consequently conclude that audit firm size has a positive significantly affects audit quality. This study is in agreement with the apriori expectation and the results in Osarumwense and Aderemi (2016) who found audit firm size have a positive and significant effect on financial reporting quality.

#### Hypothesis 3

**Ho<sub>3</sub>:** Audit committee independence do not have any significant effect on audit quality in Nigerian manufacturing firms.

Correspondingly, the t-value of 2.026 (P-value = .026 @ 0.05) for AudCInd shows positive and

significant relationship between AudCInd and AudQ. The third null hypothesis (Ho<sub>3</sub>) as propose in the study is rejected. The study therefore concluded that audit committee independence has

a positive and significant effect on AudQ of manufacturing firms in Nigeria. This study is also in agreement with the study of Oji, Oliver, Ofegbu and Grace (2017) with both apriori expectation and the findings are consistent.

#### Hypothesis 4

**Ho<sub>4</sub>:** Professional skepticism does not have any significant effect on audit quality in Nigerian manufacturing firms

Considering the result as shown in the table, ProSkep has a t-value of -.230 (P-value = .008 @ 0.05) and this indicates the existence of converse but significant relationship between ProSkep and AudQ. Therefore, the forth null hypothesis (Ho<sub>4</sub>) is rejected. The study conclude that professional skepticism has a significant effect on audit quality. This result is inconsistent with findings of Kusumawati, and Syamsuddin, (2018) in their study on the effect of auditor quality to professional skepticism and its relationship to audit quality they found that there is a significant and positive relationship between ProSkep and AudQ.

#### Hypothesis 5



**Ho<sub>5</sub>:** The effect of regulatory environment on audit quality is not significant in Nigerian manufacturing firms

The result indicates that RegEnv has a t-value of -2.981 (P-value = .009 @ 0.05) and this indicates the existence of converse but significant relationship between RegEnv and AudQ. Consequently, the fifth null hypothesis (Ho<sub>5</sub>) is rejected. The study therefore concludes that the regulatory environment as done by the regulatory bodies has a significant effect on AudQ. This result is consistent with findings by Knechel (2016) and Beattie, Fearnley, and Hines, (2010) in their investigations agreed that regulatory environment makes the audited report to have quality.

### Summary of Findings

This paper made the following findings:

1. Auditor independence has a significant effect on audit quality.
2. The study conclude that audit firm size has a positive significantly affects audit quality.
3. The study found that audit committee independence has a positive and significant effect on AudQ of manufacturing firms in Nigeria.
4. It was also seen in the study that professional skepticism has a significant effect on audit quality.
5. The regulatory environment as done by the regulatory bodies has a significant effect on AudQ.

### Conclusion

The study examined the composite determinants of audit quality in the Nigerian manufacturing firms and concludes that audit quality largely depends on the audit independence, and that the audit firm size is a good factor and determinant of AudQ. It was also show in the study and Audit committee independence from management has a positive and significant effect on the AudQ. While in professional skepticism and regulatory environment there was a significant effect on the AudQ of manufacturing firms in Nigeria.

### Recommendations

Based on these findings, it is therefore recommended that:

1. Effort should be made to always make the auditors to act independently so a to acquire the best judgement and produce a quality financial report.
2. Although some small audit firm could also produce good report, the study indicates that the size of an audit firm also determines the quality of their financial report divulge of interference from management. It is therefore necessary for manufacturing firms to engage big firms to carry out their audit.
3. The independence of the audit committee should be maintained and improved upon to build the faith of stakeholders owing to the AudQ produced from such independence.
4. Professional skepticism should be more practice by auditors as this will help the auditors to get reliable information on their auditing work.
5. The regulators should keep bringing out good standards to will sharp the interest of both the auditors and the firms.

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