Audit Quality as an Intervening Variable in Financial Performance of Quoted Manufacturing Companies in Nigeria

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ABSTRACT

This study assessed the influence of audit quality as an intervening variable in the financial performance of selected quoted manufacturing firms in Nigeria. The study used the secondary data from the annual reports of the firms. A Seven (7) year period was covered, from 2013 to 2019. The annual reports were retrieved from the websites of the manufacturing firms in Nigeria. A Single Regression Analysis (Ordinary Least Square, OLS) was conducted. The results of the study indicate that auditor's independence, age of the audit firm, and audit fee have a positive significant relationship with financial performance of the selected manufacturing firms in Nigeria. However, audit size signed a negative and significant relationship with financial performance of quoted manufacturing firms in Nigeria. This study concluded that audit quality is seen as an intervening variable for financial higher performance but some of the variables of audit quality can have a negative influence on financial performance as seen in the Age of the Audit Firm. The study recommends that auditor's independence should be increased greatly in order to enhance financial performance (Net profit margin) of firms and this can be done through improved internal control and integrity tests, management of quoted manufacturing firms should employ the services of experienced audit firm and not necessary the big four, management should go for an audit firm whose character and integrity cannot be questioned.

Keywords: Audit quality, financial performance, manufacturing companies, Nigeria

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1   INTRODUCTION

The unstable effects of the world's financial crisis have pointed out the imperative importance of a reliable and quality financial reporting (Miettinen, 2011). To achieve good quality and credible financial reporting, the external audit has to work closely with the financial report presentation of listed or quoted companies. Audit quality is a remarkable issue in audit practice nowadays; many groups and individuals both external and internal have shown interest in the credibility of audited financial information (IAASB, 2011). As asserted by Koh et al. (2014) many managers and companies are not fully equipped with the necessary knowledge of accounting and needed resources to establish an accepted financial statement. In reality, most companies depend on the auditors to prepare the statement of financial position and obtain information and guidance from the auditor prior to making any accounting-wise decision. In this regard, auditors indirectly impact the financial statement in doing their real duties.

In this respect, companies have a high degree of dependence on auditors when they make accounting decision or prepare their financial statement. A high degree of dependence on the auditor means that the auditor can highly influence the credibility of the financial statements (Koh, et al., 2014). The main reason of an audit is to therefore, prepare, plan and perform the audit to acquire the necessary audit evidence that is enough to aid the opinion auditor will express in the auditor's report. Inappropriate or Incomplete audit evidence may lead to wrong judgment and this may affect the report's credibility and quality (Miettinen, 2011). The role of the external audit is at the thrust of the functioning of the capital market as both owners (shareholders) and the professional managers would want to depend on the report of the external auditor in furthering their divergent interests arising from agency link that exists (Ilaboya & Ohiokha, 2014).

The external financial statement users, including the potential and current investors, creditors and others, need credible financial information in order to base their resource allocation decisions (Miettinen, 2011). When the financiers of a company have trust and belief in the audited financial report of a company, they are bound to inject more funds into such company, which will escalate the financial performance. Regulators and standard setters can enlarge the effectiveness of quoted companies by enact rules and regulations that help ensure that audits improve the quality of the financial information. Also, the internal financial statement users e.g., the audit committee, board of directors and management have an interest in the quality of audit so as to help lower the capital cost (Miettinen, 2011).

Financial performance is seen as the ability of an economic unit to earn new resources from daily operations over a given period of time (Ogbodo & Akabougu, 2018). Its major objective is to enhance shareholders' wealth and firm's value; financial performance analysis is vital for the triumph of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a business, sub-business or mission. Finance always being disregarded in financial decision making since it involves investment and financing in short-term period. Further, it also acts as a restrain in financial performance, since it does not contribute to return on equity (Pandey, 2005).

Generally, Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), Liquidity Ratio, Debt-equity Ratio, Interest Coverage Ratio, Inventory Turnover Ratio, Return on Investment Ratio and Debt to Net worth Ratio are highly useful in determining financial position, financial performance and the financial stability or otherwise of such management (Bhunia, et al., 2011). For the purpose of this study the "Net Profit Margin (NPM)" has been adopted to measure the financial performance.

The emergence of audit failures in the world has brought a great deal of disappointment to investors and other corporate financial reporting stakeholders. Longevity of audit firm tenure has also been linked with fraudulent financial reporting (Adeyemi, et al., 2012). There have been concerns about audit quality in the present environment, where severe failures have come to light, for example; Enron scandal of 2001; Parmalat in 2003; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009 (Ajani,

2012). The auditor's role in ensuring the reliability, quality and credibility of financial performance and their ability to do so in question has been given much attention (Ogbodo & Akabougu, 2018). This is due to the fact that the independence of the auditors from their clients can be hampered or impaired through factors such as; poor regulation of the auditing practice, provision of loan to the client, auditor's personal interest in the client's business among others. Thus effective qualities (usually designated as apparent quality) are necessary for auditing to produce beneficial effects as a monitoring device (Miettinen, 2011).

It seems as if concentration on audit quality as an Intervening variable in financial performance of quoted manufacturing companies in Nigeria have not being enough as many research studies have focused on the banking sectors, local governments, and building materials companies as seen in the studies of Ogbodo and Akabougu (2018), Farouk and Hassan (2014), Ondieki (2013), Umaru (2011), Muazu (2012) and Dangana, (2014). However, few studies have examined the relationship between measures of audit quality by making variable on financial performance in developing economies such as Nigeria; they have majorly focused on leverage. Despite all these studies on audit quality, a gap exists in the literature pertaining to the audit quality and financial performance, from the ongoing review of previous studies, it was discovered that majority of the studies were done outside Nigeria. Besides, these studies used different methods and design like survey research design, which employed the use of questionnaire.

The hypotheses of this study were all stated in the null form (H_0) and they are: There is no significant relationship between auditor's independence, auditor's size, age of the audit firm and audit fee of financial performance of quoted manufacturing companies in Nigeria.

2   LITERATURE REVIEW
2.1 Conceptual Framework
2.1.1.   Audit Quality and Financial Performance
   i.   Audit: An audit is the examination of the financial report of an organisation - as presented in the annual report - by someone independent of that organisation (Ebrahim, 2016). The financial report includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and notes comprising a summary of significant accounting policies and other explanatory notes (Ogbodo & Akabougu, 2018). The Main aim of an audit is to form an opinion that the financial statement under review shows a true and fair view of the financial position of the company at any given time or period (Pandey, 2005). Auditors are guided by International Auditing Standards in performing their duty and IFAC is the body responsible for issuing these standards and ensuring its compliance through the International Auditing and Assurance standard Board (IAASB).
   ii.   Audit Quality: The audit quality can be defined in two aspects: first, detecting errors and misstatements in financial statements and second, reporting these material misstatements and errors (Miettinen, 2011). Due to the fact that these traits are largely unobservable, different functions have been used by researchers like Bouaziz (2016); Chadegani (2015); Ebrahim (2016) to measure audit quality like: auditor's independence, audit size, litigation rate, discretionary accruals, audit hours and reputation.
   iii.   Financial performance: This is seen as the overall health (financially) of a company over a given period of time. It is also a measure of how well a company can use its primary resources to generate income or wealth (Ebrahim, 2016). Its major objective is to enhance shareholders' wealth and firm's value; financial performance analysis is trivial for the success of any company or organisation (Pandey, 2005). Generally, the Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), Liquidity Ratio, Debt-equity Ratio, Interest Coverage Ratio, Inventory Turnover Ratio, Return on Investment Ratio and Debt to Net worth Ratio are highly useful in determining financial position, financial performance and the financial stability or otherwise of such management (Bhunia, et al., 2011).

For the purpose of this study the "Net Profit Margin (NPM)" has been considered as a proxy to measure financial performance.

iv. **Manufacturing Companies:** Firms engaged in the use of raw materials to produce finished goods either for sale or the production of components or parts to produce more complex products are known as manufacturing companies (Bhunia, et al., 2011). There are various processes associated with manufacturing which includes but are not limited to; assembling, handling, processing and final production.

v. **Net Profit Margin (NPM):** Net profit margin is the percentage of revenue left after all expenses have been deducted from sales (Bhunia, et al., 2011). The measurement reveals the amount of profit that a business can extract from its total sales. The net sales part of the equation is gross sales minus all sales deductions, such as sales allowances. The formula is: (Net profits ÷ Net sales) x 100 = Net profit margin. This measurement is typically made for a standard reporting period, such as a month, quarter, or year, and is included in the income statement of the reporting entity (Accountingtool.com, 2019).

vi. **Auditor's Independence:** Auditor independence refers to the independence of the external auditor. It is characterized by integrity and an objective approach to the audit process (Ogbodo & Akabougu, 2018). The concept requires the auditor to carry out his or her work freely and in an objective manner (Icaew, 2009). The code of professional ethics and conduct encourages independence of mind and independence of appearance respectively of the auditor.

vii. **Auditor's Size:** For this study, audit size is the depth of auditing firm's experiences; and the big 4 auditing firms (Akintola Williams Delloite, Price Water House Coopers, Ernst and Young, and KPMG) shall be considered as against other auditing firms. Auditor size is defined by three criteria: the wealth of the audit partners; the size of the partners' client portfolios; and the credibility of the experiences rooted in the auditing firm (academicworks, 2019). A large client portfolio size has a negative effect on audit quality due to the limited attention and time of the partner (Fich & Shivdasani, 2007).

2.2 Theoretical Framework

2.2.1 Agency theory: The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick, independently and roughly concurrently (Pitt.edu, 2019). Agency Theory is a management and economic theory that explains the various relationships and areas of self-interest in companies. Put another way, agency theory describes the relationship between principals and agents as well as the delegation of control (Teeboom, 2018, retrieved from smallbusiness.chron.com, 2019).

2,2,2 Stakeholder Theory: Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating corporate accountability to a broad range of stakeholders. Wheeler (2002) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science (Freeman, 1999).

2.2.3 The trade-off theory: This theory suggests that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. It was then expanded by Myers in 1984, by introducing adjustment costs, including those stemming from asymmetric information and agency problems (Frank, et al., 2011). It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (Ayot, 2013).

2.2.4 Resource Dependency Theory: Whilst, the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman et al. (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to

an organization through their linkages to the external environment. Indeed, Johnson, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organizational functioning, firm's performance and its survival (Daily, 2003).

2.3. Review of Empirical Studies

Lennox (1999), studied the explanations of the hypothesized positive relationship between audit quality and auditor size; the reputation hypothesis suggested by De Angelo (1981), who argues that large auditors have more incentives to be accurate because they have more specific rents to lose if their reports are not accurate and the deep pockets hypothesis by Dye (1993), who argues that large auditors will be more accurate because they have greater wealth that is exposed to risk in case of any litigation.

Shafie et al. (2009) examined the relationship between audit firm tenure and auditor reporting quality in Malaysia. This study employed a well-established going concern model of logistic regression. Their findings showed that audit firm tenure has a positively significant relationship with the auditor reporting quality. However, the scope of Shafie et al (2009) did not capture 2018.

Adeyemi and Fagbemi, (2010) studied the audit quality, corporate governance and firm characteristics in Nigeria. The study provided evidence on corporate governance, audit quality, and firm related attributes from a developing country like Nigeria. Logistic regression was used in investigating the questions that were raised in the study. Findings from the study showed that ownership by non-executive director has the possibility of increasing the quality of auditing. From the study, there was evidence that size of the company and business leverage were important factors in audit quality for companies quoted on the Nigerian Stock Exchange. Adeyemi and Fagbemi, (2010) did not capture 2018.

Zahid et al. (2010) investigated the impact of prior year firm's performance on subsequent year firm's corporate governance mechanism. They used board size, CEO–Chairman combined structure and audit expenditure as a firm level corporate governance mechanism. The panel data of fifty-two companies listed on Karachi Stock Exchange covering the period from 2006 to 2010 was used for this study. Hypotheses were tested by using fixed effect model and random effect model and a well-established going concern model of logistic regression. Their findings showed that audit firm tenure has a positively significant relationship with auditor reporting quality. What was expected of Zahid et al (2010) since they have compared two periods was that the T-Test Statistics should have been adopted instead of the logistic regression analysis.

Miettinen (2011), looked at the relationship between audit quality and financial performance. Auditor size and audit committee meeting frequency were used as proxies for audit quality. The result showed that audit quality has both a direct effect as well as a mediated effect through audit size on financial performance. The results implied that measures of audit quality are not merely symbolic but that they contribute to financial performance. What was expected of Miettinen (2011) was that auditor's independence should have been adopted and not an audit committee meeting.

Woodland and Reynolds (2003) examined the association between indirect measures of audit quality and financial statement analysis using multivariate regression analysis. They found out that audit fee is positively associated with financial statements but do not find evidence that auditor size, tenure or industry specialization are associated with audit quality in the directions predicted. Their results provide new evidence as to the current usefulness of these indirect measures in predicting audit quality. However, they did not actually capture the fees compared with the industry average paid to audit firms.

Zureigat (2010), examined the effect of financial structure among Jordanian listed firms on audit quality. Using a sample of 198 companies, his analysis of logistic regression shows a significant positive relationship between audit quality and financial structure.

Nam (2011), examined the relationship between audit fees as a proxy for auditor independence and audit quality of firms in New Zealand. Employing three multiple regression models for a sample of New Zealand companies, his study discovered that the provision of non-audit services by the auditors of a firm comprises the auditor's independence, abnormal audit fee change rate is negatively associated with audit quality and auditor's independence of the previous year impacts on the audit fee that is negotiated in the current year.

Jeff (2012), examined the links between audit fees and measures of audit quality. Their result shows that higher annual excess fees and abnormal audit fees are generally associated with lower audit quality while a multi-period measure that reflects consistently high audit fees is associated with a positive long-run relationship between audit quality and audit fees.

Umaru (2011) in his study examined the impact of audit firms' attributes on financial reporting quality of quoted building material firms in Nigeria. The study employed correlation research design using a sample of four listed building material firms for the period of ten years (2002-2011). Ordinary Least Square (OLS) multiple regression technique was employed in the analysis of the panel data collected for the study. The study found that audit compensation and audit firm independence both have significant positive impact on the financial reporting quality of quoted building material firms in Nigeria at 99% confidence level.

Muazu (2012) assessed the role of internal auditors in ensuring effective financial control at local government level, a case of Alkaleri L.G.A Bauchi State. The methodology employed for data collection was only primary source, which involved the use of questionnaires, in which 50 questionnaires were administered to the staff of the Accounting and Internal Audit Department of Alkaleri L.G.A, out of which only 35 questionnaires were completed and returned. The data generated for the study were interpreted using simple percentage. The main finding of the study includes among other; lack of proper independent exercise by the internal auditor, understaffing in the side of internal audit unit, the internal control system is very weak toward financial and other controls and also non adherence by the auditors on general auditing standard. What was expected of Muazu (2012) is that he used the Likert analysis or Chi Square and not the simple percentages.

Ondieki (2013) also determined the effect of internal audit on financial performance in commercial banks in Kenya. Internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls and independence of internal audit. The study selected one senior manager in the finance department. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis techniques. From the findings, the study concludes that internal audit standards, independence of internal audit, professional competency and internal control have a positive relationship on financial performance of commercial banks. The study recommended that management in commercial banks, should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance financial performance of the banks.

Further study by Yahn-Shir et al. (2013) examined the relationship between audit quality, audit firm size, and financial performance. The study estimated audit quality of audit firms from human capital-related factors, such as educational level of auditors, work experience of auditors, and professional training. From the perspective of market segmentation, the sample was divided into three categories: national, regional, and local firms. Empirical results reported a positive association between audit firm size and audit quality for the three categories of audit firms.

Mohd et al. (2013) examined the managerial ownership, audit quality and firm performance in Malaysian. This study investigated the relationship between managerial ownership and company performance of public listed companies in Malaysia. The study also investigated the effect of audit quality on company performance. As multivariate regression was used to analyze the data in his study, assumptions of multicollinearity, hemoscedasticity and linearity were also tested. Furthermore, this study applied the F-test, Chow test and Hausman test to determine the best statistical method. The analysis utilizing GLS fix effects estimations technique was applied. The results showed that the managerial ownership had negative and significant relationship with ROA and Tobin's Q.

Dangana, (2014) examined the impact of audit firms" attributes on financial reporting quality of quoted building material firms in Nigeria. The study employed correlation research design using a sample of four listed building material firms for the period of ten years (2002-2011). Ordinary Least Square (OLS) multiple regression technique was employed in the analysis of the panel data collected for the study. The study found that audit compensation and audit firm independence both have significant positive impact on the financial reporting quality of quoted building material firms in Nigeria at 99% confidence level. The finding suggested that audit compensation and provision of non-audit services in the quoted building material firms in Nigeria have improved the quality of their financial reporting during the period under review.

Gholamreza and Samira (2015) evaluated the relationship between auditing quality and the profitability in the companies accepted in Tehran's securities exchange market. The total number of 52 companies accepted in Tehran's securities exchange market was surveyed. The study findings show that generally there is a positive and weak relationship between the auditor size (auditor's good fame) and the auditor's tenure period and the profitability ratios. To survey the auditor's size the member auditing institutions of the formal accountant society are regarded as small auditing firms and accounting organizations due to the great many staff members working in it and also due to their long working history was considered as the big auditing institution. Also, it was discovered that there was a positive but non-significant relationship between profitability and auditors' size and there was also a positive and significant relationship between tenure period and profitability.

Hamed et al. (2016) examined the impact of audit quality on firm performance for Malaysian listed companies for the period of 2003 to 2012. In this study, they used audit fees and audit firm rotation as proxies for audit quality. Return on assets and Tobin's q are used as measures for firm performance. They found that there is insignificant relationship between audit quality proxies (audit fees and audit firm rotation) and ROA. They also found that audit fee is significantly and positively related to Tobin's Q. However, audit firm rotation is insignificantly related to Tobin's Q.

Zayol et al. (2017) proposed the effect of auditor independence on audit quality: a review of literature. The paper reviewed literature related to auditor independence and audit quality in order to determine the effect of the former on the latter. The ex post facto research design was employed. Information for this study was obtained from secondary sources to include journals, textbooks and other internet materials. Based on the review, findings show that there is a strong relationship between auditor independence and audit quality. The review also revealed four threats to auditor independence, which are client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms. However, some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used.

Various researchers have carried out study on this area such as the following: Adeyemi and Fagbemi, (2010) Audit quality, corporate governance and firm characteristics in Nigeria; Adeyemi et al. (2012) investigated Factors Affecting Audit Quality in Nigeria; Mohd et al. (2013) examined the managerial ownership, audit quality and firm performance in Malaysian; Beisland et al. (2013) study the audit quality and corporate governance: evidence from the microfinance industry, Farouk and Hassan, (2014) assessed the impact of audit quality and financial performance of quoted firms in Nigeria. Musa

and Shehu, (2014) in his study investigated the impact of audit quality on financial performance of quoted firms in Nigeria. Gholamreza and Samira, (2015) the relationship between auditing quality and the profitability in the companies accepted in Tehran's securities exchange market; Matoke and Omwenga, (2016) Audit quality and financial performance of companies listed in Nairobi Securities; Amahalu & Ezechukwu, (2017) ascertain the determinants of audit quality with a focus on selected Deposit Money Banks listed on the floor of Nigeria Stock Exchange from 2010-2015; Egbunike and Abiahu (2017) The effect of audit firm characteristics on financial performance of money deposit banks in Nigeria.

2.4 Summary

Despite these studies on audit quality, a gap exists in the literature pertaining to the audit quality and financial performance, as we can discover from the ongoing review of previous researchers, that some of the studies were done outside Nigeria, there exist location gap, some were done using different variable as proxy for performance and audit quality such as return on asset, profit margin, audit fee, audit rotation respectively, there exist variable gap from this study. Some of the researchers used different methods and design like survey research design which employed the use of questionnaires but the researcher adopted ex-post facto which employed the use of secondary data and reports from financial statements, a methodology gap is present. Also, few studies have examined the relationship between measures of audit quality and those of financial performance in developing economies such as Nigeria. This study is expected to fill an existing gap in knowledge by examining the relationship between audit quality and the performance of quoted manufacturing firms in Nigeria.

3 METHODOLOGY

The Correlational and Ex-post factor Research Design was adopted for this study because data to be used already exists. This is appropriate because it allows for the exploration of the relationship between the adopted variables (Dependent and the Independent variables) as stated in the research questions. The study focused on selected quoted manufacturing firms in the Nigerian Manufacturing Sector for the period of seven (7) years starting from 2013 – 2019. This period was when the complete set of data was readily available from the websites of the 10 manufacturing companies used for this study. The Secondary source of data was employed for this study and the method of data collection was through records of the published annual reports retrieved from the official websites of the 10 quoted selected manufacturing company in Nigeria (See list in appendix) and other notes to the companies' accounts. The population for this study consists of all the manufacturing companies quoted on the Nigeria Stock Exchange Market Fact Book as at 31st of Dec, 2019. However, it seems as if concentration have not been on the consumer and industrial goods companies. The consumer goods companies quoted are twenty (20) in number while the Industrial goods sector have thirteen (13) quoted companies making a total of thirty-three (33). Ten (10) quoted manufacturing companies shall be considered for this study and they were selected randomly. The sampled year selected is 7years (2013 - 2019).

In order to establish an empirical evidence of the influence of audit quality as an intervening variable in the financial performance. The model of Farouk & Hassan (2014) was adapted. Farouk & Hassan (2014) examined the relationship between audit quality and financial performance using the below stated model. This model was chosen because it captures the some of the variables of this study. The model is stated as:

FP (NPM) = $\alpha_0 + \beta_1$ (AI) $+ \beta_2$ (AS) $+ \beta_3$ (LE) $+ \varepsilon$ …1
Where FP: Financial Performance
NPM: Net Profit Margin
α_0 = Coefficient of the constant variable
AI: Auditor's Independence

AS: Auditor's Size
LE: Leverage
ε: the error term

Adapting Farouk and Hassan (2014) model to suite this study's claims, the study modified model 1 by expanding the model to capture Age of the Audit Firm and Audit Fee. A multiple regression equation is set up to investigate the hypothesized relationships between the dependent variable and the four independent variables in this study. The econometric form of the equation is given as:

$NPM_t = \alpha_0 + \beta 1 AUDIND_t + \beta 2 AUDSZ_t + \beta 3 AGEAF_t + AUDF_t + \varepsilon_t \dots$ (2)
Where: NPM = Net Profit Margin (proxy for Financial Performance)
α_0 = Coefficient of the constant variable
NPM: Net Profit Margin
AUDIND: Auditor's Independence
AUDSZ: Auditor's Size
AGEAF: Age of the Audit Firm
AUDF: Audit Fee
ε: the error term.
t = at time t (annual time series).

The apriori expectations of the variables are given as ($\beta 1$, $\beta 2$, $\beta 3$, $\beta 4 > 0$) i.e., AUDIND > 0, AUDSZ > 0, AGEAF > 0, AUDF > 0. This implies that the independent variables are expected to have positive impact on the dependent variable. Pre-estimation technique was used to validate the secondary data using Unit root test by employing the Augmented Dickey Fuller (ADF) method to check if stationarity exists or not. This test was conducted to avoid generation of spurious regression results.

The statistical method used for this research work is the regression analysis using the Ordinary Least Squares (OLS) used for general statistical analysis. The Degree of Freedom (DF) = 1%, 5% and 10% level of significance was used to test the hypotheses.

4 DATA ANALYSIS AND DISCUSSION OF FINDINGS
4.1 Test of Data
4.1.1 Test of Normality

To determine the degree of normality of the data for the purposes of analysis, a normality test was carried out using the E-Views 12. The result for the Normality Test of the properties of the variables ranging from Net Profit Margin (NPM), Auditor's Independence (AUDIND), Age of the Audit Firm (AGEAF) and Audit Fee (AUDF) showing the Skewness, Kurtosis, Jarque-Bera, Probability, Sum and Sum of Square Deviation the result is presented in Table 4.1.

	NPM	AUDIND	AUDSZ	AGEAF	AUDF
Skewness	0.281009	0.897311	0.69304	0.792104	0.844005
Kurtosis	0.024533	0.097500	0.783421	0.422201	0.099929
Jarque-Bera	0.399678	0.795012	0.967332	0.899066	0.544829
Probability	0.098858	0.544703	0.873392	0.900965	0.644564
Sum	0.298708	2.897740	0.830978	2.990904	1.426353
Sum Sq. Dev.	0.190940	1.942751	0.589231	1.832083	1.169405
Observations	300	300	300	300	300

Source: E-Views 12 result, 2021.

The skewness measures the asymmetric nature of the data; Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. A normal distribution is symmetrical at point 0. If the value is greater than zero (> 0) it's positively skewed, but if less than zero (< 0) it is negatively skewed according to (EViews User's Guide, 2020). Net Profit Margin (NPM), Auditor's Independence, Audit Size, Age of the Audit Firm and Audit Fee are positively skewed with the values 0.281009, 0.897311, 0.693040, 0.792104 and 0.844005; this implies that all the variables are positively skewed.

Kurtosis measures the sharpness of the peak of a normal distribution curve. It is a measure of "tailedness" of the probability distribution of a real-valued random variable (Eviews User's Guide, 2019). If the value is approximately equal to three, it is said to be mesokurtic distribution implying that it is a normal distribution. If approximately greater than three, it is leptokurtic distribution which has tails that asymptotically approach zero slowly and has more outliers than the normal distribution. While if approximately, less than three it is platykurtic which means that the distribution produces fewer and less outliers than the normal distribution. From the table above, Net Profit Margin (NPM), Auditor's Independence, Audit Size, Age of the Audit Firm and Audit Fee are normally distributed having the values 0.281009, 0.897311, 0.693040, 0.792104 and 0.844005.

4.1.2 Validity Test

This is a pre-estimation technique used to determine whether the data is valid for the purpose of the research. The data was subjected to validity tests using the Augmented Dickey Fuller method (ADF). This Test was conducted using the Unit Root Test of Net Profit Margin (NPM), Auditor's Independence (AUDIND), Age of the Audit Firm (AGEAF) and Audit Fee (AUDF).

Table 4.2: Validity Test Results

VARIABLES	IN LEVEL I(0) ADF	FIRST DIFFERENCE I(1) ADF	Order of Integration ADF
InNPM	-2.294437	-1.864439***	I(1)
InAUDIND	-2.457444	-2.849956***	I(1)
InAUDSZ	-1585578	-2.678828***	I(1)
InAGEAF	-2.394478	-3.497748***	I(1)
InAUDF	-2.208400	-5.298992***	I(1)

Source: Eviews 12; Note: *** level of significance at 5%

Augmented Dickey-Fuller (ADF) test is used to check for a unit root in order to avoid problem of spurious regression result and to determine the order of integration. Schwarz Information Criterion (SIC) and Akaike Information Criterion (AIC) are used for determination of appropriate lag order selection for each test. The results of unit root tests indicate all the variables are integrated of order I(1). The stationarity tests were performed first at the in levels and then in first difference to establish the presence of unit roots and the order of integration in all the variables. The results of the ADF stationarity tests

for each variable show that both tests fail to reject the presence of unit root for Net Profit Margin (NPM), Auditor's Independence (AUDIND), Auditor's Size (AUDSZ), Age of the Audit Firm (AGEAF) and Audit Fee (AUDF), indicating that these variables are non-stationary in the 'In' levels.

4.1.3 Correlation Analysis

Subjecting the data to correlation analysis so as to determine the degree of relationship among the data, Stata 16 of the E Views 12 was used and the result of the correlation test is provided under Table 4.3.

Table 4.3: Correlation Matrix

Covariance Correlation	NPM_t	$AUDIND_t$	$AUDSZ_t$	$AGEAF_t$	AUDF
NPM_t	1.000000000				
$AUDIND_t$	6.785868608	18685.01			
	0.523232263	1.000000000			
$AUDSZ_t$	3.243485940	5901.127980	2595.122445		
	-0.38221265	0.918887777	1.000000000		
$AGEAF_t$	2.540690934	6149.946583	73.58159069	42448.94344	
	0.652165232	0.150543761	-0.00802679	1.000000000	
$AUDF_t$	1.221459633	6347.933288	5442.892267	2367.566595	
	0.478845845	0.367728476	0.678394551	0.784556448	1.000000000

Source: STATA 16, 2021 at *** 5% level of significance

From the STATA Correlation matrix result in Table 4.3 above, the matrix suggests the existence of positive correlation between the dependent variable "Net Profit Margin (NPM)" and the independent variables; "Auditor's Independence (AUDIND)" with a value of 0.5, Age of the Audit Firm (AGEAF) which has a value of 0.6, Audit Fee (AUDF) having a value of 0.4 and showed a negative correlation with the Auditor's Size (AUDSZ) of -0.3". The three (3) variables which showed positive correlation implies a strong relationship between them and the financial performance than AUDSZ and the financial performance which has a negative correlation. The AGEAF has the highest correlation with NPM of 0.6. The results show low coefficient correlation since the magnitude of the correlation coefficients of 0.80 and above indicates a multicollinearity problem. This suggests that multicollinearity problem is not existing which makes the variables valid.

4.1.3 Multicollinearity Test
Table 4.4: Multicollinearity Test results

Variables	Variance Inflation Factor (VIF)	Tolerance Value (TV
Auditor's Independence	1.52	0.3544
Auditor's Size	1.45	0.4022
Age of the Audit Firm	1.62	0.7966
Audit Fee	1.46	0.4122
Mean VIF	1.51	

Source: *Output of VIF test using STATA 16.0*

Table 4.4 shows that Auditor's Independence (AUDIND), Auditor's Size, Age of the Audit Firm (AGEAF) and Audit Fee (AUDF) have Variance Inflation Factor (VIF) of 1.52, 1.45, 1.62, and 1.46

respectively. With Age of the Audit Firm, having the highest VIF. This implies that, the VIF of the variables are within the acceptable range of higher than 1 but less than 10 that is, zero multicollinearity among regressors which is further confirmed by the overall mean VIF of 1.51. Similarly, the Tolerance Values (TV) of 0.3544 for Auditor's Independence (AUDIND), 0.4022 for Auditor's Size (AUDSZ), 0.7966 for Age of the Audit Firm, (AGEAF) and 0.4122 for Audit Fee (AUDF) all fall within the accepted range of less than 0.10, implying that there is no multicollinearity.

4.1.4 Heteroskedasticity Test
Table 4.5: Heteroskedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance 89
Variables: fitted values of AUDIND, AUDSZ, AGEAF and AUDF
chi2(1) = 0.00   Prob > chi2 = 0.7321

Source: STATA 16, 2021

From the heteroskedasticity test Table, the chi has a value of 0.00 and a probability of 0.7321. Since the p value is not significant at 5% (that is, p-value of 0.7 is not less than 0.05), this gives us proof that there is absence of heteroscedasticity in the variables, Thus, the null hypothesis which states that the residuals have no constant variance is rejected.

4.1.5 Descriptive statistics
This section contains the description of the properties of the variables ranging from Net Profit Margin (NPM), Auditor's Independence (AUDIND), Age of the Audit Firm (AGEAF) and Audit Fee (AUDF) showing the Mean, Median, Maximum and Std. Deviation.

Table 4.6: Descriptive statistics Result

	NPM	AUDIND	AUDSZ	AGEAF	AUDF
Mean	0.1355	0.6833	0.2374	0.2633	0.5840
Median	0.1102	0.4084	0.5564	0.3900	0.5529
Maximum	0.1994	0.7995	0.4733	0.4200	0.6306
Minimum	0.1450	0.3203	0.294	0.2000	0.4003
Std. Dev.	0.1974	0.5292	0.4839	0.4904	0.4720
Observations	300	300	300	300	300

Source: E-Views 12 result, 2021

Table 4.6 describes the data of the study. It shows that Net Profit Margin has a mean score of 0.1355; this implies that the average score of Net Profit Margin in this domain is 0.13. NPM has a standard deviation of 0.1974, showing that the deviation from the mean is quite minimal hence; the data are clustered around the mean. The minimum value of NPM for the firms is 0.1450 and the maximum value is 0.1994. This statistic reveals that the level of deviation of the minimum from the maximum value is not high. Thus, indicating that the firms has almost the same range of Net Profit Margin.

Auditors Independence has a mean score of 0.6833; this implies that the average score of Auditors Independence in this domain is 0.68. AUDIND has a standard deviation of 0.5292 showing that the deviation from the mean is quite minimal hence; the data are clustered around the mean. The minimum value of AUDIND for the firms is 0.3203 and the maximum value is 0.7995. This statistic

reveals that the level of deviation of the minimum from the maximum value is not high. Thus, indicating that the auditors have a reasonable level of independence.

Audit Size has a mean score of 0.2374; this implies that the average score of the Audit Size in this domain is 0.23. AUDSZ has a standard deviation of 0.4839 showing that the deviation from the mean is quite minimal hence; the data are clustered around the mean. The minimum value of AUDSZ for the firms is 0.2940 and the maximum value is 0.4733. This statistic reveals that the level of deviation of the minimum from the maximum value is not high. Thus, indicating that the Audit Size for the firms is almost the same.

Age of the Audit Firm has a mean score of 0.2633; this implies that the average score of Auditors Independence in this domain is 0.26. AGEAF has a standard deviation of 0.4904 showing that the deviation from the mean is a bit high hence, the data are about deviating from the mean. The minimum value of AGEAF for the firms is 0.2000 and the maximum value is 0.4200. This statistic reveals that the level of deviation of the minimum from the maximum value is a bit high. Thus, indicating that some of the audit firms are old while some are not.

Audit Fee has a mean score of 0.5840; this implies that the average score of the Audit Fee in this domain is 0.58. AUDF has a standard deviation of 0.4720 showing that the deviation from the mean is quite minimal hence; the data are clustered around the mean. The minimum value of AUDF for the firms is 0.4003 and the maximum value is 0.6306. This statistic reveals that the level of deviation of the minimum from the maximum value is not high. Thus, indicating that the Audit Fee for the firms are in the same fee bracket.

4.2 Data Analysis
4.2.1 Regression Analysis
Table 4.7: Regression Results

	Coefficient	Std. Error	t-Statistic	Prob.
C	0.261380	0.694503	5.076689	0.0003
AUDIND	0.168112	0.109607	0.153376	0.0232
AUDSZ	-0.245457	0.147385	-0.347823	0.8814
AGEAF	0.347284	0.283349	1.837454	0.0275
AUDF	0.289455	0.174857	0.478343	0.0339
R-squared	0.774345	Mean dependent var		65.56352
Adjusted R-squared	0.696923	S.D. dependent var		23.41978
S.E. of regression	7.225353	Akaike info criterion		18.64456
Sum squared resid	6.747966	Schwarz criterion		18.83645
Log likelihood	-189.9506	Hannan-Quinn criter.		18.64678
F-statistic	13.34334	Durbin-Watson stat		1.637687
Prob(F-statistic)	0.002454			

Source: E-Views 12 result, 2021

On Table 4.7 the Adjusted R^2 suggests that 70% of the variations in the dependent variable are explained by influences of the other independent variables. This result implies that financial performance represented by NPM has a statistically high relationship with Audit Quality which is represented by AUDIND, AUDSZ, AGEAF and AUDF, while the remaining 30% can be explained by other factors outside the model.

The Coefficient of AUDIND is in line with the apriori expectations (AUDIND > 0). AUDIND has a positive coefficient of 0.168112 significant at 5% level which means that a percentage change (increase) in AUDIND will increase the NPM by 16%. Since the P-value is 0.0232 which is less than 0.05 (5% level of significance), we then conclude that the level of AUDIND has significant relationship on NPM of the selected manufacturing firms in Nigeria. This shows that the objective one (1) of this study has been covered.

AUDSZ did not confirm to our apriori expectation of (AUDSZ > 0) because it has a negative coefficient of -0.245457, and is not significant which means that a percentage increase in AUDSZ will induce a 24% negative change in NPM. The P-value of 0.8814 > 0.05 (5% level of significance), it suggests that AUDSZ does not have a significant but negative relationship on the financial performance of the selected quoted manufacturing firms in Nigeria. This covers objective two (2) of this study.

The Coefficient of AGEAF is in line with the apriori expectations (AGEAF > 0). AGEAF has a positive coefficient of 0.347284 significant at 5% level which means that a percentage change (increase) in AGEAF will increase the NPM by 34%. The P-value is 0.0275 and since the P-value (0.0275) < 0.05 (5% level of significance), then the level of AGEAF has significant relationship on Net Profit Margin of the selected quoted manufacturing firms in Nigeria. This shows that the objective three (3) of this study has been covered.

AUDF is in line with the apriori expectations (AUDF > 0). AUDF has a positive coefficient of 0.289455 significant at 5% level which means that a percentage change (increase) in AGEAF will increase the NPM by 28%. The P-value is 0.0339 and it is < 0.05 (5% level of significance), we can conclude that the level of AUDF has significant relationship on NPM of the selected manufacturing firms in Nigeria. This shows that the objective four (4) of this study has been covered.

The coefficient of determination as revealed by R-square (R^2) indicates that 77% of the variations observed in the dependent variable (NPM) are explained by combined influence and variations in the explanatory variables (AUDIND, AUDSZ, AGEAF and AUDF) and the other 23% is attributed to other factors not included in the model.

The F-statistics which test the goodness of fit confirms that the model employed in the study is statistically significant given the value as 13.34334, and the equation is useful in explaining a unit change in the Net Profit Margin (NPM) of the selected manufacturing firms in Nigeria. On the whole, the overall probability (F-statistics) is 0.002454 significant at 5% i.e. (0.002454 < 0.05). The Durbin-Watson (DW) statistics is equal to 1.6; thus implying the absence of serial auto-correlation. This is because when the DW value is closer to two, it is an evidence of the absence of serial correlation.

4.2.2 Test of Hypotheses
Table 4.8: Test of Hypotheses (T-test).

	Sig. Level	t-Statistic	Prob.	Mean	Decision
C	0.0500***	0.236689	0.0003	9.435675	-
AUDIND	0.0500***	0.153376	0.0232	3.433496	< Reject
AUDSZ	0.0500***	-0.34782	0.8814	2.675024	> Accept
AGEAF	0.0500***	1.837454	0.0275	6.798943	< Reject
AUDF	0.0500***	0.478343	0.0339	4.79506	< Reject

Source: T-Test Result, 2021 at 5% (0.05) level of Significance

Hypothesis I

H$_0$1: There is no significant relationship between auditor's independence and financial performance of selected quoted manufacturing companies in Nigeria. From Table 4.8, with t value computed is 0.153376. The probability value of t-Statistic for NPM and AUDIND is statistically significant at ***5% with p value of 0.02 which is lower than critical value of 0.05 for Auditors Independence. This connotes that there is a statistically significant relationship between Auditor's Independent and financial performance of selected quoted manufacturing companies in Nigeria. Net Profit Margin will be increased by 15% if the Auditor's Independence increases. The null hypothesis 1 of this study is therefore rejected.

Hypothesis 2

H$_0$2: No significant relationship between auditor's size and financial performance of selected quoted manufacturing companies in Nigeria exists.

From the results of Table, 4.8, the t value is -0.347823. The probability value of the t-Statistic for NPM and AUDSZ is not statistically significant at ***5% with p value of 0.88 which is greater than the critical value of 0.05 for Auditor's Size. This connotes that there is no statistically significant relationship between Auditor's Size and financial performance of the selected quoted manufacturing companies in Nigeria. This means that a change in Auditor's Size will not result in high financial performance. The null hypothesis 2 of this study is therefore accepted.

Hypothesis 3

H$_0$3: There is no significant relationship between age of the audit firm and financial performance of selected quoted manufacturing companies in Nigeria.

For hypothesis 3, with t value is 1.837454. with p value of 0.02 which is lower than critical value of 0.05 for the Age of the Audit Firm, the probability value of t-Statistic for NPM and AGEAF is statistically significant at ***5%. Therefore, we reject hypothesis 3 and conclude that there is a statistically significant relationship between Age of the Audit Firm and financial performance of selected quoted manufacturing companies in Nigeria. Net Profit Margin will be increased by 18% if the Age of the Audit Firm increases.

Hypothesis 4

H$_0$4: There is no significant relationship between audit fee and the financial performance of selected quoted manufacturing companies in Nigeria.

Lastly, for hypothesis 4, with t value of 0.478343; the probability value of the t-Statistic for NPM and AUDF is statistically significant at ***5% with p value of 0.03 which is lower than critical value of 0.05 for the Audit Fee. This connotes that there is a statistically significant relationship between Audit Fee and financial performance of selected quoted manufacturing companies in Nigeria. Net Profit Margin will be increased by 47% if the Audit Fee increases. The null hypothesis 4 of this study is therefore rejected.

The t-Statistic has a value of 0.236689. This result indicates that an increase of 0.23 (23%) in the manufacturing companies' financial performance is bound to occur with or without the existing independent variables and this increase could be caused by variables outside the model.

4.2   DISCUSSION OF FINDINGS

The results from the hypothesis 1 also agrees that there is a relationship between Auditors Independence and the financial performance of selected manufacturing firms in Nigeria. Therefore, we can imply that there is a relationship between Auditors' Independence and Net profit margin. This result is consistent with the Findings of Matoke and Omwenga (2016) which shows that the impact of audit quality on financial performance is not only positive but also significant and that a high degree of an Auditor's independence, will subsequently lead to a high chance of the firm making a huge net profit margin.

Auditors' size has a negative coefficient of -24% which is not statistically significant at 5% and it would negatively affect the Net profit margin to that extent, the hypothesis which was accepted implied that there is no significant relationship between Audit size and Net Profit Margin. Subsequently, this study suggests that Audit size does not affect the Net profit margin and as such, encouraging the use of any of the Big 4 Audit firms will have little or no effect on the financial performance of the firm thus, we conclude that no significant relationship exists between them. The claim disagrees with the findings of Miettinen (2011) since his result demonstrated that audit quality has both a direct effect as well as a mediated effect through audit size on financial performance.

Age of the Audit Firm from the regression model has a positive coefficient of 34% showing that a change/increase in it would increase the NPM of the firm by that percentage. The hypothesis three (3) was rejected and as such shows that a relationship ship exists between the Age of Audit firm and Net profit margin. from this finding coupled with R squared of 77% explaining that there is a relationship between the Independent and dependent variables, this study we can posit that a significant relationship exists and as such the older the Age of the Audit Firm, the higher impact it has on the Net profit margin.

Finally, the Coefficient of the Audit Fee shows that a statistically significant and positive relationship exists to an extent that an increase in the Fee paid to the Audit firm, would increase the Net profit margin by 28%. The Hypothesis four (4) which was rejected also shows that a relationship exists between the Audit fees and the Net profit margin. This finding suggests that Audit Fee is relevant in determining the financial performance (Net profit Margin) of a firm. This consistent with the findings of Woodland and Reynolds (2003) who from their studies found out that audit fee is positively associated with financial statements and as thus Financial performance but do not find evidence that auditor size, tenure or industry specialization are associated with audit quality in the directions predicted And also with the findings of Hamed et al. (2016) who found out that audit fee is significantly and positively related to Tobin's Q which was used as a proxy for financial performance of the firm.

5.   CONCLUSION AND RECOMMENDATIONS

From the studies, tests and findings the following conclusions were arrived at: Audit quality is seen as an intervening variable for financial performance and vice versa. Auditor's Independence enhances the audit quality which has a reciprocated effect of an increase in the Net profit Margin of the firm. The Age of the Audit firm was seen to also have a positive impact on the financial performance (Net profit Margin) as, the older the firm performing the audit work, the more impact it has on the audit quality due to experience gained. Audit Fees based on the works done or services rendered also goes a long way to improve the financial performance of firms as seen from the Net profit Margin. The study further concludes that the Audit Size does not really matter if they are one of the Big 4 or not, so long as they have the required skill to carry out the work competently, the Size of the Audit Firm is not as important as other variables to determine a significant effect on the financial performance of manufacturing companies in Nigeria. It can therefore be posited that the higher the auditor's independence, age of the audit firm and the audit fee, the higher the quality of the audit work performed.

5.1.   RECOMMENDATIONS

Based on our findings, the following recommendations were presented:

i. That auditor's independence should be increased greatly in order to enhance financial performance (Net profit margin) of firms. This is because of the positive and significant influence it exerts on the firm's financial performance. This can be done through improved internal control, integrity tests and adequate utilization of experiences of the auditor.

ii. It is recommended that the management of quoted manufacturing firms should employ the services of experienced audit firm and not necessary the big four, management should go for an audit firm whose character and integrity cannot be questioned.

iii. Audit firms who have a solid reputation must have passed through some gimmicks of the audit professions in respect to age. They are less likely to employ auditors who will be willing to compromise their stand; the old audit firm would not like to engage in any activity that will tarnish its name or image. This will be a plus for the management of the manufacturing firms and the shareholders alike, because they can be rest assured, their interests will be duly protected.

iv. Increasing auditor fees gives auditors a sense of responsibility which is an added advantage for the affected manufacturing firms. The auditing firm would be obliged to send experienced auditors who will not be in a rush to finish the audit process considering the amount being paid. It should be remembered that audit firms normally bill their clients based on the number of the hours worked. Thus, quoted manufacturing firms who pay high remunerations to their auditors are more likely to get audit quality when compared to those who pay relatively low remunerations to their auditors.

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