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Audit Quality and the Financial Performance of Quoted Companies in Nigeria: Empirical Discourse

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Abstract: This report presents the outcome of a research that examines audit quality attributes as possible determinants of companies' financial performance. Specifically, the study drew inference from quoted companies in Nigeria, with data covering 10 years (2011 to 2020). The proxy for audit quality were statutory audit services, audit tenure, auditor's independence, and audit-firm size; whereas, firm performance was measured by Return On Assets (ROA). Firm year data which were collated from their respective annual reports were obtained from the database of MACHAMERATIOS. The study adopted the Panel Least Square technique, descriptive analysis and relevant diagnostic tests as part of the tools used in analyzing the data collated. From the results, while we notice that audit independence exerts significant negative influence on ROA; audit tenure and audit firm size had positive relationship with ROA, although, this relationship was not significant. Conversely, statutory audit service on its own significantly influenced firm performance (ROA). Overall, measures of audit quality exert joint significant influence on ROA. With the study's results, we recommend among others that 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.

Keywords: Auditors' Independence; Return on Assets; Audit Tenure; Agency Theory; Profitability

JEL Classification: C33; G39; L25; M42

1. 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

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reporting among companies. No doubt, financial reporting and audit 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).

Auditing and audit procedures generally, are monitoring tools that serves the purpose of helping to decrease information asymmetry thereby safeguarding the welfare of diverse stakeholders by ensuring that companies' financial statements are free from substantial misstatements. The belief of stakeholders therefore is that auditors have a fiduciary role of significantly contributing to both financial reporting and financial performance as it stands to lower the risk of severe misleading statements by guaranteeing that financial statements are prepared in accordance with established norms, regulations and standards.

No doubt, having financial reports with high quality is of immense benefit in several ways. For instance, when the risk of misstatements is low, it boosts confidence in capital markets and lowers the cost of finance for businesses (Ugwunta, Ugwuanyi & Ngwa 2018). Not only that, financial statements' users requires accurate financial data otherwise, making informed judgment and investment choices would seriously be marred. Also, when an institution's financiers have faith and trust in the financial reports presented by management, the tendencies of possibly investing more funds in such organizations is higher.

With the aforesaid in mind, the obvious is that internal users of companies' financial statements have become keen in striving to achieve quality audits, for their respective companies (Egbunike & Abiahu, 2017). More so, the credibility and reliability of companies' financial statements are extremely important in judging the overall wellbeing of financial markets and companies' performance generally.

No doubt, the quality of audit plausibly underpins self-belief in the authenticity of the financial statements, which is essential for well-functioning markets and better organizational performance. External audits conducted in line with high-quality auditing standards can aid reporting companies in implementing accounting standards that will produce trustworthy, transparent, and relevant financial reports. Audits can therefore assist organizations to strengthen their overall performance, improve the strategies for risk management, internal controls among others (Matoke & Omwenga, 2016).

Expectedly, auditors are considerably independent in their judgments, even when the tasks performed to gather evidence and form their opinion is heavily reliant and rooted in available records of clients. Given the presumed importance of high quality audit, studies have carefully examined such attributes that drives the quality of audit within firms (Monye-Emina & Jeroh, 2014; Jeroh, Ekwueme & Okoro, 2015). We therefore note that prior results in the literature clearly examines such factors that

explains the level of audit quality with emphasis on corporate governance variables (size, diversity and independence of Boards, ownership structure among others), audit attributes (audit fees, diligence, size, scope of work and nature of audit, among others) and several other measures. Since prior empirical focus was on the drivers of audit quality with less attention on whether audit quality explains movements in financial measures of companies, this study thus identifies a gap that requires empirical documentation.

Thus, to fill the identified knowledge gap, we investigate the link that audit quality has with companies' financial performance by concentrating on whether performance (with ROA as proxy) is affected by variables like statutory audit services, audit tenure, auditors' independence, and Audit-firm size. Specifically, statutory audit service was considered along other audit quality variables in the course of this study. The Panel Least Square Estimate (PLSE) was adopted given its capacity to handle much data set in modelling individual and common behaviours of groups.

This report is the outcome of our study which is however written in sections. Section II focused on the literature/conceptual clarifications while the design, data and other methodological procedures were highlighted in Section III. The fourth section dealt with results whereas fifth part (concluding section) took care of the overall conclusion and the recommendations that emanated from the study.

2. Literature Review/Conceptual Clarifications

2.1. Financial Performance

The major goals of financial statements is to present information about a 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. An understanding of the overall results of firms necessitates a thorough financial statement's analysis, which Rafiu, Titilayo, and Eghosa (2017) describes as a method for assessing how the two measurement approaches relate to one another in order to better understand the entity's financial performance and position as well as the marketability of the company's equity.

Stakeholders of entities (managers, owners, creditors, tax authorities, and others) want to know the firm's financial performance over time, its financial situation at a

specific moment in time, its cash flows, and other important information so that they may make appropriate decisions.

Studies have so far shown that where companies' records are appropriately examined by auditors/audit firms of repute, the possibility of improved performance in subsequent years is higher (Moses, Ofurum & Egbe, 2016). Premised on this thought, investors will preferably invest on companies with high audit quality as credible information is believed to have the potentials of enticing clients and customers to the organization thereby improving productivity with positive consequences on improved overall turnover/sales, profitability, investments and equity.

2.2. Audit Quality

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. By definition, audit quality explains the market-estimated joint likelihood that a specific auditor would detect and report violations in customers' accounting systems (Hua, Hla, & Isa, 2016). Audit quality can be gauged by assessing the extent in which auditors can ascertain the correctness of the information delivered to investors by companies' management. It can also be measured by the extent to which auditors are able to detect and eradicate earnings manipulations and window dressed indicants in financial statements of companies.

Noteworthy, an evaluation of the auditor's ability to detect and identify inaccuracies in corporate financial statements can possibly provide useful platform for the measurement of audit quality (Jeroh, Ekwueme & Okoro, 2015; Tanko & Polycarp, 2019). One common avenue for financial statements' manipulation noted by prior studies is through discretionary accruals which invariably are accruals controlled by managers to generate results that portrays increased demand or income (Tahinakis & Samarinas, 2016; Ideh, Jeroh & Ebiaghan, 2021). Managements of firms thus use their powers for their own benefit to influence corporate reporting by capitalizing on perceived loopholes and/or shortcomings in reporting standards since such standards are principle based. In the course of this study, we viewed audit quality through the lens of several dimensions which includes auditors' independence, audit tenure, auditors' firm size, and statutory audit service. We tried to examine how these variables affect performance which was measured using ROA.

2.2.1. Audit Independence and Financial Performance

Public trust in a corporation's financial accounts is based on public's image of the outside auditor as an unbiased professional. Independence as a term encapsulates the mental state of objectivity and lack of bias (Donatella, Haraldsson & Tagesson,

2019). The extent of auditors' independence is therefore guided by both the audit firm's policies and processes and the state of mind of the persons involved in carrying out designated audit tasks (Geiger & Kumas, 2018). Audit independence refers to the auditor's impartiality in performing his responsibilities as auditors (Amahalu & Beatrice, 2017). Independence of auditors is therefore exemplified by the level of honesty and objectivity displayed by auditors and their respective audit teams in the auditing process.

During the audit and reporting of financial records, audit independence is a key factor to be considered. It refers to an auditor's unbiased mental attitude when making judgments. Independence guarantees autonomy which enables auditors to be bereft of influence, seduction, or bias throughout the audit process. Lack of independence of an auditor gives room for bias and poor level of objectivity. Impliedly, where a breach is identified, an auditor is unlikely to reveal it where he/she is not independent. Independence is an expected auditors' behavior that instructs an auditor who does not have a personal interest in executing his or her job because it would be contradictory to integrity and objective standards. Because one of the major aim of external audit is to raise the trustworthiness of accounting records as a management assertion, if a public accountant is not independent of the client, his/her opinion may be subjective and misleading.

With the arguments above we examine whether audit independence will improve records of firms performance indicators, where ROA is used as proxy for performance.

2.2.2. Audit Tenure and Financial Performance

Audit tenure describes the entire period of the auditor-client relationship. Longer periods between the auditors and clients could jeopardize the auditor's objectivity since the parties' personal relationships and familiarity could grow, resulting in the investigator's lack of attentiveness. Aside from the threat to independence, the audit appointment may become normal over time, and if this occurs, the auditor will spend less time detecting internal control flaws and risk sources (Capkun, Collins & Jeanjean, 2016). The case of Tesco, a well-known large firm in retail business in England, justifies arguments that closer link between auditors and a firm's top management over time may generate concerns regarding predicted decline or diminution of audit independence. As reported, the management of Tesco overstated profit to the tune of £263 million in 2015, an act that was not disclosed by the auditors who had remained the firm's auditor for an estimated period of 32 straight years (Buntara & Adhariani, 2019). Implicitly, the refusal of the audit firm to disclose acts of misreporting by Tesco resulted from the long standing ties between the auditors and the company's management. A link that had negative and consequential effect on auditor's independence.

Though audit tenure has attracted good number of researchers in accounting, we notice that emphasis has been on how tenure affects the objectiveness and outcomes of audit exercise – independence and quality respectively (Kyriakou & Dimitras, 2018; Buntara & Adhariani, 2019; Martani, Rahman, Fitriany & Anggraita 2021). In this light, longer duration of auditor tenure has been linked to lower quality of audit work. Since previous concern on audit tenure aptly ignores its association with the reported financial performance indicators of companies, this current study thus distinct itself by analyzing audit tenure, as a possible driver of the reported financial performance indicators of companies.

2.2.3. 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. This is not the case for smaller audit (often referred to as non-big 4) firms whose focus is to offer more individualized services due to their smaller client bases which may compel them to give in to management demands where situations abound (Salehi, Mansoury & Pirayesh, 2009; Sawan & Alsaqqa, 2013; Chen, Cheng & Liu, 2021).

Notwithstanding however, we observed that prior research focus on audit firm size was mainly on whether size affects audit quality and/or the performance of audit firms generally (Salehi, Mansoury & Pirayesh, 2009; Sawan & Alsaqqa, 2013; Ayora & Ogeto, 2022) with little concern on whether the sizes of audit firms affect the reported financial performance indicators of audit clients (Mustafa & Mohammed, 2018; Ayora & Ogeto, 2022). Given this position, we thus obtained data for audit firm size based on measurements used by prior studies to ascertain whether a link exist between size of audit firms and ROA which is the proxy for financial performance of auditors' clients in our current study.

2.3. Theoretical Underpinning

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 problem arises because most times, principals' and agents' interests 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. Succinctly, management teams (agents) have the duty to prepare financial reports for use by shareholders (principals) who rely on such statements given the opinion expressed by independent auditors who may have carefully examined the records and other financial details presented by management. Since the quality of audits may possibly have a link with the quality of what companies' agents (management) may report in financial statements for use by their principals (shareholders), the agency theory is therefore considered appropriate to drive this study.

2.4. Empirical Literature and Gaps in Literature

Studies on audit quality size, independence, tenure among other things abound. For instance, Slaheddine (2016) investigated the effect of quality of audit work on firm performance using a number of 542 listed Malaysian companies. Audit fees and audit firm rotation were utilized as explanatory variable for audit quality while ROA and Tobin's Q were used as measures of firm performance. Data was analyzed using regression analysis. Results show that audit fee and firm rotation is significantly and negatively related to ROA (performance).

Egbunike and Abiahu, (2017) investigated audit entity report and performance of Banks in Nigeria. Data for 2010-2014 were collected from banks' annual reports lodged in their respective databases/websites. Multiple regression was conducted and the outcome made the study to conclude that while the influence of audit quality on the ROA of banks is positive and considerable, audit fee and report lag could not show evidence of significant impact on banks' performance measures (ROA inclusive).

Al-Attar (2017) examines whether auditing has the capacity of influencing stock prices (proxy for performance), using data from the Amman stock market. Through a carefully constructed questionnaire, primary data were obtained from finance managers of listed businesses regarding audit and its implications on stock prices. A combination of descriptive analysis, factor analysis, and structural equation modeling were used. Findings demonstrates that higher audit quality results in better financial performance of companies (as reflected in stock prices); thus affirming that audit has direct impact on stock prices of firms

Ugwunta, Ugwuanyi and Ngwa (2018) explain the effect of quality of audit work on share prices in Nigerian oil and gas sector. Audit committee, audit composition, audit type and audit inference as explanatory variable for audit quality was regressed against share prices of companies. Output from the regression and covariance

analysis were the basis of inference. Succinctly, audit committee membership and type of audit firm were found to have considerable impact on quoted companies' market prices. Specifically, evidence from the covariance analysis proved that audit independence, and auditors committee composition all have significant association with share price while audit tenure was found to exhibit negative link with share price.

Almomani (2018) examined how features of external audit may combine to achieve or improve quality in accounting profit of listed companies (manufacturing sector) by obtaining proof from the Amman Stock Exchange. Audit quality, audit size, auditors' fees, customer retention period, auditor's opinion, and the proficiency in client's industry, were adopted as explanatory variable for quality of the audit work, while profit continuity was deployed as proxy for earnings quality. Data from sample of 45 entities collected for the period 2009 to 2015 were analyzed. Model estimation was done through the multiple Regression (Linear) model and results show that auditor's fees has the most significant influence on earning quality and in turn enhances audit quality which the study saw as a measure of financial performance.

Martani, Rahman, Fitriany & Anggraita (2021) investigates the impact of audit rotation and tenure on audit quality with evidence from Indonesia, one of the few countries that mandates audit firm rotation alongside audit partner rotation. Emphasis was on whether the rotation's impact differs across Big 4 and non-Big 4 audit firms. Data used covered periods 2013 – 2015 and were obtained from 215 public companies that were purposely selected to exclude those in the banking and investment sectors. The exclusion of such companies was necessary as businesses in such sectors are governed differently (highly regulated) than businesses in other industries since they have unmatched unique traits. Regression analysis based on Kaznic model was among the statistical tools used. Findings indicate that there is no statistically significant correlation between the auditor's tenure and audit quality. Another evidence from this study was that audit quality is favourably impacted by audit firm rotation, and the Big 4 see less of a beneficial influence. Also, rotation of audit firms rather than audit partners has the potential to raise audit quality in non-Big 4 firms. The result of this study could not explain whether audit quality affects ROA of firms.

Monye-Emina and Jeroh (2022) mainly examined audit effort as a potential factor in determining abnormal audit fees (AAF). The relevant financial statements and audited annual reports of the Nigerian listed banks for the observation period served as the source of secondary data (2010-2019). The appropriate methods, such as panel regression, the correlation matrix, and descriptive statistics, were adopted. The results showed that joint audit recorded a positive association with such abnormal audit fees, but the IFRS, client complexity (CPX), and client size (SIZ) recorded negative correlation with AAF. Evidently, the association between AAF and joint

audit was greater, while the relationship between AF and SIZ was significant but unfavorable. The study did not explain whether audit fee and other measures affect financial performance of firms.

3. Research Methodology

3.1. Research Design and Sampling Procedure

The *ex-post facto* design which establishes cause-and-effect relationship among correlates was adopted. This choice was premised on its appropriateness given that our data existed in retrospect. The population of the study consist of all the 21 quoted industrial goods sector firms listed on the Nigerian Exchange (NGX) as at 31st December, 2021. Notwithstanding, the study was only confined to ten (10) of the listed industrial goods sector firms through the purposive sampling techniques mostly adopted by prior researches (see Ezinando & Jeroh, 2017; Jeroh, 2020).

3.2. 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. The validity of the data and its reliability is assured, having extracted from audited annual reports which invariably complied with statutory standards. Variables such as Non- statutory audit services, audit tenure, Auditor's Independence, and Audit-firm size were used for the analysis.

The estimation technique adopted is the panel regression estimates. 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.

3.3. 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:

$$ROA = \alpha 0 + \beta_1 SAU + \beta_2 AUDT + \beta_3 AUDI + \beta_4 AUFS + \varepsilon it \quad (1)$$

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); β_1-β_5 = 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. This can mathematically be represented as: AUDQ>0, SAU>0, AUDT>0, AUDI<0, AUFS>0.

Table 1. Operationalization of Study Variables

VARIABLES		MEASUREMENTS	PROXY
1	Return on asset	This is the ratio of net income to total asset.	ROA
2.	Statutory Audit Service	This is expressed as the natural logarithm of the Naira-value remunerated to the auditor for the statutory audit services.	SAU
3.	Audit tenure	If the number of years spent to audit a client's company is more than 3, we assign 1, otherwise 0	AUDT
4.	Auditor Independence	This is the ratio of audit fee to the company's revenue	AUDI
5.	Auditor Firm Size	A dummy variable, that is coded "1" if the company is audited by a Big4 and "0" otherwise.	AUFS

Source: Researcher's Compilation

4. Results and Discussion

4.1. Summary Statistics and Diagnostics

Table 2 provides summary of the descriptive statistics of the panel data used for the purpose of this study. 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. Generally, the mean for AUDI which was 0.5586 approximately simply indicates that there was an average of about 56% independence regarding the auditors of the sampled organizations for the selected period. Finally for AUFS, an average of 0.5355 approximately, with 0 and 1 as minimum and maximum values shows that sampled companies were either audited by the Big 4 or by firms outside the Big 4 category.

Table 2. Descriptive Statistics

Statistics	SAU	AUDT	AUDI	AUFS	ROA
Mean	4.0892	0.7661	0.5586	0.5355	2.5228
Maximum	5.842	1	54.8446	1	176.2669
Minimum	2.301	0	.0089	0	-119.633
Std. Dev.	0.5575	0.4236	3.4766	0.4991	15.9299
No. of Obs.	**620**	**620**	**620**	**620**	**620**

Source: Researcher's Compilation

Apart from results presented on the summary statistics, the collated data were subjected to correlation analysis and the outcome displayed in Table 3. Correlation analysis gives better understanding of the direction which the relationship between sets of variables exhibits (Jeroh & Okoye, 2015; Jeroh, 2016; Ezinando & Jeroh, 2017).

Table 3. Correlation Matrix

	ROA	SAU	AUDT	AUDI	AUFS
ROA	1.0000				
SAU	0.1902	1.0000			
AUDT	0.0144	-0.0027	1.0000		
AUDI	-0.0608	-0.1097	-0.0613	1.0000	
AUFS	0.1224	0.5585	0.0126	-0.0888	1.0000

Source: Researcher's Compilation

Table 3 simply summarizes the level of correlation between the regressors in the study's working model. The essence of this test is to find out the relatedness of the selected variables, and if they reflect any trace of multi-collinearity which will be revealed by high levels of pair-wise correlation of 80% or more (Odjaremu & Jeroh, 2019; Jeroh, 2020a). However, none of the study variables reported high correlations suggesting the possibility of multicollinearity problems is slim. Meanwhile, on individual level, statutory audit services, audit tenure and audit firm size exhibited positive relationship with ROA suggesting that increased quality may likely improve ROA. Meanwhile, audit independence had negative coefficient of -0.0608 meaning that the ratio of audit fees to audit client revenue inversely associates with the ROA of audited companies.

Table 4. Hadri LM Tests for Variables

Ho: All panels are stationary			
Ha: Some panels contain unit roots			
Number of panels:	62		
Number of periods:	10		
Variables	**At Levels**		**Decision**
	Statistics	**P-Values**	
ROA	5.7196	0.0000	I(0)
SAU	26.2306	0.0000	I(0)
AUDT	5.4829	0.0000	I(0)
AUDI	16.7875	0.0000	I(0)
AUFS	27.2906	0.0000	I(0)

Source: Researcher's Compilation

This current study relied on panel data which are times series in nature but drawn from a cross section of companies. Jeroh (2020b) suggests that data of this nature require tests for unit roots to confirm whether or otherwise, the data are stationary. Thus, to ascertain if some or all panels are stationary, the data collated for all variables were subjected to the panel unit roots test. We used the Hadri-LM-test for this purpose and Table 4 presents the outcome. From the resented results (see Table 4), the variables (ROA, SAU, AUDT, AUDI and AUS) recorded statistics value of 5.7196, 26.2306, 5.4829, 16.7875 and 27.2906 respectively with p-values of 0.0000 in all cases. This means that they are stationary at levels so that we reject the proposed hypothesis that some panels contain unit roots. It thus follows that since the variables are stationary at levels, and haven met other requirements, we proceeded to test for collinearity and heteroscedasticity. Usually, VIF test ascertains whether variables have collinearity problems (Jeroh & Ekwueme, 2015).

Table 5.Collinearity and Heteroscedasticity Test

Variables	**SAU**	**AUFS**	**AUDI**	**AUDT**	**Mean VIF**
VIF	1.46	1.46	1.02	1.00	1.23
1/VIF	0.684246	0.687156	0.983128	0.995927	
Breusch-Pagan/Cook-Weisberg Test					
Ho: Constant Variance				**Chi2(1)**	**Prob>Chi2**
Variables: Fitted values of ROA				22.19	0.0000

Source: Researcher's Compilation

The results outlined in Table 5 convincingly shows that while VIF scores ranged between 1.00 (see AUDT) to 1.46 (see SAU), with a mean VIF of 1.23, there are no clear evidence of collinearity problems with the data set. Notwithstanding, with 22.19 reported for Chi2(1) (prob.value = 0.0000) with respect to the heteroscedasticity test, the obvious is that reliance on OLS regression outcomes will be misleading. Thus, in testing our hypothesis, the robust regression estimation tool was applied.

4.2. Model Estimation

Table 6. Regression Output for Model Estimation

Dependent Variable: ROA					
ROA	**Coeff..**	**Std.Err**	**t-$_{stat}$**	**P>| t |**	**Decision**
SAU	2.1355	0.6132	3.48	0.001	
AUDT	1.0597	0.6689	1.58	0.114	**Reject**
AUDI	-0.1781	0.0820	-2.17	0.030	
AUFS	1.3341	0.6834	1.95	0.051	
_cons	-6.4582	2.4095	-2.68	0.008	
F(4, 615)	11.27*				
(p-value)	(0.0000)				
Obs.	620				

Source: Researcher's Compilation

The regression outcome presented in Table 6 produced coefficient values of 2.1355, 1.0597, -0.1781, and 1.3341 respectively for SAU, AUDT, AUDI, and AUFS. Indicative of this is that audit independence (AUDI) is the only variable that individually exert inverse influence on ROA. Specifically, the t-$_{stat}$ for SAU and AUDI were 3.48 and -2.17 respectively with corresponding p-values of 0.001 and 0.030. It shows that statutory audit service and audit independence individually affect ROA in significant terms. This is not the case for AUDT and AUFS whose values for t-$_{stat}$ were 1.58 (p-value = 0.114> 0.05) and 1.95 (p-value = 0.051> 0.05) respectively.

Noticeably, the $F_{cal}(4, 615)$ in Table 6 was 11.27 (p-value = 0.0000), thus confirming that audit quality measures exert joint significant effect on ROA. The import is that the computed values of ROA from companies financial statements is a reflection of the quality of the audit work conducted on the records and financial procedures of companies that produced such financial statements. This findings justifies earlier empirical documentation that the quality of audited financial statements has significant implications for higher performance levels (Moses, Ofurum & Egbe, 2016). Premised on our findings, it is believed that investors will prefer to invest in businesses with high audit quality because reliable information is thought to have the potentialS of attracting clients, thereby improving productivity with a multiplier effect on improved turnover levels, profitability, and investments.

5. Conclusion and Recommendations

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. Hence, 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 checkmate 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. This is imminent as SAU has significant implications for ROA.

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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