Impact of Auditors on Fraud Detection and Prevention in Deposit Money Banks (DMBs) in Nigeria

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Abstract

This study examined the impact of auditors captured by risk assessment, system audit and verification of financial report on banking fraud control in Southwest Nigeria. The study employed survey design in which a set of questionnaire was administered on the selected banks in Southwest Nigeria. Multiple regression technique and ANOVA were used for the analysis. The results indicated that the level of fraud control in Nigerian banks during the period covered was low; and that risk assessment management, system audit and verification of financial reports adopted by the banking industry in Southwest Nigeria limit the fraudulent activities among the Nigerian banks by 35, 13 and 18 percent respectively; the results also showed that audit roles captured by risk assessment, system audit and verification of financial reports were statistically significant in determining the fraudulent act in banking industry in Nigeria Based on the findings, the study concluded that risk assessment, system audit and financial report verifications are carried out to determine the effectiveness and impact of auditors on fraud control in Nigerian banks which reveals that auditors' roles need to be improved to enhance fraud control in banking industry. The study recommended that auditors should increase the scope of their activities on the efficiency of banks internal control system, risk assessment and system audit as this will enhance the detection of fraudulent activities. Also, management of banks should ensure strict compliance with their respective internal control system.

Keywords: Auditor, Risk Assessment, System Audit, Financial Report, Fraud, Auditor

INTRODUCTION

The impact of auditors in fraud control and monument is essential. Fraud has been one of the most problematic and unsolvable matter for business all over the world for a long time; however, there has been much more attention and research dedicated to the topic after the scandals such as Enron, WorldCom and others. Frauds have led to loss of huge amount of money in the banking industry and nation's economy in general (Fatoki, 2015). Researchers have discovered that fraud contributed drastically to the financial distress of poor performance of many banks in Nigeria (Austin, 2011). According to Olorunsegun (2010), fraud is a major challenge of banking industry and this makes all banks vulnerable and distress. The management of each bank spends their hard-earned money to curtail it occurrence. Moreover, it puts question marks on the integrity of the employees and management of the banks and also gives rise to absolute loss of customers' confidence in banking. Adeyemo (2012) asserted that banking frauds are made possible with insiders or staffs collaboration. The management and staffs of every bank are expected to carry out their responsibilities with ultimate sincerity of purpose devoid of fraudulent practices to enhance public gain, trust and goodwill. Besides the role played by banking industry in growth and development of the nation economy, fraud goes a long way in depriving the economy of the necessary funds required for sound economic activities. It was discovered that the actions taken by the management of the banks in the aftermath of fraud cases are insufficient in stopping another fraud from been perpetrated. In a study carried out by Onwujiuba (2013), it was revealed that the managements of banking industry are not putting up enough measures that can prevent and control banking frauds, hence, the reason for incessant fraudulent practices in Nigeria.

Adeyemi and Uadiale (2011) opined that the existing duties and responsibilities of auditors are inadequate and are not clearly defined. Also, the expectation of the people on the issues of the auditors' responsibilities in detecting and curtailing fraudulent act are high. As a result, a significant number of people or respondents believed that auditors' responsibilities should be widened. Abu-Saeed and Kabir

(2012) revealed that the internal audit unit needs to be alive in discharging their responsibilities and the need to acquire basic or necessary knowledge that can engender fraud prevention in the banking industry. Sorunke (2016) observed that internal audit unit did not contribute significantly to fraud prevention and control in reality. The question is, what then, is the impact of auditors in the prevention of fraudulent activities in Nigeria's banking industry? In view of this, the study was carried out to investigate the impact of auditor on bank fraud in Nigeria.

LITERATURE REVIEW

Conceptual Clarification

Concept of Banking

Banking represent the means and methods through which funds are obtained, controlled, allotted and used (Ciuhureanu, Balteş & Brezai, 2009), a bank can be associated with a financial service conglomerate which is able to provide basic financial services and other functions within the economic, political, legal and international environment that determines its profit and expansion opportunities, interest rates, exchange rates and the particular resources a bank need (Drigă, 2006). The efficiency and effectiveness of the banking system is a key determinant of the economy growth of a nation (Dura & Drigă, 2015). The existence of an effective banking industry is a panacea to growing any nation's economy. The pivot of any economic development is the financial sector through its creditable roles in intermediating funds/capital from the surplus units to deficit units. These two laudable and reliant functions bring the banks face to face and in contact with the public who come to obtain their services. However, the roles of mobilizing deposit (surplus) and directing such deposit to the deficit sectors of the economy makes DMBs to attend to a large number of customers who they may not, most of the time, personally know, or whose identity may not be immediately known to the banks. This shows that banks may not be familiar with the true identity of these customers all of whom either have genuine/honest or fraudulent intentions (Dimejesi, 2014).

Concept of Fraud

The terms "fraud" has received attention and different definitions from different scholars, researchers and authors. What is very peculiar to the definitions is that the concept has been associated with embezzlement, financial misstatement and misappropriation, extortion, illegal amassing of wealth through dubious means, act of deception, bribery, false representation, theft, concealment of material fact etc. According to Adeyemo (2012), fraud is defined as "any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent on the application of threat or violence or of physical force. On the other hand, Mutesi (2011) defined fraud as "any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. Osisioma (2013) defined fraud as all the multifarious means which human ingenuity can devise and are resorted to by one individual to get any advantage over another. It includes all surprise, trick, cunning, dissembling and unfair ways by which another is deceived. Fraud covers a plethora of corporate crimes like embezzlement, larceny, theft, misappropriation of assets, among others. Penny (2002) explains fraud as an illicit financial gain for the fraudster or loss for the victim while Mahinda (2012) introduces a different concept to the definition of fraud. He argues that the menace occurs as a result of a person in position of trust or accountability who advances his own personal interests at the expense of the public interests through digressing from the set standards and rules.

Types of Fraud

Fraud in the banking is varies widely in nature, character and method of perpetration. Olaoye, Dada and Adebay (2014) categorize perpetrators into three namely; management of the banks (otherwise referred to as management fraud), insider (employee), outsider (customers and noncustomers) and insider/outsider. These are explained thus: Management Fraud is a kind of fraud frequently committed by management

staff of a reporting entity, which comprises the director, general managers, and managing directors to mention but a few. As management fraud is normally committed by persons in positions of trust, they have the authority to override internal controls (Singleton, Bologna & Lindquist, 2006).

According to Ahmed et al., (2014) the category of victims of management frauds are investors and creditors, and the medium for perpetrating the fraud is financial statement. Insiders/employees frauds are the frauds perpetrated by the employees of the bank or organization is also known as nonmanagement fraud. According to Olaoye (2009) it is the fraud perpetrated to the detriment of the organization and generally it is for the direct or indirect benefit of an employee. Boniface (1991) identifies some of the typical manifestations of employee's frauds in the banks to include: Cash thefts from the tills by banks' staff, forging of customer's signature with the intention of illegally withdrawing money from the account with the bank, use of forged cheques to withdraw money from the customer's accounts, opening and operating of fictitious account to which illegal transfers could be made and false balance credited, lending to fictitious borrowers effected through fictitious account opened at a branch, claiming of overtime for hours not worked, suppression of cash/cheques; fund diversion and computer fraud. Outsiders' fraud is frauds perpetrated by customers and non-customers to the detriment of the banks. This class of fraud as describe by Perspectives on the Nigerian Financial Safety-net (NDIC 2009) includes: advance fee fraud ("419") that usually involves an agent approaching a bank with an offer to access large funds for services purportedly rendered or contracts executed. According to Olaoye (2014), the collaboration of an accomplice is sought through the agent who must receive a fee or commission "in advance". As soon as the agent collects the fee, he disappears, and the funds never get to the bank. This is popularly known as "419" in Nigeria. Lastly, Outsiders/insiders fraud, this is the types of fraud committed by outsiders (customers/non-customers) of the bank with the effort of an insider (bank staff). For this type of frauds to be successful, there must be an insider providing necessary information and other logistic in secret (Olaoye, et al 2014).

Causes of Bank Fraud

NDIC (2009) groups the causes of bank fraud into three namely; institutional, social and individual. Institutional factors are conditions unconsciously created by institutions that allow fraud to flourish. In such institutions, a lot of loopholes are allowed to exist which fraudsters easily identify and exploit to commit their acts. Olaoye, Dada & Adebayo (2014) highlighted here under the common institutional causes of fraud: inadequate internal control, inexperience of staff/inadequate staff training, employment disaffection, poor management, banks reluctance to report fraud due to the perceived negative publicity or image from the public, inadequate training and re-training, failure to engage in regular call-over, employees refusal to abide by laid-down procedures without any penalty or sanction, automation and computerization and disregard to know your customer (KYC) rules. Social factors such as societal values, placing of high value on accumulation of wealth by the society without regard for the source, promotion of nepotism in office where by only those with people in "high places" or high deposit or people who have relations or people holding sensitive political positions are favored, thereby placing less emphasis on professionalism, poor economy and slow legal process are part of social factor that influence fraud (Olaoye, et al. 2014; Akindele 2011 & Adewunmi 1996); Individual factors are factors that pertain to the person, that is, those that are peculiar to the individual and may encourage him to live a fraudulent life. These factors include: Biological make-up – e.g. poor moral upbringing, criminal background, insatiable appetite for adventure- criminal or otherwise, wrong choice of friends or mentors, crime fathers, friends or parental influence to slow down investigation and weak mind.

Auditors Role

According to Awe (2005), Oladipupo (2005) and Babatunde (2002), auditor is an independent person appointed by the shareholders to examine the records and financial statements of an organization for the purpose of forming an opinion on the accuracy and correctness of the financial statements. When planning and performing audit procedures and in evaluating and reporting the results thereof, the auditors

should consider the risk of material misstatements in the financial statements, including those resulting from fraud or error. The main objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and that the financial statements give a true and fair view or present fairly, in all material respects of the financial results and state of affairs of the client entity (Babatunde 2002). Although the auditor's opinion enhances the credibility of the financial statements, the user cannot assume that the opinion is an assurance as to the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. The subsidiary objectives are, as described by (Awe, 2005; Oladipupo, 2005 and Babatunde, 2002): to detect errors and fraud; to prevent errors and fraud; and to help the client to improve upon his accounting and internal control systems. It must be emphasized that audit is not designed to detect errors, fraud and significant weaknesses in the client's systems but the audit work should be carried out in such a manner as to be able to expose errors, frauds and weaknesses (if they exist). In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

Auditors shall be responsible for prevention and assessment. Prevention though, it is not the auditor's function to prevent fraud and error, the fact that an annual audit assignment is carried out may create fear in the heart of the fraudster, hence, act as a deterrent. Risk Assessment is the 'process of assessing, understanding and managing risks that the entity is inevitably subject to in attempting to achieve its corporate objectives (CIMA, 2005).When planning the audit, as stipulated in International Standard on Auditing (ISA 315 and SAS No. 82,) an auditors should assess the risk that fraud or error may cause the financial statements to contain material misstatements ISA 315. Though, Porter (1977) concluded that the primary objective of an audit in the pre-1920 was to uncover fraud. However, according to Oyinlola (2010) the primary objective of an audit has changed to verification of accounts and expression of opinion on the financial statement. This is most likely due to the increase in size and volume of companies' transactions which in turn made it unlikely that auditors could examine all transactions. The existence of a fraud risk assessment and the fact that an auditor is articulating its existence may even deter would-be fraud perpetrators (IIA, AICPA, & ACFE). Furthermore, Oyinlola (2010) claims that auditors are required to be more proactive in searching for fraud during the course of an audit assignment. Their duties now include considering incentives and an opportunity presented to potential fraudsters, as well as rationalizations that the fraudulent act is justified. Auditors are also expected to inquire more closely into reasons behind such matters as, for example, errors in accounting estimates, unusual transactions that appear to lack business rationale, and a reluctance to correct immaterial errors discovered by the audit. Based on their risk assessment, according to ISA 330, the auditors should design audit procedure so as to have a reasonable expectation of detecting misstatements arising from fraud or error which are material to the financial statements. The auditors seek sufficient appropriate audit evidence that fraud and error which may be material to the financial statement have not occurred or that, if they have occurred, the effect of fraud is properly reflected in the financial statements or the error is corrected. Therefore, auditors shall report the fraud detected to those saddled with entity governance on time. He shall also report to those charged with the governance of the entity any other matter related to fraud (Babatunde, 2009). Auditor shall report to: members of the company, management of the company, and Third parties.

LITERATURE REVIEW

Salameh, Al-Weshah, Al-Nsour and Al-Hixain (2011) examined the impact of internal audit structures and perceived effectiveness of fraud prevention in Canada using t-test. Based on their findings they concluded that fraud could be prevented with effective internal audit units. Arivid and Cornelia (2012) assessed the impact of fraud prevention on bank-customer relationships" using least square method and discovered another dimension to the issue of fraud when they found a positive association between customer familiarity with and knowledge about fraud prevention and the quality of customer relationship

as a measured of satisfaction, trust and commitment. Linder Bresster (2010) investigated the role of forensic accountant in fraud investigations: importance of Attorney and Judge's perception and concluded that training of auditors is important for fraud prevention. He argues that this will make them to become experts in fraud prevention. However, Chen, fifth, Gao and Rui (2006) assessed the ownership structure, corporate governance and fraud in China using table and percentage. They concluded that a large number of outside directors contributed to financial statement fraud. The large proportion of outside directors would be helpful in monitoring the firm's activity to reduce fraud. Reinstein, Moehrlr and Moehrlr (2006) adopted Kohlberg Model in their work to investigate crime and punishment in the marketplace: Accountants and Business executives repeating history and concludes that financial statement fraud begins with financial and morale problems in the banks but Zhang, Zhou and Zhou (2007) disclosed in their study on audit committee quality, auditor independence, internal control weaknesses and effective role of the audit committee contributed to better internal control of the industry.

In addition to the competence of the audit committees are also expected to be independent in overseeing the bank's internal control. The audit committee is also responsible for ensuring that management does not engage in fraudulent conduct. Agyei, Kusi-Aye and Owusu-Yeboah (2013) assessed Audit Expectation Gap in Ghana using regression analysis and found that there exists expectation gap concerning auditor's responsibility relating to fraud detection and prevention. The work corroborates Bogdanoviciute (2011) who empirically reviewed Audit Expectation Gap: The case of Lithuania and Saeidi, (2012) who empirically examined audit expectations gap and corporate fraud in Iran. Fadzil, Haron and Jantan (2005) assessed internal auditing practices and internal control system using t-test statistic. They discovered that the professional proficiency of internal auditors influenced the effectiveness of the internal audit function on fraud detection. Zacharia, Jerry and Danjuma, (2012) examined the adequacy of external auditing on fraud in Nigerian commercial banks. The study was done using analysis of variance and they found that external audit is not adequate in detecting fraud. Adeoti (2011) appraised the impact of Automated Teller Machine (ATM) on Frauds in Nigeria using chi-square and discovered that bankers and customers have roles to play in curtailing fraudulent act in our banks. He established that ATM helps in preventing fraud. Kabri (2009) evaluated the role of forensic auditing in combating fraud in the Nigerian banking sector using Main-Whitney U-Test. The study revealed the need for modifying regulatory framework in Nigeria by using macro environmental forces such as regulatory and legal pressure on auditing profession to be more responsive for fraud detection in financial statements. Uchenn and Agbo (2013) assessed the impact of fraud and fraudulent practices on the performance of banks in Nigeria. The study adopted multiple regression method and from the finding it was established that fraudulent activities inflict severe financial difficulties on banks which affects the amount of money available for economic development. Oyinlola (2010) investigated the role of auditors in fraud detection, prevention and reporting in Nigeria. The employed table and percentage discovered that the respondents are very concerned about the problem of fraud and that the duty of auditor is fraud detection.

METHODOLOGY

This study adopted survey design as a research strategy. The study employed the use of primary data in order to achieve the stated objective of the study. Descriptive and inferential statistical method was adopted in order to provide a proficient appraisal of the impact of auditors on bank fraud control in Southwest Nigeria. The population of this study include 22 Deposit Money Banks (DMBs) in Nigeria while data were source from auditors, control officers, operation managers and branch managers or heads of the six selected DMBs in Southwest Nigeria (First Bank of Nigeria Plc., United Bank for Africa Plc., Union Bank Plc., Zenith Bank Plc., Access Bank Plc. and Guaranteed Trust Bank Plc). Data used for this study were obtained using a well structured questionnaire from a sample size of 142 respondents selected from six (6) deposit money bank branches in Southwest Nigeria. The data was analyzed using appropriate descriptive and inferential statistics. The descriptive statistics involved Summary Statistics while regression analysis technique and ANOVA were used as an inferential statistics. Other diagnostics test

been carried out includes test for the significant of the estimated parameters using standard error test, T-test and probability test; test for significant of the fitted model using R- square and test for the goodness of fit of the model using F-test statistic.

Model Specification

The model for the study comprises explanatory variables which are Auditors' roles captured by Risk Assessment-RSKM, System Audit-SYSA and Verification of Financial Reports-VFR while, Fraud Control (FRDC) serve as the dependent variable. The model for the study is specified as follows:

$FRDC = f(RSKM, SYSA, VFR)$
$FRDC = ao + b1\ RSKM + b2SYSA + b3VFR + \mu$
Where:
FRDC = Fraud Control
RSKM = Risk Assessment
SYSA = System Audit
VFR = Verification of Financial Reports
a_o = Constant Parameter
b_1, b_2, b_3 = Parameters to be estimated
μ = Error Term

RESULT AND DISCUSSIONS

Table 1: Presentation of Data Analysis

	FRDC	RSKM	SYSA	VFR
Mean	45.28571	45.17857	44.20626	42.93650
Median	46.00000	45.00000	43.33300	43.33300
Maximum	50.00000	50.00000	50.00000	50.00000
Minimum	36.00000	37.50000	33.33300	33.33300
Std. Dev.	3.473142	3.093702	3.611245	4.305556
Skewness	-0.681673	-0.214541	-0.418549	-0.120181
Kurtosis	3.481154	2.618656	3.801472	2.353250
Jarque-Bera	3.657888	0.576686	2.350407	0.833106
Probability	0.160583	0.749504	0.308756	0.659316

Source: Researcher's Computation

Table 1 shows the descriptive analysis results of all the activities regarding the roles of auditors in fraud control in Nigeria. The level of fraud control and the roles of auditors were captured by risk assessment, system audits and verification of financial reports. The result reveals that the average rate of fraud control, risk assessment, system audit and verification of financial reports are 45.29, 45.18, 44.21 and 42.94. This result implies that the average level of fraud control in banking industry is low and not encouraging. The risk assessment, system audit and verification of financial reports reveal that the auditors' roles need to be improved to enhance fraud control in banking industry in Nigeria. The maximum and minimum level of fraud control, risk assessment, system audit, verification of financial reports are; 50 and 36, 50 and 37.50, 50 and 33.33 and 50 and 33.33 respectively. The standard deviation values of 3.47, 3.09, 3.61 and 4.31 reveal the rate at which fraud controls, risk assessments, system audit and verification of financial reports have deviated from their respective and expected roles.

Also, it was discovered that skewness of fraud control, risk assessment, system audit and verification of financial reports are -0.68, -0.21, -0.42 and - .012 respectively. This result indicates that the financial variables under consideration are negatively skewed because their distributions have a long tail to the left. However, the kurtosis values 0.481, -0.381, 0.801 and -0.647 respectively measured the extent of peakness of the financial variables. The result reveals that fraud controls and system audit are leptokurtic

in nature because the kurtosis coefficient indexes are positive. On the other hand, risk assessments and verification of financial reports are platykurtic in nature because their coefficients of kurtosis are negative. The Jarque-Bera values reveal that the financial variables examined in this study are not normally distributed statistically.

Table 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.606	.655	4

Source: Researcher's Computation

The reliability of the instrument was tested using Cronbach's Alpha test. Cronbach's alpha test is used to investigate the internal consistencies of the research instrument. If the result reveals value between 0.50 and 1.0 for the identified variables then the reliability of the instrument in reasonable term is established to take acceptable decision and conclusion regarding the study under investigation. Thus, from the result, it was discovered that the Cronbach's Alpha statistics is 0.61. This value implies that the research instrument used in the study is 61 percent reliable and desirable in determining the impact of audit role, financial regulatory authorities and professional ethics on fraud control in banking industries in Nigeria.

Table 3: Fitted Model using Least Squares Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.34831	5.498828	3.882338	0.0091
RSKM	0.346672	0.077983	4.445817	0.0000
SYSA	0.129669	0.057619	2.250456	0.0056
VFR	0.182077	0.049109	3.707610	0.0003

Source: Researcher's Computation

From the fitted regression model, it was discovered that a positive linear relationship exists between risk assessment management, system audit, verification of financial reports and fraud control in banking industry in Nigeria. This shows that risk assessment management, system audit and verification of financial reports which captured the auditors' roles have a direct relationship with the fraud control in Nigerian banking industry. The result shows that risk assessment management, system audit and verification of financial reports adopted by the banking industry in Nigeria limit the fraudulent activities among the Nigerian banks by 35, 13 and 18 percent respectively. This result indicates that risk assessment management, system audit and verification of financial reports been carried out in the banking industry in Nigeria are not effective in tackling or controlling the incessant incidence of fraudulent activities. Thus, it implies that there is need for the auditors to be alive to their responsibilities such that financial statements are prepared in accordance with an identified financial reporting framework in such a way that the financial statements give a true and fair view of the financial results and state of affairs of the client entity so that banking fraud in Nigeria can be curtailed.

The statistical significance of the estimated parameters of the model was examined using the standard error test, t-test statistic and the probability value. In using standard error test, the rule of thumb is that half of the estimated parameter must be greater than the standard error value in absolute term to establish the statistical significance of the parameter. Therefore, it was discovered from this study that half of the coefficient of the variables or estimated parameters for risk assessment, system audit and verification of financial reports are 0.173, 0.065 and 0.091 respectively which are greater than the standard error values 0.078, 0.058 and 0.049. Thus, it implies that audit roles captured by risk assessment, system audit and verification of financial reports are statistically significant in determining the fraudulent act in banking industry in Nigeria. In using T-test statistic, the rule is that the estimated T-statistic value must be greater than or equal to the T-tabulated value at a given degree of freedom and level of significance that is, $T_{cal} \geq T_{tab}$ (df). Thus, the T-statistic values 4.446, 2.251 and 3.708 > Ttab (141) = 1.684.

This implies the statistical significance of risk assessment, system audit and verification of financial reports in examining banking fraud in Nigeria. However, the same result was also discovered using the probability value of the estimated parameters. This is because the probability values 0.000, 0.006 and 0.000 < 0.05 establish the statistical significance of risk assessment, system audit and verification of financial reports in curbing the incidence of fraud in Nigerian banking industry. The test for the theoretical significance of the estimated parameters was examined based on the sign of the estimated parameters. It was discovered from the analysis that risk assessment, system audit and verification of financial reports were positively signed. Thus, the result implies that audit roles captured by risk assessment, system audit and verification of financial reports have direct impact on fraudulent activities in banking industry in Nigeria. This result affirms a priori expectation that auditor's roles are vital to the control of fraudulent incidence in banking industry in Nigeria.

Table 4: Test for the Significance of the Model

Model Std.	R	R Square	Adjusted R Square	Error of the Estimate
1	.736a	.542	.483	3.29025

Source: Researchers' Computation,

The test for the significance of the model also known as the test for the coefficient of determination of the model was presented in table 4. It is the proportion of variation in the dependent variables that can be explained by the explanatory variables. This test was carried out using R-Square statistic. However, the R-Square value 0.54 implies that 54 percent variation in level of fraudulent act occurring in the banking industry in Nigeria can be explained by financial auditor roles captured by risk assessment, system audit and verification of financial reports. The result further reveals that the extent of the relationship that exists between audit roles and fraud control is 0.74. This implies that there is a strong correlation between the auditors' roles and fraudulent acts in banking industry. Thus, the need for an improvement of internal control system for effective service delivery; training and retraining of staff to acquire more relevant knowledge that can enhance better management thereby, leading to a drastic reduction in fraudulent acts in Nigerian banking industry.

Table 5: Test for the overall significance of the model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	172.945	5	34.589	5.937	$.000^{b}$
Residual	209.736	136	5.826		
Total	382.681	141			

a. Dependent Variable: FRDC
b. Predictors: (Constant), RSKM, SYSA, VFR
Source: Researcher's Computation,

The test for the overall significance of the model is also known as the test for the goodness of fit of the model which was presented in table 4.5. The test was done using F- statistic and the probability of F-statistic. The result shows that the F-statistic value 5.937 is greater than the F-tabulated value 2.45 at 95 percent confidence level. Also, the probability of F-statistic 0.000 < 0.05 the error margin allowed in the estimation of model. It was concluded based on this fact that the model is appropriate and adequate for determining the impact auditor roles captured by risk assessment, system audit and verification of financial reports on fraud control in Nigeria banking industry. Therefore, a viable internal control system through responsive auditor's role and guidelines are good, reliable and acceptable for determining the fraudulent activities in banking industry in Nigeria.

Table 6: Test for equality of mean among the variables

Method	Df	Value	Probability	
Anova F-statistic	(5, 562)	5.065579	0.0002	

Friedman's Test	(5,520)	25.401	0.000	
Cochran's Test	(5,520)	25.401	0.000	
F- Test	(5,520)	5.642	0.000	
Analysis of Variance				
Source of Variation	Df	Sum of Sq.	Mean Sq.	
Between	5 416	.5528	83.31056	
Within	562	4045.815	16.44640	
Total	567	4462.368	17.77836	

Source: Researcher's Computation

Table 6 presents the test for the equality of mean among the variables under investigation in this study. The test was carried out to show whether the impact of auditor's roles in curbing fraudulent activities in banking industry in Nigeria were the same or not. This test is done using Fstatistic, Friedman's Test and Cochran's Test. The probability values of Fstatistic = 0.000 < 0.05, Friedman's statistic = 0.000 < 0.05 and Cochran's statistic = 0.000 < 0.05 (0.05 = error margin) reveal that the contributions of risk assessment, system audit and verification of financial reports towards fraud control in Nigerian banking industry are not the same. Thus, as the activities are different, the impacts or the contributions are also different.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of the study it was concluded that the roles of auditors in theory and practice on fraud control which is the integrated set of activities to prevent, detect, respond and monitor fraud in the financial world cannot be overemphasized even with the pervasiveness of fraud incidences in the contemporary times. Risk assessment, system audit and financial report verifications are carried out to determine the effectiveness and impact of auditors on fraud control in Nigerian banks which reveals that auditors' roles need to be improved to enhance fraud control in banking industry. The study recommended that auditors should increase the scope of their activities on the efficiency of banks internal control system, risk assessment and system audit as this will enhance the detection of fraudulent activities. Also, management of banks should ensure strict compliance with their respective internal control system.

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Impact of Audit Quality on Financial Performance of Quoted Cement Firms in Nigeria

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Abstract

This study examined the impact of audit quality on financial performance of quoted cement firms in Nigeria. The study is descriptive in nature and the correlational and ex-post facto designs were adopted in carrying out this research. Data were obtained basically from the published annual reports and accounts, and notes to the financial statements of the four firms that represent the sample of the study. The data collected were analysed and presented in tables. Multiple regression analysis using the SPSS Version 20.0 was employed in analyzing the data. The results of the findings show that auditor size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria. However, auditor independence has more influence than auditor size on financial performance. The study recommends that the management of quoted cement firms in Nigeria increase the remuneration of auditors in order to improve their financial performance and it also further recommends that management should employ the services of audit firms whose character and integrity is beyond question.

Keywords: Audit Quality, Financial Performance, Financial Statement, Auditor Independence, Quoted Cement Firm

INTRODUCTION

According to Matoke and Omwenga (2016) audit quality can be defined in two dimensions: first, detecting misstatements and errors in financial statement and second, reporting these material misstatements and errors. Audit quality is subject to many direct and indirect influences. In tandem with the stakeholder theory (Khan, 2006), perceptions of audit quality vary amongst stakeholders depending on their level of direct involvement in audits and on the perspective through which they assess audit quality. In recent times, a series of well-publicized cases of accounting improprieties in Nigeria has captured the attention of investors and regulators alike. The search for mechanisms to ensure reliable, high quality financial reporting has largely focused on the structure of audit quality (Adeyemi & Fagbemi, 2010). The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements. The societal role of auditors should be a key contribution to financial performance, in terms of reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to preset rules and regulations. Lower risks on misstatements increase confidence in capital markets, which in turn lowers the cost of capital for firms (Heil, 2012; Watts & Zimmerman, 1986).

According to Oluwagbemiga 2010, an auditor has the duty for the avoidance, recognition, and reporting of fraud, other illegal acts, and errors. This has been shown in the decline of both small and big corporations' world over. Tobi et al. (2016) asserts that the usefulness of auditor independence is to improve the financial reporting quality by increasing the effectiveness and efficiency of the audit process and ensuring an auditor is not too familiar with the client to not jeopardize their integrity thus impairing their independent opinion. Quality auditing has a vital role in maintaining the confidence of users in the audited financial statements. According to Jackson et al. (2008), some of the factors that may influence auditor independence is providing non-audit services to the client and having relations with the client firm. Also, if the auditors overstay with a client as extended audit tenure, the independence may be affected. So, regulators organized the relationship between the auditor and the client by issuing some rules. The Sarbanes-Oxley (SOX) Act and the Securities & Exchange Commission (SEC) rules further

restrict the type of non-audit services that can be provided by auditors. The Public Company Accounting Oversight Board (PCAOB) has also issued additional independence rules related to the provision of certain tax services Arens et al. (2012). The SOX act requires that the lead and concurring audit partner rotate off the audit engagement after five years Arens et al. (2012). The prohibition of providing specific audit services to the client and audit partner rotation can maintain the auditor independence. Besides, the constant search for increasing firm profitability highlights the importance of enhancing firm financial performance as well.

The spate 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, Okpala & Dabor, 2012). If empirical studies are not carried out with respect to specific environmental factors the problem of poor audit quality may be exacerbated with likely grave consequences for the selected banks. Although, 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; Musa and Shehu, (2014) in his study investigates 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 and 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. 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 (Internal Audits Board, 2011). 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 cement industry. It is against this background that this research work is carried out. The purpose of this study therefore is to determine the impact of audit quality on the financial performance of quoted firms in Nigeria. 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; Miettinen, 2011). It has been found that the perceived reliability of audited financial information has declined. In contrast, the perceived relevance of audited financial information has increased. The effect of audit quality on financial performance has recently received attention from researchers in the western world. Studies have shown that audit quality has an impact on the financial performance of an organization (Beasley, 1996; Heil, 2012; Miettinen, 2011).

LITERATURE REVIEW

Conceptual Framework

Concept of Auditor Independence

According to De Angelo (1981), auditor's independence can be defined as the conditional probability that the auditor will disclose any misstatement in financial statements given that this misstatement was already discovered. Chia-Ah and Karlsson (2010), opines that the threats to independence are often very

significant and thus undermine the auditor's effectiveness in rendering the auditing services. Bamber and Lyer, (2007); Jackson et.al, (2008) assert that it becomes even more challenging when the auditor overstays with a client as extended audit tenures have been found to hamper auditor independence.
Theoretically, De Angelo (1981), analyzed the relationship between audit quality and auditor's size. Ebrahim (2001), observes that De Angelo (1981), argues that large auditors will have more clients and their total fees will be allocated among those clients. De Angelo (1981), argued that large auditors can contain the loss of a client and therefore, will provide higher quality of audit. Ebrahim (2001), states that the results of some empirical papers have provided additional support for the use of auditor size as a proxy for audit quality. Davidson (1993), used an indirect method to support the argument that size is a good proxy for audit quality. He argued that managers have incentives to manipulate the reported earnings to meet the analyst's forecasts. Therefore, if large auditing firms provide higher-quality audits than small auditing firms, we may expect that the forecast errors of big auditing firms' clients will be larger than those of small auditing firms' clients. Using data from Canadian firms, his results support that auditor size is a good proxy for auditor quality. Lennox (1999), looked at the two 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 loose 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. Lennox (1999), examined the relationship between audit quality and auditor size and found greater support for the deep pockets hypothesis.
Based on De Angelo's (1981), analytical results, Lidang (2004), states that many studies use auditor size, specifically Big 4 firms versus Non-Big 4 firms to differentiate audit quality. For example, Krishnan, 2003; Zhou and Elder, 2001; Bauwhede et.al, 2000; Becker et. al.,1998.

Woodland and Reynolds (2003), examined the association between indirect measures of audit quality and financial statement analysis using multivariate regression analysis. They found that audit fees 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. 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.

Ettredge et.al, (2008), investigated client choice of industry auditors from among the Big 4 or 5 in an international setting. They investigated client-specific industry level and country-level factors. They found that international choice of home based Big 4 or 5 specialist auditors is positively associated with audit quality, capital intensity and membership in a regulated industry. Bouaziz (2012), examined the relationship between auditor size and financial performance on a sample of 26 Tunisian firms listed on the Tunis Stock Exchange. The result shows that auditor size has an important impact on the financial performance of firms in terms of return on assets and return on equity. Anderson and Verma (2012), examined the relationship between auditor size, auditor tenure and audit firm rotation using a probit model which they developed. The data they collected from 2,148 listed Asian companies shows that big audit firms provide high quality audit because big audit firms are more conservative than non-big audit firms. They also discovered that national level factors have a strong influence on audit quality. Auditor tenure is associated with impaired audit quality and audit firm rotation can help promote audit quality.
However, 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 cement firms in Nigeria.

Audit Quality

According to DeAngelo (1981), audit quality is defined as the competency and independence of auditors in detecting and reporting material misstatement. Zehri and Shabou (2011) asserted that high quality auditors are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low quality auditors. Due to this, a higher audit quality is able to better constrain earnings management, and in turn enhance the quality of financial reports (Ching, Teh, San & Hoe, 2015). Previous research in the related literature has employed various measures as proxies of audit quality. Several studies have indicated that a higher quality of auditing mitigates accruals based earnings management (Okolie, 2014; Soliman and Ragab, 2014; Gerayli, Yanesari and Ma'atoofi, 2011; Becker, DeFond, Jiambalvo, & Subramanyam, 1998). This study used audit firm size, audit fees, and audit partner as audit quality measures. Conceptually, the auditing quality can be measured through the three basic aspects of inputs, outputs and environmental factors. Except auditing standards, there are other inputs for the auditing quality. One such an input is the unique and prominent features of the auditor such as his or her experience, moral values and his propensities. One of the other important factors is the auditing process (Rahimi & Amini, 2015). This process includes auditing methodology, the amount of the effects of the applied auditing methods and the amount of access to the required auditing documents and evidences.

Audit Committee Size

Limited research has been undertaken to investigate the relationship between firm performance and the features of audit committee. Forker (1992) was the first paper to propose this relationship. The author suggests that the audit committee is as an effective monitoring mechanism to enhance the quality of corporate disclosure and reduce agency costs. Furthermore, Ho and Wong (2001) argue that the existence of an audit committee significantly influences the amount of corporate disclosure. In others empirical studies (Barakoet, 2006) conclude the predictable positive connection between audit committee size and level of voluntary disclosure.

Corporate Performance

There are a few studies that demonstrate that audit quality improves the financial performance of a company. Afza and Nasir (2014) mentioned that quality of external audit improves a firm's performance due to the perception of investors. They perceive that companies that are audited by big audit firms will disclose reliable, proper, and authentic financial reports, which strengthen the overall investors' confidence towards these companies. Furthermore, Jusoh, Ahmad and Omar (2013) claimed that high audit quality might reduce agency costs where auditors provide an indicator about credibility and integrity of financial reports, which could in turn lead to lower monitoring costs and result in better performance by the corporation.

Return on Capital Employed

According to Wallace (2012), Return on Capital Employed ("ROCE") is a measure of business effectiveness and capital efficiency. ROCE is a function of profitability, how much profit a business generates before interest on debt and tax (EBIT) and activity, how much a business has invested in operating assets to generate that level of profitability. In the 1920's Du Pont Corporation developed what is commonly known as Du Pont accounting and ROCE as a measure of business performance to enable it to compare the performance of its many different business units. The Du Pont accounting method is a powerful and relatively simple approach to determine the impact of management decisions on financial performance.

Return on Capital Employed and Return on Equity are so interlinked that both these terms will be considered. These Returns are, basically, simple and useful concepts; they have however been so manipulated (abused, some people would say) over the past few decades that they now more often confuse rather than illuminate the evaluation of company performance (Shoesmith, 2004). The concept of the Returns is intuitively valid and useful: what Return is being made on Capital Employed and on Equity? In particular it is important to know whether the company is earning more than its cost of capital. Simplistically, the Return on Capital Employed is the profit before interest and taxation (ie turnover less costs) as a percentage of the capital employed in the business (ie fixed assets and net current assets) irrespective of whether financed by shareholders equity or borrowings (Jim Shoesmith, 2004). It is a measure of the profit earned by the business irrespective of how that business is financed. Also simplistically, the Return on Equity is the profit after interest but before taxation (ie turnover less costs and less interest paid) as a percentage of shareholders equity (capital employed less borrowings). It therefore only differs from Return on Capital Employed as it takes account of the gearing achieved by borrowing.

Return on Assets (ROA)

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings (Gallo, 2016). Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing. ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or against a similar company's ROA. Remember that a company's total assets are the sum of its total liabilities and shareholder's equity. Both of these types of financing are used to fund the operations of the company. Since a company's assets are either funded by debt or equity, some analysts and investors disregard the cost of acquiring the asset by adding back interest expense in the formula for ROA. In other words, the impact of taking more debt is negated by adding back the cost of borrowing to the net income, and using the average assets in a given period as the denominator. Interest expense is added because the net income amount on the income statement excludes interest expense. An analyst that chooses to ignore the cost of debt will use this formula:

ROA = (Net Income + Interest Expense) / Average Total Assets

The ROA figure gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is earning more money on less investment. Let's evaluate the ROA for three companies in the retail industry (Macy, Penney & Sears, 2017). ROA is most useful for comparing companies in the same industry, as different industries use assets differently. For example, the ROA for service-oriented firms, such as banks, will be significantly higher than the ROA for capital intensive companies, such as construction or utility companies. “ROA simply shows how effective your company is at using those assets to generate profit.” This ratio is more useful in some industries than in others, partly because how much money your business has tied up in assets will depend on your industry.

Return on equity (ROE)

Return on equity (ROE), is a financial ratio that measures the return generated on stockholders’/shareholders’ equity, the book or accounting value of stockholders’/shareholders’ equity which reflects the accumulation over time of amounts received by the company from stock/share issues plus the profits/earnings retained by the company, i.e., not yet distributed in dividends (accounting value of shareholders’ equity is also equal to a company’s net assets, i.e., assets minus liabilities). Furthermore, the ROE can be decomposed to understand the fundamental drivers of value creation in a company. This is known as the DuPont decomposition and can be calculated as:

ROE = profit margin X asset turnover X gearing. ROE = (profit for the year ÷ sales) X (sales ÷ assets) X (assets ÷ shareholders' equity).

Empirical Framework

ShafieHussin and YusufHussain (2009) examined the relationship between audit firm tenure and auditor reporting quality in Malaysia. This study employs well-established going concern model of logistic regression. Their findings show that audit firm tenure is positively significant relationship with auditor reporting quality. Adeyemi and Fagbemi, (2010) state the audit quality, corporate governance and firm characteristics in Nigeria. Therefore, this study provides evidence on corporate governance, audit quality, and firm related attributes from a developing country, Nigeria. Logistic regression was used in investigating the questions that were raised in the study. Findings from the study show that ownership by non-executive director has the possibility of increasing the quality of auditing. Evidence also exist that size of the company and business leverage are important factors in audit quality for companies quoted on the Nigerian Stock Exchange. Zahid, Haider and Asif (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. Their results revealed that prior year firm's performance has positive relationship with board size but negative relationship with audit expenditure.

Theoretical Framework

Economies of Scale

Economies of scale describe a competitive advantage that large firms have over smaller ones. It argues that firm size is related to profitability as large firms have greater strategic diversification, a greater possibility of renegotiating with clients and suppliers, greater ability to face competition, and keeping prices above the competitive level. In line with this idea, a positive association between firm size and profitability is anticipated (Serrasqueiro and Nunes 2008).

Agency Theory

Demand for audit arises from information asymmetry and agency conflicts between corporate managers, outside investors, and intermediaries. From an Agency Theory perception, (Dang 2004) clarifies that auditing financial statements are an effective monitoring mechanism that assures stakeholders that financial statements are free of material misstatements. Agency Theory has been extensively exercised in literature to study the information asymmetry between principals (shareholders) and agent (management). The principal-agent association as illustrated in the agency theory is essential to understanding how the role of an auditor has developed. The essential premise of Agency Theory is that conflicts of interest arise in corporate relationships due to the divergence of the benefits of managers and shareholders. The Agency Theory presumes that the role of the auditor is to manage the association between the manager and the owners. It is essential that the manager and the owners have a clear understanding that the auditor does not have the responsibility for the accounting. However, the auditor is responsible for making sure that the audit is adequate (Andersson and Emander, 2005). Agency theory, therefore, is a handy economic theory of accountability, which assists in clarifying the improvement of audit quality.

Theory of Inspired Confidence

Limperg observed that when a society loses confidence in the effectiveness of the audit, this, in turn, destroys the usefulness of the auditing process. Limperg's Theory of Inspired Confidence addresses both the demand for and the supply of audit services. According to Limperg, the need for audit services is the direct consequence of the participation of outside stakeholders in the firm. These stakeholders demand accountability from the management, in return for their contribution to the firm. Thus, the Theory of

Inspired Confidence connects the community's needs for the reliability of financial information to the ability of audit techniques to meet these needs, and it stresses the development of the needs of the community and the methods of auditing in the course of time. Accordingly, changes in the needs of the society and changes in the auditing techniques result in changes in the auditor's function. There is lots of previous literature on the relationship between ownership structure, corporate governance and firm performance from developed capital markets. However, few pieces of research exist on the relationship between audit quality and the financial performance of firms from less developed capital markets. Accordingly, there is a necessity for more research on audit quality and its impact on the financial performance of firms operating in the Egyptian business environment. This work aims to fill in this existing gap. Results of related prior research efforts on the topic are mixed. Never the less, we predict our outcomes to be in line with the current Agency Theory, Economies of Scale Theory and Theory of Inspired Confidence.

METHODOLOGY

The study examines the influence of Audit Quality on Financial Performance of listed Cement Firms in Nigeria over a period of five (5) from 2015 to 2019, The basis for selecting this period is due to the global financial crisis in 2009 and several financial crises in Nigeria between this period which has led to the clamour for quality financial reporting among quoted firms in Nigeria. Correlational and Ex-post factor design was adopted for the study, the design for the study is appropriate because it assist in determining the influence of Audit Quality on Financial Performance of the selected firms. The study makes use of data from secondary sources through the sampled firm's annual reports and accounts. A total of four (4) cement firms out of the five (5) listed were studied as a result of unavailability of Data for Nigerian Cement Company. Multiple Regression technique was adopted as our tool of analysis as it was found appropriate for the data analysis.

Model Specification

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:

$$FP = \beta_0 + \beta_1 (AI) + \beta_2 (AS) + \beta_3 (LE) + \epsilon$$

Where FP = Financial Performance (Dependent Variable)
AI = Auditor's Independence (Independent Variable)
AS = Auditor's Size (Independent Variable)
LE = Leverage (Control Variable)
ϵ = Error Term

Measurement of Variables

Financial performance; FP is measured using Net Profit Margin, FP is calculated as profit after tax divided by the sales for firm i at a given time t. Auditor independence; AI is measured using auditor's fees, that is, the sector average audit fees was taken and compared with the audit firm fee for a particular year. AI is coded 1 if the audit fee of a given firm is l than the sector average, otherwise AI is coded 0. Auditor Size; AS is measured using the Big 4 versus Non-Big 4 dichotomy. AS is coded 1 if the audit of the issued financial statements was performed by a Big 4 audit firm, otherwise, AS is coded 0. The Big 4 audit firms in Nigeria are; Akintola Williams Delloite, Price Water House Coopers, Ernst and Young, and KPMG. Leverage; LEVR is measured as total debts divided by debt plus equity. Leverage will help to ensure that extraneous variables such as debt commitments and size or assets composition which are external to the purpose of this study are minimized, nullified or isolated.

RESULTS AND DISCUSSIONS

This session presents the results of the empirical study. It is concerned with the presentation, analysis and interpretation of data collected from the secondary resources. The session makes conclusion and Recommendations from the Findings of the study. For the purpose of this study, the data collected were coded and presented in tables. Multiple regression analysis; specifically, the Ordinary Least Square method (OLS) was used in testing the stated hypotheses. The descriptive statistics for each of the variables were determined to show the minimum, maximum, mean and standard deviation values. Descriptive statistics helps readers to understand the measures of central tendency and measures of variances associated with the variables of the study.

Table 1: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
NPM	20	.02	1.53	.3155	34766
AUDSIZE	20	.00	1.00	.6000	.50262
AUDIND	20	.00	1.00	.6000	.50262
LEVR	20	.00	35.80	7.9775	10.67594

Source: Extract from SPSS printout result

Table 1 shows that the mean of net profit margin, auditor size, auditor industry and leverage are 0.3155, 0.6000, 0.6000 and 7.9775 respectively. A comparison of the mean responses with the maximum values for each of the variables indicates that the cement industry presently operates at a net profit margin of 32 percent, auditor size is at 60 percent, auditor independence is at 60 percent and leverage is at 7.9775. The value of leverage indicates that the results of the findings would have been distorted if leverage had not been controlled as a variable. One important observation is that while auditor size and auditor independence have values higher than that of its respective standard deviations, net profit margin has a mean value which is lower than the value of its standard deviation. It therefore implies that the level of auditor size and auditor independence in the cement industry is high, while net profit margin for the industry can still be improved upon.

Table 2: Correlation Matrix

The correlation matrix is used to determine the correlation between the dependent and independent variables of the study. The table below represents the correlation matrix for the sample observations.

Variable	**NPM**	**AUDSIZE**	**AUDIND**	**LEVR**
NPM	1			
AUDSIZE	-.023	1		
AUDIND	.519	-.458	1	
LEVR	-.323	.356	-.014	1

Source: Extract from SPSS printout result

Table 2 indicates that there is a positive correlation between net profit margin and auditor independence, while there is a negative correlation between net profit margin and auditor size. However, care should be taken when interpreting the result as this does not mean that auditor size has a negative relationship with net profit margin. It only means that the correlation or relationship between auditor size and financial performance is not as strong as that of auditor independence and financial performance. The correlation between the net profit margin and leverage is negative as should be expected since debt principal and interest repayments are bound to infringe on net profit margin. The correlation between auditor size and leverage is positive; this can be explained by the fact that firms audited by Big 4 audit firms are likely to

have credit worthiness and access to different forms of loans. The correlation between auditor independence and leverage is negative but not too significant as should be expected since the debt composition or debt size of a firm should not affect the independence of their auditors.

Table 3: Summary of Regression Result

Variables	Coefficient	t-values	P-values	Tolerance/VIF
Constant	-0.066	-0.445	0.662	
AUDSIZE	0.338	2.323	0.034	0.667/1.499
AUDIND	0.509	3.750	0.002	0.764/1.308
LEVR	-0.016	-2.607	0.019	0.845/1.184
R			0.727	
R^2			0.529	
Adj R^2			0.440	
F-Stat.			5.979	
F-Sig.			0.006	
Durbin-Watson			1.919	

Source: Extract from SPSS printout result

Financial Performance (FP) = -0.066 + .338(Auditor Size) + 0.509(Auditor Independence) - 0.016(Leverage) + 0.26013

Table 3 above shows the combined correlation of the independent variables and the dependent variable at 73 percent indicating a strong positive relationship. An R^2 of 0.529 indicates that 52.9 percent of the variation in net profit margin can be explained by variability in auditor size and auditor independence. In addition, the Fishers statistics of 5.979 which is significant at one percent indicates that the financial performance model is fit. Therefore, the results of this study can be relied upon. According to Durbin (1970), when the Durbin Watson statistic value is greater than 0.5 or 50 percent, independent observation is assumed. In other words, there is no auto correlation among the residuals of the study. The Durbin Watson statistic value of 1.919 therefore indicates that there is no autocorrelation among the residuals of this study. The hypothesized relationships were tested; properties of the casual paths, including standardized path co-efficients, t-values and p-values for the equation in the hypothesized model are presented in the table above. The value of the regression co-efficient for the intercept reports the particular financial performance denominator for cement firms in Nigeria, while the remaining co-efficient describe the impact of each independent variable on financial performance and the impact of the control variable on financial performance.

The tolerance values and the variance inflation factor (VIF) are two measures generally agreed by various authors as being good factors for determining multicollinearity between the independent variables of a study. If the variance inflation factors of all the independent variables are less than 10, multicollinearity does not exist and the model is said to fit. Another measure for determining multicollinearity is the tolerance values. A tolerance value of 1 or above signifies multicollinearity, while tolerance values of less than 1.00 in all the observed variables signifies the absence of multicollinearity (Cassey et.al., 1999; Neter et.al., 1996). The variance inflation factors of both independent variables and that of the control variable are consistently less than 10 which is the benchmark for determining multicollinearity (1.499<10, 1.308<10 and 1.184<10). In addition, the tolerance values are less than 1.00 which is another benchmark for determining multicollinearity (0.667<1.00, 0.764<1.00 and 0.8456<1.00). This shows the appropriateness of fitting the model of this study with two independent variables and the control variable. It also shows the complete absence of multicollinearity between the independent variables and the control variable. Thus, the results of this study can be applied with the assurance that it measures what it purports to measure, that is, the relationship between auditor size and financial performance, and auditor independence and financial performance.

Discussion of the Findings

The main objective of this study is to assess the influence of audit quality on the financial performance of quoted cement firms in Nigeria. Profitability is adjudged to be the best measure of financial performance, while auditor fees are generally accepted as a good measure of auditor independence. Auditor independence and auditor size make up the concept of audit quality in this study. When both concepts are correlated, changes in one concept leads to changes in the other that is changes in net profit margin should correspond with changes in audit quality. The findings of this study suggest that audit quality plays a vital role in determining financial performance. Marginal effect analysis is used to illustrate the marginal change in the dependent variable (financial performance), given a degree of change in a selected independent variable, holding all other variables constant. The two influencing factors derived from the multiple regression models are ranked below.

Table 4: Marginal Effects of Audit Quality Measures

Measure	Marginal Effects	Ranking
Auditor Independence	.509	1
Auditor Size	.338	2

Source: Extract from SPSS printout result

The marginal effects table shows that auditor independence has the strongest influence on financial performance. As the result shows, a degree of decrease in auditor independence carries a 50.9 percent probability that there will be a decrease in the influence of audit quality on financial performance. This result is consistent with a number of researches that regard auditor independence as the main determinant factor of audit quality and in return financial performance (woodland and Reynolds, 2003; Jeff et.al, 2012; Miettinen, 2011). However, this does not mean that auditor size does not have an influence on financial performance; it only shows that auditor independence is more of a determinant factor of financial performance than auditor size is. Finally, the study revealed that there are other extraneous variables which account for the financial performance of quoted cement firms to the tune of 47.1 percent. The researcher suggests that these other variables include auditor opinion, auditor specialization, auditor tenure, and leverage and auditor firm rotation.

CONCLUSION AND RECOMMENDATIONS

The study examined the relationship between audit quality and financial performance through the proxies of auditor size and net profit margin, and auditor independence and net profit margin of quoted cement firms in Nigeria. Series of concepts, theories and contrasting views of researchers were discussed and analysed. The constructs investigated in this study are all correlated because auditor size and auditor independence influence the financial performance of quoted cement firms in Nigeria. The most important construct by regression analysis co-efficients is auditor independence followed by auditor size. The findings showed that the impact of audit quality on financial performance is positive and significant and the greater the degree of an auditors independence, the greater the propensity of a firm making substantial net profit margins. It was also discovered that the impact of auditor size is also positive and significant, although, its impact is lesser that that of auditor independence. A positive relationship between auditor independence and financial performance implies that audit effort increases with the amount of audit fees paid and leads to more commitment and monitoring on the part of the of the auditors, thereby decreasing the propensity of an organization to incur losses through non-adherence to accounting principles and unnecessary waste of funds by management.

Audit fees do not compromise auditor independence, which normally would be thought to decrease an auditor's willingness to oppose management attempts to take advantage of this information asymmetries in the principal agent relationship. The impact of auditor size cannot be ignored because it is an important factor for determining audit quality. While it would be easy for firms to arm twist Non-Big 4 audit firms and get them to do their bidding even when it is unethical. It would be nearly impossible to get a Big 4

audit firm to go against the tenets of auditing practices because it has a reputation to protect. In light of the various findings of this study, the following measures are hereby recommended for cement firms as a means of enhancing audit quality and ultimately financial performance:

i. Management of quoted cement firms in Nigeria should improve the financial performance of their firms by increasing the amount of audit fees paid to the audit firm of their respective organizations so as to ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of the quality of audited reports.

ii. The management of quoted cement firms should employ the services of one of the Big 4 audit firms and where this is not possible, management should go for an audit firm whose character and integrity is beyond question.

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