EFFECT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF QUOTED CONGLOMERATES IN NIGERIA

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Abstract: This study ascertained the effect of audit quality on the financial performance of quoted conglomerates in Nigeria from 2010-2019. Specifically, this study determined the effect of audit committee size, audit committee independence, and audit committee financial expertise on return on assets. Panel data were used in this study, which was obtained from the annual reports and accounts of six (6) sampled quoted conglomerates for the periods 2010-2019. Ex-Post Facto research design was employed. Inferential statistics using the Pearson correlation coefficient and Panel least square regression analysis were applied to test the hypotheses of the study. The results showed that audit committee size, audit committee independence, and audit committee financial expertise have a significant positive effect on return on assets at 5% level of significance respectively. The study recommended amongst others that conglomerates in Nigeria should ensure strict compliance with the provisions of Companies and Allied Matters act (CAMA) of having six members of equal representation; three shareholders and three directors.

Background to the Study

Financial reporting is one of the primary responsibilities of management which enables them give account of their stewardship. Managers of public companies are expected to prepare and present annual financial reports to shareholders, who are owners of the firm and other interested users such as creditors, analysts, government, and the general public to enable them assess the performance and financial position of the reporting entity. The main objective of financial reporting therefore is the provision of information on the financial performance and position of the reporting entity that is useful to different users, to enable them assess the stewardship of management and make informed economic decisions (Amahalu, Okoye & Obi, 2019). This means that published financial reports that fail to meet the information needs of its users do not achieve their intended purpose.

Audit quality is defined as the probability that the external auditor will both detect and report any violations in the accounting system of the client (De Angelo, 1981). This depends on the technical skills of the auditor in order to detect misreporting and on his independence to report any observed miscalculations. Accountants, as described in the code of professional conduct, perform an essential role in society. In accordance with that role they are considered to exercise professional and moral judgments in their activities in order to maintain the public's confidence. Therefore, the quality of auditing services is perceived as higher whenever the auditor is independent and possesses the capabilities to critically judge the financial reporting of client firms. These capabilities are constructed by the values, ethics, knowledge and experience of the auditor (IAASB, 2013). 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. External audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. Sound audits can help reinforce strong corporate governance, risk management and internal control at firms, thus contributing to financial performance. The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. 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 the conglomerates in Nigeria.. It is against this background that this research work was carried out. The purpose of this study therefore is to determine the effect of audit

quality on financial performance of quoted conglomerates in Nigeria.

Statement of the Problem

There have been concerns about audit quality in the present environment, where severe failures have come to light, for example; Enron scandal of 2001; Parma at in 2003; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009; Intercontinental Bank Plc in 2009 and Skye Bank Plc in 2018. Low-quality financial reporting has also been a contributing factor in many high-profile corporate scandals, leading stakeholders in many countries to demand higher quality corporate governance (Amahalu, Egolum & Obi, 2019). The acknowledged failure of audit process to capture financial misstatements has provoked the ostensible outburst of interest and attention in general financial reporting. The perceived failure of audit to fully alert equity and other claimants concerning misrepresentations has made investors helpless and inept to undertake rational financial decisions affecting entities generally. This is so because the quality of reported earnings and the capability of auditing to efficiently contain management earnings machinations have become highly doubtful. Thus, there is a worry about the truthfulness of reported income and its relationship with the audit process given the pockets of corporate failures. Thus, questions whether these corporate failures and by extension stock price fluctuations are not the result of poor audit process and the incapability of the audit function to cushion earnings misstatements. Due to the divorce of firm ownership from management, audit function arises. The agency problem arises from the existence of asymmetric information in the principal agent contracts. The existence of information asymmetry between firm management and ownership influences the changes in market prices of shares. However, with the pockets of business collapses, there is a concern about the quality of auditing.

Objectives of the Study

The broad objective of this study is to ascertain the effect of audit quality on financial performance of quoted conglomerates in Nigeria.
 The specific objectives are to:
   i.   Determine the effect of audit committee size on return on assets of quoted conglomerates in Nigeria.
   ii.   Ascertain the effect of audit committee independence on return on assets of quoted conglomerates in Nigeria.
   iii.   Assess the effect of audit committee financial expertise on return on assets of quoted conglomerates in Nigeria.

Research Hypotheses

In line with the objectives, the following null hypotheses were tested:

Ho₁: Audit committee size has no significant effect on return on assets of quoted conglomerates in Nigeria.

Ho₂: Audit committee independence has no significant effect on return on assets of quoted conglomerates in Nigeria.

Ho₃: Audit committee financial expertise has no significant effect on return on assets of quoted conglomerates in Nigeria.

Conceptual Review

Audit Quality

De Angelo (1981) defined audit quality as the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. Therefore, according to De Angelo's (1981) definition, audit quality is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence). Palmrose (1988) defined audit quality in terms of level of assurance. Since the purpose of an audit is to provide assurance on financial statements, audit quality is the probability that financial statements contain no material misstatements.
Audit quality is not primarily about auditing standards but about the quality of people, their training and ethical

standards (Geiger & Rama, 2006). The Financial Reporting Council argues that the skills, personal qualities of audit partners and staff, and the training given to audit personnel are important factors that determine auditor quality (Francis & Wang, 2014).

Audit Committee Size

In order to perform their role effectively, audit committees should have adequate resources and authority to discharge their increasing responsibilities. Bédard, Chtourou and Courteau (2014) argue that the larger the audit committee, the more likely it is to uncover and resolve potential problems in the financial reporting process, because it is likely to provide the necessary strength and diversity of views and expertise to ensure effective monitoring. This suggests that audit committee size is an integral factor for firms in delivering meaningful corporate reporting (Amahalu, Okeke & Obi, 2017). In addition, larger audit committees are also likely to suffer from process losses and diffusion of responsibility (Karamanou & Vafeas, 2015). The Smith Report (2003) recommends a minimum of three non-executive directors. According to SEC Code of Corporate Governance (2011), the audit committee should consist of not less than three directors of which independent directors should have the majority, and the committee is chaired by independent non-executive director.

Audit Committee Independence

Audit committee independence is the composition of more non-executive directors than executive directors in the audit committee. Existence of the audit committee independence is the true and fair picture of the firm's commitment for better corporate governance practices. The notion that audit committee independence is important for its effectiveness draws from the widely accepted notion that independent directors are more likely to be effective monitors of management actions. According to Mangena and Pike (2015), independent audit committees are more likely to be free from management influence. Hence, they will ensure the quality and credibility of the reporting process, thus reducing information asymmetry. The UK Code (2010) recommends that an audit committee should be comprised of at least three (or in the case of smaller companies, two) members, who should all be independent non-executive directors. The Bouton report (2002) recommends that the committee should be composed of independent directors (two-thirds of the audit committee consist of independent members who can understand the operations and financial statements of the firm).

Audit Committee Financial Expertise

Accounting or financial expertise are attributes/qualifications or experience acquired by a person before becoming a board member of a company. Most of the global financial regulations mandate that at least one member of the audit committee should be a financial expert. And also, the provision of Companies and Allied Matters Act (CAMA) Section 359 (3) and (4) required that at least one board member of the audit committee should be financially literate. The Sarbanes-Oxley Act (2002) mandates that at least one member of the audit committee must be a financial expert. In the UK, the Smith report (2003) echoes the views of the Sarbanes-Oxley Act and specifies that at least one audit committee member must have significant, recent and relevant financial expertise.

Financial Performance

Financial performance is a measure of how well an organization can use assets from its primary mode of business to generate revenues (Grimsley, 2018).). Financial performance is also used as general measure of a firm's overall financial health over a given period of time. Empirical analysis of performance is an important requirement for further policy changes. Financial performance means whether a firm has done well within a certain period to realize its set goals. Some firms in Nigeria has remained stable and resilient despite the challenges caused by the global financial crisis and the failure of some domestic unauthorized institutions. Financial statements provide information on the performance. Measurement of firms' performance should start by evaluating whether it has been able to achieve the objectives set by stakeholders (Hofstrand, 2018).

Return on Assets (ROA)

Return on Assets (ROA) is a major ratio that indicates the profitability of a firm. It is an indicator of how profitable a company is relative to its total asset. It is a ratio of income to its total asset. It measures the ability of

the firm's management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income (Amahalu, Egolum & Obi, 2019). This profitability ratio shows management efficiency, and rate of returns. It further indicates the efficiency of the management of a company in generating net income from all the resources of the organisation. A higher ROA shows that the company is more efficient in using its resources (Horton, 2018). Return on Assets is displayed as a percentage and it calculated as:

Return on Assets (ROA) = Net Income / Total Assets

Audit Committee Size and Financial Performance

Most of the regulations including that of Nigeria require the provision of equal number of shareholders and directors to run the audit committee. As highlighted earlier, section 359(6) of the Companies and Allied Matters Act (CAMA) requires every public company to have an audit committee which shall have a maximum of six members of equal representation by three shareholders and three directors. However, previous studies provide mixed findings on the impact of audit committee size on financial performance. Xie, Davidson and DaDalt (2013); Davidson, Goodwin-Stewart and Kent (2015) found no association between size of audit committee and financial performance. On the other hand, Yang and Krishnan (2015) found that there is a significant negative relationship between audit committee size and financial performance. Furthermore, Amahalu and Ezechukwu (2017) documented that audit committee size was positively associated with financial performance.

Audit Committee Independence and Financial Performance

The audit committee must be independent in order to carry out their duty in protecting the shareholders' interest. Those statements are supported by the argument published by The Blue Ribbon Committee (1999) that a director without any financial, family, or other material personal ties is more likely to be able to evaluate objectively the propriety of management's accounting, internal control and reporting practices. Independent audit committees are more likely to be free from management influence. Hence, they will ensure the quality and credibility of the reporting process, thus reducing information asymmetry (Carcello & Neal, 2013; Mangena & Pike, 2015). On the empirical front, evidence is mixed. Some studies found the degree of audit committee independence to be positively associated with financial performance (Cheng, Chen & Chen, 2018). Others find that firms with audit committees composed solely of outside directors are less likely to have financial reporting problems (McMullen & Raghunandan, 2016). Yet others fail to find a significant effect of audit committee independence (Agrawal & Chadha, 2015; Sayyar, Basiruddin, Abdul-Rasid & Elhabib, 2018).

Audit Committee Financial Expertise and Financial Performance

The need for the audit committee to be composed of members with financial expertise was emphasised in the Smith Report (2003). Consequently, the UK Code (2010) has recommended that the audit committee should comprise members with knowledge of the business environment, and, at least one audit committee member should have recent and relevant financial experience. Kothari, Leone and Wasley (2015) contend that if the audit committee does not possess the expertise to understand technical auditing and corporate reporting issues, its oversight role is likely to be discounted by the auditor and management. This would undermine the effectiveness of the audit committee in the financial reporting process. As such, financial expertise is directly linked with better financial reporting quality. Badalato, Denelson and Ege (2013) studied the relationship between audit committee financial expertise and financial performance and found that audit committee with both financial expertise and high relative status are more effective at determining financial performance as measured by return on assets.

Theoretical Framework

Agency Theory

Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts. Jensen and Meckling (1976), further on the work of Berle and Means (1932), to develop

agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs) to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in divergent ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. It is a concept that explains why behavior or decisions vary when exhibited by members of a group. Specifically it describes the relationship between one party, called the principal that delegates work to another, called the agent.

Empirical Review

Liu (2017) conducted an empirical study on 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. The results illustrated that audit client considers at individual auditor level when choosing audit services and pays different level of audit fees, which provide empirical evidences to selection and cultivation of auditors.

Türel, Taş, Genç and Özden (2017) examined the association between audit firm tenure and audit quality in Turkey between 2009-2016. The study used three measures to proxy audit quality such as propensity to issue modified audit reports and discretionary accruals determined by two models. It was found that that audit quality does not increase with limited audit firm tenure. Given the additional costs associated with audit switch, it was concluded that there are minimal benefits of mandatory firm rotation. The results of the study will be useful for the regulators who are in charge to improve the audit quality.

Cheng, Chen and Chen (2018) examined the association between auditor size and performance. Empirical data of the study were obtained from the 1989–2006 census report of audit firms in Taiwan. In terms of market segment, audit firms were divided into public company audit market firms (PCAMFs) and non-public company audit market firms (NCAMFs). Based on path analysis, the study found that auditor size has direct effect on performance and indirect effect through auditor quality. Auditor quality associates with both auditor size and performance positively. Furthermore, auditor size has more contribution to performance of PCAMFs than that of NCAMFs. Auditor quality of PCAMFs explained more variation of financial performance than do NCAMFs. The results indicated that PCAMFs earned more financial performance through the upgrade of auditor quality.

Sayyar, Basiruddin, Abdul-Rasid and Elhabib (2018) examined the impact of audit quality on firm performance for Malaysian listed companies for the period of 2003 to 2016 using Pearson correlation and pooled regression analysis. The study used audit fees and audit firm rotation as proxies for audit quality. Return on assets and Tobin's q were used as measures for firm performance. The study found that there is insignificant relationship between audit quality proxies (audit fees and audit firm rotation) and ROA. The study also found that an audit fee is significantly and positively related to Tobin's Q. However, audit firm rotation is insignificantly related to Tobin's Q.

Methodology

Research Design

The research design employed in this study is the *ex-post facto* research design.

Population of the Study

The population of the study consists of the six (6) quoted conglomerates in Nigeria as at 31st December, 2019. They include; A.G. Leventis Nigeria Plc, John Holt Plc, Chellarams Plc, SCOA Nigeria Plc, Transnational Corporation Plc, and UACN Plc.

Sample Size and Sampling Technique

The six (6) quoted conglomerates represent the sample size for this study. Data were gathered from the published financial statements of the six (6) quoted conglomerates for a ten (10) year period spanning from 2010-2019, using purposive sampling method (that is all the conglomerates that consistently filed their annual financial statements with Nigeria Stock Exchange for the study period).

Source of Data

The data for this study were obtained from secondary source. Secondary data were extracted from the published annual reports and accounts of the companies and the Nigeria Stock Exchange (NSE) fact book for the relevant years.

Measurement of Study Variables

There are two sets of variables in this study; the dependent and the explanatory variables:
Table 1 presents a summary of all the variables in the study and their measurements:

Table 1: Study Variables and their Measurement

Variable Acronym	Variable Name	Variable Type	Measurement
ROA	Return on Assets	Dependent Variable	Net Profit / Total Assets
ACS	Audit Committee Size	Explanatory Variable	Total number of Audit Committee members/directors
ACI	Audit Committee Independence	Explanatory Variable	Ratio of non-executive directors in audit committee to total members
ACFE	Audit Committee Financial Expertise	Explanatory Variable	Proportion of audit committee members with financial expertise (financial knowledge) in the audit committee to total number of the audit committee
FSZ	Firm Size	Control Variable	Natural log of the book value of the total assets
FAG	Firm Age	Control Variable	Number of years firm has been listed on Nigeria Stock Exchange (NSE)

Model Specification

Financial performance is a function of audit quality

$$Y = f(X) + \mu$$

The model is expressed as follows:

$$ROA_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 FSZ_{it} + \beta_3 FAG_{it} + \mu_{it} \quad - \quad - \quad - \quad \textbf{Ho}_1$$
$$ROA_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 FSZ_{it} + \beta_3 FAG_{it} + \mu_{it} \quad - \quad - \quad - \quad \textbf{Ho}_2$$
$$ROA_{it} = \beta_0 + \beta_1 ACFE_{it} + \beta_2 FSZ_{it} + \beta_3 FAG_{it} + \mu_{it} \quad - \quad - \quad - \quad \textbf{Ho}_3$$

Where:

β_0 = Constant term (intercept) of the study model
$\beta_1 - \beta_3$ = Coefficients of audit quality
μ_{it} = Error term (Stochastic Term) of firm i at time t
ROA_{it} = Return on assets of firm i at time t
ACS_{it} = Audit Committee Size of firm i at time t
ACI_{it} = Audit Committee Independence of firm i at time t

ACFE_{it} = Audit Committee Financial Expertise of firm i at time t
FSZ_{it} = Firm Size of firm i at time t
FAG_{it} = Firm Age of firm i at time t

Data Presentation and Analysis

Table 2: Correlation Matrix of Dependent and Independent Variables

	ROA	ACS	ACI	ACFE	FSZ	FAG
ROA	1.000	0.485	0.206	0.598	0.369	0.406
ACS	0.485	1.000	0.096	-0.210	0.156	-0.102
ACI	0.206	0.096	1.000	0.179	0.572	0.561
ACFE	0.598	-0.210	0.179	1.000	0.542	0.661
FSZ	0.369	0.156	0.572	0.542	1.000	0.630
FAG	0.406	-0.102	0.561	0.661	0.630	1.000

Source: E-Views, 9.0 Correlation Output Result, 2020

Table 2 revealed a positive correlation coefficient between ACS (0.485), ACI (0.206), ACFE (0.598) and ROA of quoted conglomerates in Nigeria during the period of investigation.

Test of Hypotheses

Test of Hypothesis 1

Ho$_1$: Audit committee size has no significant effect on return on assets of quoted conglomerates in Nigeria.

H$_1$: Audit committee size has significant effect on return on assets of quoted conglomerates in Nigeria.

Table 3: Panel Least Square (PLS) Regression Analysis showing the effect of ACS on ROA

Dependent Variable: ROA
Method: Panel Least Squares
Date: 07/04/20   Time: 12:39
Sample: 2010 2019
Periods included: 10
Cross-sections included: 6
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.498150	0.358621	-1.389069	0.1703
ACS	0.494422	0.144960	6.859965	0.0000
FSZ	0.101381	0.033986	2.983018	0.0042
FAG	-0.035807	0.052598	-0.680764	0.4988

R-squared	0.472822	Mean dependent var	0.444400
Adjusted R-squared	0.444581	S.D. dependent var	0.169766
S.E. of regression	0.126521	Akaike info criterion	-1.232478
Sum squared resid	0.896422	Schwarz criterion	-1.092855
Log likelihood	40.97433	Hannan-Quinn criter.	-1.177863
F-statistic	16.74201	Durbin-Watson stat	0.787601
Prob(F-statistic)	0.000000		

Source**:** E-Views, 9.0 Regression Output, 2020

Interpretation of Regression Result

Table 3 reveals an adjusted R^2 value of 0.44. The adjusted R^2, which represents the coefficient of multiple determinations imply that 44% of the total variation in the dependent variable (ROA) of quoted conglomerates in Nigeria is jointly explained by the explanatory variables (ACS, FSZ and FAG). The adjusted R^2 of 0.44 did not constitute a problem to the study because the F- statistics value of 16.74201 with an associated Prob.>F = 0.000000 indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variables are properly selected, combined and used. The value of adjusted R^2 of 44% also shows that 56% of the variation in the dependent variable is explained by other factors not captured in the study model. This suggests that apart from audit committee size, firm size and firm age there are other factors that mitigate return on assets of quoted conglomerates in Nigeria. The results in table 3 illustrated that quality of external audit has positive and significant effect on ROA measured with a beta coefficient and t- value of 0.494422 and 6.859965 respectively and p- value of 0.0000 which is statistically significant at 5%. This beta coefficient revealed that if quality of external audit increases, then the sampled conglomerates financial performance would increase by 49.44% in the form of ROA. In addition, Durbin-Watson test is implied to check the auto correlation among the study variables. The Durbin-Watson value is 0.787601 which is less than 2 provide an evidence of no auto-correlation among the variables.

Decision

Based on the empirical evidence that suggests that audit committee size has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance, hence, the alternative hypothesis of the study is accepted.

Test of Hypothesis II

Ho_2: Audit committee independence has no significant effect on return on assets of quoted conglomerates in Nigeria.

H_2: Audit committee independence has significant effect on return on assets of quoted conglomerates in Nigeria.

Table 4: Panel Least Square (PLS) Regression Analysis showing the effect of ACI on ROA

Dependent Variable: ROA
Method: Panel Least Squares
Date: 07/04/20   Time: 12:58
Sample: 2009 2019
Periods included: 10
Cross-sections included: 6
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.307518	0.457078	0.672792	0.5038
ACI	0.162550	0.105373	2.542605	0.0246
FSZ	0.079056	0.048686	1.623791	0.1100
FAG	-0.088749	0.069242	-1.281722	0.2052

R-squared	0.369359	Mean dependent var	0.444400
Adjusted R-squared	0.319503	S.D. dependent var	0.169766
S.E. of regression	0.168103	Akaike info criterion	-0.664142
Sum squared resid	1.582478	Schwarz criterion	-0.524519
Log likelihood	23.92426	Hannan-Quinn criter.	-0.609528
F-statistic	5.391192	Durbin-Watson stat	0.850282
Prob(F-statistic)	0.000549		

Source: E-Views, 9.0 Regression Output, 2020

Interpretation of Regression Result

Table 4 reveals an adjusted R² value of 0.32. The adjusted R², which represents the coefficient of multiple determinations imply that 32% of the total variation in the dependent variable (ROA) of quoted conglomerates in Nigeria is jointly explained by the explanatory variables (ACI, FSZ and FAG). The adjusted R² of 0.32 did not constitute a problem to the study because the F- statistics value of 5.391192 with an associated   Prob.>F = 0.000549 indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variables are properly selected, combined and used. The value of adjusted R² of 32% also shows that 68% of the variation in the dependent variable is explained by other factors not captured in the study model. This suggests that apart from audit committee independence, firm size and firm age there are other factors that mitigate return on assets of quoted conglomerates in Nigeria.

The results in table 4 illustrated that quality of external audit has positive and significant effect on ROA measured with a beta coefficient and t- value of 0.162550 and 2.542605 respectively and p- value of 0.0246 which is statistically significant at 5%. The beta coefficient revealed that if quality of external audit increases, then the sampled conglomerates financial performance would increase by 16.26% in the form of ROA. In addition, Durbin-Watson test is implied to check the auto correlation among the study variables. The Durbin-Watson value is 0.850282 which is less than 2 provide an evidence of no auto-correlation among the variables.

Decision

Based on the empirical evidence that suggests that audit committee independence has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance, hence, the alternative hypothesis of the study is accepted.

Test of Hypothesis III

Ho₃: Audit committee financial expertise has no significant effect on return on assets of quoted conglomerates in Nigeria.

H₃: Audit committee financial expertise has significant effect on return on assets of quoted conglomerates in Nigeria.

Table 5: Panel Least Square (PLS) Regression Analysis showing the effect of ACFE on ROA

Dependent Variable: ROA
Method: Panel Least Squares
Date: 07/04/20   Time: 13:03
Sample: 2010 2019
Periods included: 10
Cross-sections included: 6
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.027578	0.430665	0.064035	0.9492
ACFE	0.277512	0.082919	3.346793	0.0015
FSZ	0.089680	0.042889	2.090968	0.0411
FAG	-0.084840	0.064512	-1.315112	0.1938
R-squared	0.491523	Mean dependent var		0.444400
Adjusted R-squared	0.448212	S.D. dependent var		0.169766
S.E. of regression	0.156681	Akaike info criterion		-0.804863
Sum squared resid	1.374748	Schwarz criterion		-0.665240

Log likelihood	28.14590	Hannan-Quinn criter.	-0.750249
F-statistic	4.422013	Durbin-Watson stat	0.725641
Prob(F-statistic)	0.007351		

Source: E-Views, 9.0 Regression Output, 2020

Interpretation of Regression Result

Table 5 reveals an adjusted R² value of 0.45. The adjusted R², which represents the coefficient of multiple determinations imply that 45% of the total variation in the dependent variable (ROA) of quoted conglomerates in Nigeria is jointly explained by the explanatory variables (ACFE, FSZ and FAG). The adjusted R² of 0.45 did not constitute a problem to the study because the F- statistics value of 4.422013 with an associated   Prob.>F = 0.007351 indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variables are properly selected, combined and used. The value of adjusted R² of 45% also shows that 55% of the variation in the dependent variable is explained by other factors not captured in the study model. This suggests that apart from audit committee financial expertise, firm size and firm age there are other factors that mitigate return on assets of quoted conglomerates in Nigeria.

The results in table 5 illustrated that quality of external audit has positive and significant effect on ROA measured with a beta coefficient and t- value of 0.277512 and 3.346793 respectively and p- value of 0.0015 which is statistically significant at 5%. The beta coefficient revealed that if quality of external audit increases, then the sampled conglomerates financial performance would increase by 27.75% in the form of ROA. In addition, Durbin-Watson test is implied to check the auto correlation among the study variables. The Durbin-Watson value is 0.725641 which is less than 2 provide an evidence of no auto-correlation among the variables.

Decision

Based on the empirical evidence that suggests that audit committee financial expertise has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance, hence, the alternative hypothesis of the study is accepted.

Findings, Conclusion and Recommendations

Findings

Based on the analysis of data, the following findings emerged:

i. Audit committee size has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance.

ii. Audit committee independence has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance.

iii. Audit committee financial expertise has a significant positive effect on return on assets of quoted conglomerates in Nigeria at 5% level of significance.

Conclusion

This study assessed the effect of audit quality on financial performance of quoted conglomerates in Nigeria. This study obtained data from annual reports and account and publications from Nigeria stock exchange for the conglomerates that operated during 2010-2019. In addition, the effects of specific audit quality, such as audit committee size, audit committee independence and audit committee financial expertise on return on assets were assessed. To determine the relationship that exists amongst the variables and the effect thereof, Pearson correlation coefficient and panel least square regression estimate were employed. This study revealed that audit committee size, audit committee independence and audit committee financial expertise have a significant positive effect on return on assets at 5% significant level respectively.

Recommendations

On the premise of these study findings, the following recommendations were made;

i. Based on the empirical evidence that audit committee size has a positive effect on financial performance, it is therefore recommended that conglomerates in Nigeria should ensure strict compliance with the provisions of Companies and Allied Matters act (CAMA) of having six members of equal representation three shareholders and three directors.

ii. Since audit committee independence has a positive effect on financial performance, audit committee members should be independent to enable them perform their functions effectively.

iii. The requirement by the securities exchange commission (SEC) code of corporate governance that audit committee membership of Nigerian companies should contain at least one member with accounting and financial expertise should be sustained and strictly enforced. This is in view of the fact that audit committee financial expertise improves the effectiveness of industry specialist auditors in improving the financial performance of firms through their interaction.

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