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Appraisal of Audit Quality Attributes on Performance of Listed Oil and Gas Multinational Companies in Nigeria

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ABSTRACT: *The paper examined the effect of audit quality attributes on the performance of listed oil and gas multinational companies in Nigeria over a 10-year periods from 2014 to 2023. The independent variable is audit quality attributes measured by audit rotation, auditing firm reputation, and audit report timeliness, with return on assets as the dependent variable. Data was collected from the firms' annual reports from 2014-2023, and analyzed using descriptive statistics, correlation analysis, and panel data tests with the help of E-Views version 9.0. The study reported that auditors' rotation exerted negative significant effect on firm performance, auditing firm reputation exerted positive significant effect on firm performance while timely audit reports exerted positive insignificant effect on firm performance. Hence, the study concludes that frequent auditors' rotation reduces the performance of the sampled firms while timely audit reports do not translate to higher ROA. Also, the more the sampled firms use larger audit firms, the more they report high ROA. On this note, the study submits that regulators are to ensure that are not rotated too frequently as this may have adverse effect on the performance of the sampled firms. Also, small auditing firms are advised to align with larger auditing firms as this synergy will have high significant effect on them. Lastly, regulators should curb the statutory requirements for timeliness in reporting in order to overcome the limitation of insufficient time*

Keywords: Audit report timeliness, Audit Fees, Auditors' Rotation,

1.0 Introduction

The accounting profession is generally seen as a noble one. This is because auditors make sure that management's reports to people who are directly or indirectly involved in the business activity are free of substantial misstatements, meaning they can provide a fair assessment of the situation of the business endeavor. Because of this, investors rely on the auditor's reports when making investment decisions. Therefore, it is important to design the financial statements in a way that can influence users' financial decisions (Amahalu & Obi, 2020). Therefore, an audit report must boost users' confidence in the firm's performance and financial statements in order to be considered high quality.

If an auditor can identify deceptions and manipulations and is willing to reveal them, then the audit report is of high quality, according to De Angelo (1981). According to De Angelo, it is essential to mention that audit quality describes how well the audit can prevent financial statement manipulations and earnings falsification. Inferentially, once investors and potential investors have faith in a company's financial statements, that trust will raise demand for the company's stock, which will raise the market value of those shares. Furthermore, good audit quality gives users of the financial statements a foundation of confidence; it also readily draws investors by enhancing confidence in the clients' actual financial situation, which influences the firm's market value.

Additionally, the issue of firm performance and strategies for improving it are crucial for investors, corporate organizations, and other stakeholders because the performance of a firm reflects how well managers run a business, which raises the firm's value for shareholders. Examples of business scandals and financial misreporting indicate that there are still loopholes in audit standards, even in spite of regulatory efforts to strengthen them. The degree to which audit quality influences financial performance—including profitability, operational effectiveness, and the company's standing in the marketplace—is unclear as a result of these problems. Therefore, comprehending the connection between audit quality and financial performance, figuring out the major factors that affect audit quality, and investigating how flaws in the audit procedure could harm an organization's financial status are the issues at hand. In order to maintain regulatory compliance, boost investor trust, and guarantee sustained financial growth, these issues must be resolved.

Furthermore, as far as the researcher is aware, there is little empirical data relating the financial performance of quoted multinational corporations in Nigeria with the quality of their audits. The researcher is driven to investigate the crucial connection between audit quality and financial performance because of these gaps that have been noticed. This is to give a more thorough understanding of the subject.

Review of Literature

2.1. Conceptual Review

There doesn't appear to be a single, accepted definition of audit quality as of now. This is a result of the construct's complexity. De Angelo's (1981) and Palmrose's (1988) definitions of audit quality are among the most popular and widely accepted. The market-measured joint chance that an auditor would both find and report substantial misstatements in the client's financial statements is what

De Angelo (1981) defined as audit quality. The quality of people, their training, and their ethical standards are more important factors in audit quality than auditing standards.

According to the aforementioned, this study defined audit quality as the audit's capacity to identify material misstatements and report the errors in a way that can affect stakeholders' degree of assurance and confidence in the validity and dependability of clients' financial statements, which serve as the foundation for financial decisions. The reputation of the auditing firm, the tenure and rotation of the auditors, and the promptness of the audit report are recognized indicators of audit quality qualities. First, the most significant factor utilized in the empirical literature to evaluate the external audit's quality is the audit firm's reputation. It is widely acknowledged that the Big 4 conduct audits of higher quality (Tarak, 2016). Furthermore, according to Kanageretnam, Lim, and Lobo (2016), the Big 4 assist in improving the quality of their clients' accounting income while also mitigating the issue of information asymmetry between management and shareholders. Akintola Williams Deloitte, Ernest and Young Nigeria, KPMG Nigeria, and Price Waterhouse Coopers are the Big Four accounting companies. It is assumed that audits conducted by Big 4 audit companies are of higher quality than those conducted by non-Big 4 firms. Dichotomous values were used in the research. The study assumes a value of "1" if the company is audited by one of the Big 4 to determine the values for auditing firm representation, and a value of "0" otherwise. Second, the rotation and tenure of auditors have been used as a factor of audit quality in the majority of audit-related studies. These studies have also demonstrated that audit tenure has a considerable impact on audit quality, either positively or adversely. As of the fiscal year end covered by the audited financial statements, the duration of the audit firm-client relationship is known as the auditors' rotation (Cheng, Chen, and Chen, 2018). A brief explanation of audit tenure is when the same auditor examined a company's financial accounts for two to three years, or for nine years or longer. Accordingly, a medium-term audit tenure may be four to eight years (Sayyar, Basiruddin, Abdul-Rasid, and Elhabib, 2018). The problem is that the discussion in research over whether to have a long-term connection with the audit company or switch auditors periodically seems to go on forever. Because of this disagreement in previous research, audit tenure was chosen as a stand-in for audit quality in this study.

In particular, one important number that shows a company's profitability is return on assets (ROA). It serves as a gauge of a business's profitability in relation to its total assets. It is a ratio of its total assets to its income. It gauges how well a company's management can make use of its limited resources to increase profits.

2.2. Theoretical Framework

The agency theory was used to underpin the study. Accordingly, the agency The literature has extensively employed theory to examine the knowledge asymmetry between agents (management) and principles (shareholders). The agency theory is applied in this study to ascertain how audit quality affects the financial performance of listed multinational corporations based in Nigeria. According to theoretical reflection, the external audit serves two purposes in regulating and lowering agency costs: it helps to develop corporate governance processes while also minimizing information asymmetry. The foundation of the signal theory is the idea of asymmetric information and the unequal distribution of information between managers and shareholders. Since he can regulate managers' opportunistic conduct, especially when it comes to manipulating accounting data, the external auditor has always been essential in the process of resolving information asymmetry issues.

Large audit firms also serve as tools for lowering agency costs and information asymmetry, preventing management from acting opportunistically through monitoring (Onwuchekwa, Erah, & Izedonmi, 2012), and enhancing the caliber of information revealed (Ongore & Kusa, 2013). Consequently, it guarantees the safety of investors. Last but not least, a theoretical framework helps the researcher to test or make hypotheses about the link between the variables being studied.

2.3. Empirical Review

Emma-Achomba and Emudainohwo (2024) listed the returns on assets of Nigerian banks from 2011 to 2020 and looked at audit quality metrics. It was decided to use the feasible Generalized Least Squares (FGLS) model. According to the study, audit fees considerably decreased ROA, although committee independence and auditor tenure greatly increased ROA.

Amahalu and Obi (2020) investigated audit quality on the financial performance of quoted conglomerates in Nigeria from 2010-2019. Panel data was used. The results showed that ACS, ACI, and ACFE have a significant & positive effect on ROA.

Mustafa and Abdulwahab (2018) examined the correlation among audit quality and firm performance oil & gas firms in Nigeria. The study finds insignificant relationship between audit quality proxies and firm value.

From 1886 to 2009, Cheng, Chen, and Chen (2018) examined the relationship between auditor performance and size in Taiwan. The study discovered that auditor size affects performance directly and indirectly through auditor quality, according to path analysis.

Liu (2017) investigated the nexus between auditors' characteristics and audit fee. The study used the data of listed companies in China from 2010 to 2015; the study constructed the regression model of the audit fees at individual auditor level and found that age, gender, educational background, industry specialization, position and busyness all have significantly correlations with the audit fees.

Türel, Taş, Genç, and Özden (2017) investigated the relationship between audit quality and auditor rotation in Turkey from 2009 to 2016. It was discovered that a restricted rotation of auditors did not improve audit quality.

Ahmad and Qasim (2017) look into how the performance of Kenyan firms is affected by the caliber of their auditors. The study examined 112 companies' 2009–2013 annual reports. The timeliness of audit reports and the presence or absence of a Big Four audit firm are indicators of auditor quality. The study's conclusions show a substantial and adverse correlation between the timeliness of audit reports and financial

Matoke and Omwenga (2016) examined relationship between audit quality and financial performance of listed companies in Nairobi Securities Exchange. multiple linear regression analysis was employed.The study's conclusions show that audit quality has a favorable and noteworthy impact on financial performance.

In 2016, Amir, Einhorn, and Kama examined the impact of audit quality on business performance. They discovered that membership in a regulated industry, audit quality, and capital intensity are all positively correlated with the international selection of domestic Big 4 or 5 specialized auditors.

Methodology

Longitudinal research design was employed. Study population are all 12 multinationals in Nigeria. However, the study sampled eight (8) multi-nationals in Nigeria. The study utilizes secondary data which were obtained from the annual financial statements of the sampled Multinationals in Nigeria. The study spans a period of ten (10) years, from 2014 to 2023. The study adopted the panel data methodology using the E-views software. The panel data methodology is established on combined time-series and cross-sectional data.

3.1. Model Specification

$ROA_{it} = \beta_0 + \beta_1 AFR_{it} + \beta_2 AFP_{it} + \beta_3 ART_{it} + \varepsilon_{it}$………………...1

Where:

ROA = Return on Asset

AFR = Auditors' Rotation

AFP = Auditing Firm Reputation

ART = Audit Report Timeline

Table 1: Variables Measurement

S/N	Variable	Acronym	Measurement	Measurement Source	Apriori Expectation
1.	Return on Asset	ROA	Net Income/Total Asset	Emma-Achomba and Emudainohwo (2024).	Nil
2.	Auditors' rotation	AFR	Dummy variable is used. If auditors' rotation happens in the current year, it will equal 1 and if it does not happen, it will be 0	Emma-Achomba and Emudainohwo (2024).	Positive
3.	Auditing Firm Reputation	AFP	AFP is coded 1 if the audit of the issued financial statements was performed by a Big 4 audit firm, otherwise, AFP is coded 0	Emma-Achomba and Emudainohwo (2024).	Positive
4.	Audit Report Timeline	ART	If the audit is reported within the specified period, aft is coded as 1, otherwise aft is coded as 0	Amir, Einhorn and Kama (2016)	Negative

Source: Compiled by the Author (2024)

4.2. Data Analysis

Table 2 reported the descriptive statistics. Various parameters considered are the Mean, Maximum, Minimum, Standard deviation values, and Observations. Also, the correlation analysis was also reported.

Table 2: Summary Statistics

	Mean	Maximum	Minimum	Std. Dev.	Observations
ROA	0.01814	0.39319	-0.654	0.16854	80
AFR	0.98	1	0	0.14071	80
AFP	0.22	1	0	0.41633	80
ART	4.98189	1	0	0.61706	80

Source: Authors' Computation (2024)

The table 2 reported that, the quoted multinationals companies on the overall, has an, average mean of 0.018138, 0.98, 0.220000 and 4.981891 and S.D estimate at 0.168541, 0.14071, and 0.61706 for ROA, AFR, and ART respectively. This indicates a high variability (dispersion) since the standard deviation estimate is greater than the mean value. Again, auditing firm reputation (AFP) has an average mean of 0.22, and a S.D estimate at 0.416333,. This indicates a low variability (dispersion) since the standard deviation estimate is less than the mean value.

Table 3: Summary of Correlation Analysis

	ROA	AFR	AFP	ART
ROA	1.0000			
AFR	0.0734	1.0000		
AFP	-0.1645	-0.1348	1.0000	
ART	-0.1342	-0.2958	0.1783	1.0000

Source: Authors' Computation (2024)

Table 3 shows that only auditors' rotation, have positive and weak correlation with return on asset with correlation coefficients of 0.0734. However, auditing firm reputation and audit reporting time line have weak negative correlation with return on asset with respective correlation coefficient -0.1645, and -0.1342, respectively. Lastly, all the regressors reported coefficient values below 70% indicating low possibility of multicollinearity problem.

Hausman Test

Table 4: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	29.567487	2	0.0010

Source: Authors' Computation (2024)

The Hausman Test with p-value of 0.0000 and the Hausman cross-sectional test p-value of less than 0.05 reaffirmed that the FEM is preferred over the pooled OLS and the Random effect model.

4.2. Result

Table 5 reported the main regression estimate:

Table 5: Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.6238	0.2189	2.8494	0.0249
AFR	-0.6143	0.1343	-4.5736	0.0033
AFP	0.5785	0.1529	3.7830	0.0320
ART	0.0155	0.0134	1.1512	0.3455
R^2	0.7578	Mean dep. var		0.0181
Adj. R^2	0.6846	Durbin-Watson stat		2.1359
F-statistic	13.9489	Prob(F-statistic)		0.0000

Source: Authors' Computation (2024)

The R-squared of the FEM is 75.78%. Adjusted R-Squared shows that 68.45% of the total variations in ROA of multinationals are caused by AFR, AFP, and ART while the remaining 31.55% are caused by other factor not captured in the model. The F. statistic of 3.948944 which is greater than 2% is statistically significant at a level of 0.000333. Lastly, the Durbin Watson Statistics value estimated at 2.135933 indicate that the model is not serially correlated.

4.3 Discussions

The regression analysis revealed that AFR has a coefficient value of -0.6143 indicates that auditors' rotation has a negative influence on ROA in listed multinationals firms in Nigeria. By implication, if auditors are rotated frequently, knowledge acquired by an auditor about the specifics of a company will be lost with each rotation, ultimately harming audit quality thereby leading to decrease in performance. Furthermore, AFR has a p-value of 0.0033 (i.e., 0.0033 <0.05) suggesting that auditors' rotation have a significant influence on ROA of multinationals firms in Nigeria.

Again, AFP has a coefficient value of 0.5785 suggesting that the more the sampled firms use larger audit firms, the more they report high ROA. Also, the auditing firm reputation has a p-value of 0.0320 <0.05 suggesting that auditing firm reputation have a high influence on ROA of multinationals firms in Nigeria.

Lastly, ART has a positive coefficient value of 0.0155 and a p-value of 0.3445 suggesting that the timelier audit reports is, the more the sampled firms declare higher ROA. Furthermore, ART reported a p-value of 0.3455 (i.e., 0.3455<0.05) suggesting that the timely audit reports do not translate to higher ROA.

5 Conclusion and Recommendations

This study evaluated the effect of audit quality on financial performance of multinationals firms quoted on the Nigerian exchange group for 10 years spanning from 2014-2023. Specifically, the study sought to answer questions related to the effect of Auditors' rotation, Auditing firm reputation, and audit reporting timeline to dependent variable Return on asset. To answer the research questions, data were collected on 8 quoted multinationals Company drawn from a population of 12 multinationals Company listed on the Nigerian Exchange group throughout the study period. The data used for the study was extracted from the annual report of the multinationals company under study. Consequently, the paper concludes that frequent auditors' rotation reduces the performance of the sampled firms while timely audit reports do not translate to higher ROA. Also, the more the sampled firms use larger audit firms, the more they report high ROA. On this note, the study made the following submissions:

1. Regulators are to ensure that are not rotated too frequently as this may have adverse effect on the performance of the sampled firms.
2. Small auditing firms are advise to align with larger auditing firms as this synergy will have high significant effect on them.
3. Regulators should curb the statutory requirements for timeliness in reporting in order to overcome the limitation of insufficient time.

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