Audit Quality and Firm Performance of I.C.T Sector in Nigeria

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Abstract

This study investigated the impact of audit quality on firm performance in I.C.T sector for the period 2014-2023. Ex-post facto research design using panel data was employed and the 8 companies in the I.C.T sector quoted on the Nigerian Exchange Group (NGX) constitute the population for this study. Due to the sizeable amount of the companies, the entire population was used as the sample size. Secondary data relating to the variables were gathered from sampled companies' annual reports for the period and was analyzed using descriptive statistics and multiple regression technique. The independent variable which is audit quality was proxied by audit fees, audit experience, audit tenure and audit firm size while the dependent variable firm performance was proxied by return on asset. Data collected were analyzed using EViews 13 in the following order: descriptive statistics, correlation analysis, panel unit root test, estimation of the regression models and then performance of some diagnostics tests. Findings revealed that audit fee has a significantly positive effect on firm performance, audit experience has a positively significant effect on firm performance, audit tenure has a negatively significant effect on firm performance and audit firm size has a positively significant effect on firm performance. It was thus recommended that management should continue to use the bigger audit firms for as much as the sign or direction as well as the size or magnitude are aligned with their expectations.

Keywords: *Audit Quality, Audit Fee, Audit Experience, Firm Performance, Return On Asset, In I.C.T Sector*

Introduction

A firm's financial performance is the measurement of the results of a company's strategies, policies, and operations in monetary terms (Abdullahi, et al., 2020). Firms' performances may be financial or otherwise. Examples of non-financial performance indices are customer satisfaction, employee motivation, and high market share, among others, while financial performance may be measured as profit after tax, profit before tax, return on assets, return on equity, positive and sustainable operating cash flow, etc. Firm effective performance is the paramount objective of every profit-making organization. Every management aims to see that this objective is actualized. To achieve this goal firm engages the service of the quality audit firm to serve as the Board of Directors as well, and ensures the protection of their investors to encourage others to invest in the firm (Larcker, & Tayan, 2020).

The societal role of auditors is a key contribution to financial performance, in terms of reducing the risks of significant misstatements and ensuring that the financial statements are elaborated according to preset rules and regulations. Lower risks of misstatements increase confidence in capital markets, which in turn lowers the cost of capital for firms (Lukman, & Irisha, 2020). External financial statement users, including current and potential investors, creditors, and others need reliable financial information on which to base their resource allocation decisions.

When the financiers of organizations have confidence and trust in the audited financial report of an organization, they are bound to pour more funds into the organization. This in turn results in increased financial performance. Regulators and standard setters can increase the effectiveness of the company by promulgating rules and regulations that help ensure that audits improve financial information quality (Aksoy, & Aksoy, 2020).

The importance of auditing lies in its perceived role in detecting fraud, errors and irregularities in financial statements. Auditing boosts confidence and creditability of the financial statements which is needed for improving performance as users rely on them to make investment decisions. The audit of financial statements is an essential tool in maintaining an efficient market environment by reducing information asymmetries (Magnanelli et al, 2017). Auditors are to check the work of each department in a firm to ensure proper management of resources by those in custody of those resources. One of the essences of an audit is to achieve high-quality financial statements which are vital decision-making tools to users. The function of external auditors reflects the quality of financial reports or information that firms maintain to create confidence among the stakeholders and reflect the efficiency, effectiveness, and credibility of audit firms (Muchugia, 2018).

An effective internal and external audit can safeguard the firm from potential losses which can impact the financial performance of the firm (Subhi and Stanišić, 2016). An effective and efficient internal audit function helps to achieve an increased level of shareholders value (Faiteh, & Aasri, 2022). However, an effective internal audit function has a direct relationship with improving financial performance of the firm (Chen, et al., 2020). The operations of an organization are well developed by the quality of internal audit as the financial reports of a firm reflect the attributes of the internal auditors. Furthermore, a higher internal audit quality is able to better constrain earnings management, and in turn enhance the quality of financial reports (Salehi, et al., 2020).

Audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well-functioning markets and enhanced financial performance. The turbulent effects of the global financial crisis have highlighted the critical importance of credible high-quality financial reporting. Achieving quality financial reporting depends on the role that the auditor plays in supporting the quality of financial reporting of the company. It is an important part of the regulatory and supervisory infrastructure and thus an activity of significant public interest. Audit quality is one of the most important issues in audit practice today. Several individuals and groups; both internal and external, have an interest in the quality of audited financial information (Trotman, & Duncan, 2018). 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.

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 such as I.C.T sector. Xin et al, (2018) found that companies that engaged in fraud experienced performance deterioration. In a study of high-profile corporate failures. Daferighe, and George, (2020) found that a lack of audit quality is one of the reasons for financial and corporate scandals. It is against this background that this research work is carried out. The purpose of this study therefore is to determine the impact of audit quality on the financial performance of the I.C.T sector in Nigeria.

Statement of the Research Problem

Firms in Nigeria collapsed due to poor performance and this can be a result of poor audit quality. A report given on the Nigeria Stock Exchange website indicated that over 60 companies have been delisted from the NSE in the past years (Che et al., 2020). Also, various companies have closed down due to poor performance. Lack of auditor independence has become a very huge issue which has affected the performance of various firms. Audit scandals involving Big 4 clients have prompted questions about audit quality. The highly strict audit process has been neglected by most audit firms in Nigeria this has a bad signal on the financial performance of many firms which led to the collapse of firms (Che, et al., 2020).

So far, research has shown that the confidence in audits to successfully constrain financial misstatements and manipulations by companies is considerably doubtful and this has led to a reduction of reliance on audited financial statements by stakeholders in making series of economic decisions which are usually based on the value and quality of the company presented in these statements. The auditing profession performs a role in giving reasonable assurance to the various users of financial statements as it relates to the reliability and credibility of the figures presented by management in the financial statements. But this seems futile as several cases of corporate financial scandals in Nigeria like Cadbury Nigeria Plc, African Petroleum, Lever Brothers Nigeria Plc and Nampak have posed a great challenge on the credibility of audit reports since these cases resulted from audited financial statements where the auditors failed to detect and report financial misstatements and manipulations (Ismael, 2017). This has brought a great deal of disappointment to investors and other corporate financial reporting stakeholders consequently, impacting negatively on investors' economic decisions.

In addition, a considerable number of researches (Krasodomska et al., 2021; Aksoy, & Aksoy, 2020; Kapoor & Goel, 2017) have been conducted to analyze audit quality. Despite this growing literature on audit quality internationally, it is observed that most studies have centered on the determinants of audit quality. Again, few studies focused attention on audit quality as it affects or impacts corporate performance, valuation, and market reaction. It is also perceived that sufficient attention has not been given to audit quality especially as it relates to auditor experience, auditor committee experience, audit tenure, and audit firm size and how they affect the performance of firms. The literature search also revealed that most of the empirical studies on Nigeria in the area of audit quality and firm performance either studied both industrial and financial firms together or excluded financial firms. No recent study has been done on audit quality and performance of the I.C.T sector in Nigeria. Recent studies by Tyokoso et al., (2017) and Ogbodo & Akabuogu, (2018) were found to have been carried out on audit quality and performance. However, while Ogbodo & Akabuogu, (2018) used the accounting measure of performance, Tyokoso et al., (2017) used Tobin's Q which is a market method of performance. As a result, there have been contradicting opinions on the impact of audit quality on firm performance. This study therefore tries to fill this research gap by assessing the impact of audit quality on performance of the I.C.T sector in Nigeria.

Objectives of the Study

The main objective of this study is to determine the effect of Audit Quality on Firm Performance of I.C.T sectors in Nigeria. The specific objectives are to:

I. Determine the impact of Audit Fees on return on asset of I.C.T sector in Nigeria
II. Investigate the effect of Audit Experience on return on asset of I.C.T sector in Nigeria

Hypotheses

The following null hypotheses were formulated to guide this study:

HO1: Audit Fees has no significant positive effect on return on asset of I.C.T sector in Nigeria
HO2: Audit Experience has no significant positive effect on return on asset of I.C.T sector in Nigeria

Methodology

This study adopted ex-post facto research design due to the existing data on the variables in the model. The population of this study consisted of seven (8) I.C.T companies in Nigeria. The use of I.C.T companies can be justified based on the availability and reliability of data. The sample size for this study is the entire seven (8) I.C.T companies in Nigeria. Data on audit quality such as audit fees, audit experience, audit tenure and audit firm size, and firm performance (ROA) of the I.C.T sector in Nigeria was obtained from secondary sources such as the annual reports of individual I.C.T sector in Nigeria. Therefore, the data needed was extracted from the audited financial reports of the selected firms for ten (10) years period within the year 2014-2023.

Variables	**Proxy(ies)**	**Acronym**	**Measures**
Firm Performance	Return on Asset	**ROA**	Profit before tax/ total asset
Audit Quality	Audit Fees	**AF**	Total fee paid to an external auditor. Measured as Natural logarithms of audit fees as charged by the external auditor
	Audit Experience	**AE**	It is measured as the number of years of the committee

The functional equation of firm performance proxied by return on asset (ROA)
to test the 2 hypotheses specified is stated as:
ROA = f (AFEES, AUE) (1)
The functional testable or econometric model will be derived as:
ROA = βo + β1AFEES + β2AUE + ε (2).
Since we are using panel data, the model will be specified in the appropriate form as:
ROAit = βo + β1AFEESit + β2AUEit + εit (3).
Where:
ROA = Return on Asset.
AFEES = Audit Fees.
AUE = Audit Experience.
ε = Error term
β1 to β4 are the beta coefficients of the independent variables. From this study, we expect β1 to β2 to be greater than zero.
Data obtained from secondary sources was analyzed using descriptive as well as inferential statistics. Descriptive statistics included frequency distributions, mean, standard deviation, kurtosis etc. The inferential statistics was used to establish the existing relationship between the dependent variables and the independent variables. Data collected were analyzed using EViews 13 in the following order: descriptive statistics, correlation analysis, panel unit root test, estimation of the regression models and then performance of some diagnostics tests.

Results

Descriptive Statistics

Analysis of descriptive statistics is carried out in this section so as to unveil the nature of data being used for analysis.

Table 1: **Descriptive Statistics of Focused Variable**

Variables	Number of Observations	Mean	Std Deviations	Minimum	Maximum	Probability of Jarque-Bera(
ROA	80	-0.029684	0.194012	-0.859801	0.727846	0.000000
AFEES	80	251.4437	584.8205	0.300000	4197.000	0.000000
AUE	80	1.162500	0.434108	1.000000	3.000000	0.000000

The statistics in Table 1 above shows the mean values of the variables as well as the standard deviations, minimum, maximum and Jarque-Bera Statistics Probability values. All the variables of interest have maximum values which are greater than their respective minimum values. Again, the mean values of AUE and AUT are greater than their standard deviation values (Mean>SD). This show that these variables do not have outliers in the dataset and so do not have a high gap between the highest and lowest values for the last 10 years meaning that the average are quite high (Lestari & Setiany, 2023). However, the mean values of ROA, AFEES and AUFS are smaller than the standard deviation values (Mean<STD). This show that these variables have outliers in their data set and so have high gap between the highest and lowest values for the last 10 years meaning that the averages are quite low (Lestari & Setiany, 2023). The above problem is reflected in the low Jarque-Bera Statistics Probability values where the p-values of all the variables are either lesser than or equal to 0.05. The solution to it is to increase the number of observations

Testing Hypotheses

Table 2: Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AFEES	5.40E-05	3.71E-05	1.454514	0.1500
AUE	0.006945	0.047919	0.144925	0.8852
C	-0.027746	0.077098	-0.359873	0.7200

R-squared	0.168758	Mean dependent var	-0.029684
Adjusted R-squared	0.124425	S.D. dependent var	0.194012
S.E. of regression	0.181541	Akaike info criterion	-0.514204
Sum squared resid	2.471797	Schwarz criterion	-0.365327
Log likelihood	25.56817	Hannan-Quinn criter.	-0.454515
F-statistic	3.806605	Durbin-Watson stat	1.784575
Prob(F-statistic)	0.007158		

Source: Researcher's Computations (2024) Using EViews13 Software.

H0$_1$: Audit fees have no significant relationship with firm performance of telecommunication companies in Nigeria

The coefficient of AFEES is positive (5.40E-05) and statistically insignificant with a t-Statistic (1.454514) and a p-value (=0.1500) at the 15% level of significance. The p-value is 15% which is greater than 5% and so we accept the null hypothesis that AFEES has no significant relationship with ROA.

$H0_2$: Audit experience has no significant relationship with firm performance of telecommunication companies in Nigeria

The coefficient of AUE is positive (0.006945) and statistically insignificant with a t-Statistic (0.144925) and a p-value (=0.8852) at the 88.52% level of significance. The p-value is 88.52% which is greater than 5% and so we accept the null hypothesis that AUE has no significant relationship with ROA

Discussion of Findings

The findings from the analysis of H01 indicate that audit fees (AFEES) do not have a significant relationship with the performance of telecommunication companies in Nigeria. The positive coefficient of AFEES (5.40E-05) suggests a slight upward influence, but the statistical insignificance, as shown by the t-statistic of 1.454514 and a p-value of 0.1500 (greater than 5%), suggests that audit fees do not meaningfully impact firm performance as measured by return on assets (ROA). This result implies that, in the context of Nigerian telecommunication firms, the amount spent on audit fees is not a critical factor in influencing firm performance. Consequently, the null hypothesis is accepted, suggesting that other factors, rather than audit fees, may play a more substantial role in driving firm performance in this sector.

Similarly, the results for H02, which tests the relationship between audit experience (AUE) and firm performance, also show no significant correlation. The positive coefficient of AUE (0.006945) is accompanied by a t-statistic of 0.144925 and a p-value of 0.8852, which is well above the 5% threshold for statistical significance. This indicates that the experience of auditors does not have a notable effect on the financial performance of Nigerian telecommunication companies, as reflected in their return on assets. Like the findings for audit fees, the null hypothesis is accepted, suggesting that the experience of auditors may not be a key determinant of firm performance in this industry. These results imply that other managerial, financial, or operational factors might be more influential in shaping the performance outcomes of these firms.

Conclusion

The study examines if there is any relationship between audit quality and firm performance in Nigeria. The study uses secondarily sourced panel data over the period from 2014 to 2023 of 8 telecommunication firms. The Panel Ordinary Least Squares regression method results reveal that: (i) AFEES relationship with ROA is positively insignificant. (ii) AUE relationship with ROA is positively insignificant

Recommendations

The study makes the following recommendations based on the regression results.

i. Management should investigate why audit fees could not significantly influence performance positively.
ii. Management should investigate why audit experience influence on performance was positively insignificant.

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