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BOARD OWNERSHIP AND AUDIT QUALITY OF NIGERIAN QUOTED COMPANIES

Abstract: *As a result, the impact of board ownership on the audit quality of Nigerian quoted businesses is investigated in this study. The study used secondary data from the annual reports of sixty-four (64) companies listed on the Nigerian Stock Exchange for eight financial years to achieve its goals (2012-2019). With the help of E-views 10 econometric software, regression analysis was used to evaluate the hypothesis. The findings reveal that the ownership structure of public firms in Nigeria has a considerable impact on audit quality. As a result, the study suggests that ownership structure transparency be presented in the form of a pyramid (with percentages explicitly indicated) to improve comprehension for the benefit of all stakeholders.*

Key words: *Board ownership, Audit quality, Nigerian companies.*

Language: *English*

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Introduction

The requirement for external audit services can be attributed to the concepts of agency theory, which state that the firm's ownership and control are separated. According to the agency relationship, the shareholders (principals) entrust the management of the firm's affairs to the managers (agents), who may or may not have a major stake in the company. As a result, the managers are required to provide stewardship of the resources under their control to the investors (owners) in the form of financial statements issued on a regular basis. In emerging economies, where governance mechanisms and institutions such as market for control, financial markets, regulators, monitoring, and the legal system are generally weak, the board of directors is especially crucial (Ujunwa, Salami & Umar, 2013). The effectiveness of the board has been observed to be harmed by information asymmetry, which leads to the agency problem between management and shareholders, in which managers exploit shareholders (Fama & Jensen, 1983). This has been blamed for various company failures in Nigeria, particularly in the banking sector (Oso & Semiu, 2012).

Investors are supposed to use the financial data to make well-informed company decisions. However, in order for financial data to serve this role, it must be of high quality. Because investors require assurance that the financial information presented by management accurately reflects the true state of the company's financial position, the report must be verified by a third party (an external auditor) due to conflicts of interest that may cause managers to act opportunistically or make decisions that are not always in the best interests of the company (Salehi, Moradi, & Paiydarmanesh, 2017). Thus, the onus of engaging the auditor to perform an independent examination is to provide credibility that the information provided by the company can be relied upon (Ndubuisi & Ezechukwu, 2017).

Variables such as auditor independence, audit tenure, audit–firm reputation, and audit fees have all been mentioned in the literature as potential influencers of audit quality (see for example Bob, 2016; Ndubuisi & Ezechukwu, 2017; Ogoun &

Owota, 2017). Variables such as the company size, financial strength (profitability and debt-ratio), corporate governance, and ownership structure have all been connected to audit quality by various academics (see for example Onaolapo, Ajulo, & Onifade, 2017; Gacar, 2016; Persson, 2011). However, despite these large concentrations of studies on audit quality determinants, attempts at arriving at a consensus have remained elusive due to mixed findings. This study thereby determines the effect of board ownership on audit quality of Nigerian quoted companies.

Review of Related Literature

Audit Quality

It is difficult to consider aspects that may enhance or impair audit quality without a thorough understanding of the idea of audit quality and the role of high-quality auditing. As a result, the first section of this chapter focuses on the concept of audit quality, the role of auditors, and audit quality. It is self-evident that various external users require financial statements that have been reviewed by qualified auditors through high-quality audit services in order to make sensible business judgments.

There is a large corpus of research on audit quality and how to measure it. Despite the breadth of the research, no single universally accepted definition or measure of audit quality has developed. Audit quality is defined in a variety of ways by different academics. According to the literature, the lack of a widely accepted definition of audit quality is attributable to the existence of disparities in the financial reporting process and audit market environment. These audit market participants can be classified into three groups: external financial information users, audit customers, and auditors (Sutton, 1993). The quality of an audit can be greatly influenced by the eyes through which it is viewed. Users, auditors, regulators, and other financial reporting stakeholders may have very diverse perspectives on what constitutes audit quality, which influences the types of indicators that might be used to assess audit quality.

Audit quality, according to Okaro, Okafor, and Ofoegbu (2015), is the market-assessed joint probability that an auditor will both discover and report a breach in the client accounting system. This means that the auditor has both the technical competence to detect any material errors during the audit process, as well as the independence to ensure that material errors and omissions are corrected or reported. Similarly, Jackson, Moldrich, and Roebuck (2008) distinguish between real and perceived audit quality. According to DeZoort, Hermanson, Archambeault, and Reed (2002), larger audit companies are better at discovering problems than smaller audit firms because they have more resources and can attract individuals with higher abilities and expertise. As a result, quality appears to be as auditors employ certain techniques to identify and disclose misstatements in clients' accounting systems. Audit quality has been a contentious issue in recent decades, and most research suggests that a lack of audit quality is one of the most significant causes of financial and corporate failure (Soltani, 2014).

Ownership Structure and Audit Quality

Different patterns of corporate ownership exist in modern firms. Institutional ownership, foreign ownership, block-holder ownership, and management ownership are some of the features of firm ownership. The last entry in the log is the main focus of this investigation. Managerial ownership is defined by Jensen and Meckling (1976) as ownership by directors, management, the commissioner, or anybody actively involved in company decision-making, because the separation of ownership and control incentivizes managers to increase their personal fortune at the expense of shareholders (Jensen & Meckling 1976). Entrenchment is a similar agency problem in which managers have more authority to shirk and obtain perquisites at the expense of shareholders because of their greater voting power. Because of the increased agency risk, when the risk of entrenchment lowers, the demand for, and hence provision of, high audit quality audits should drop as well (Hashim, 2017).

The board of directors is one of the people in charge of running the company on a daily basis. They participate in corporate arrangements and have the authority to control and make decisions on behalf of the shareholders. In businesses, there is a separation of ownership and control. The separation would create serious conflict between the owner of the firm (shareholders)and the board of director as well as the manager transferring the wealth in expense of the owner. The manager would not transparently manage the company in bona fide because they think that it not ours. One of alternatives that would motivate them in managing the company efficiently and effectively is by awarding them a portion of ownership in the company.

As a result, one of the techniques used to address agency conflicts is to strengthen management ownership in order to match owners' interests with the manager's (Jensen & Meckling, 1976). The lower the agency's cost, the more managerial ownership there is. This is because the larger the managerial ownership, the more information the management and the company's owner have, resulting in lower monitoring agent costs. As a result, manager-owners are motivated to lower associated agency expenses by delivering high-quality auditing. As managerial ownership declines, the quality of audits should improve. According to Warfield et al. (1995), managers who control a considerable amount of a company's equity have less incentive to alter reported

accounting data. Less incentive to manipulate reported data also indicates a willingness to report the financial report early, reducing the reporting lag, which is another measure of audit quality. This is because a management who owns a portion of the company's stock would be concerned if the auditing processes were delayed or undermined. As managers' stake in the company grows, the gap between their interests and those of the shareholders narrows. On the other side, based on existing literature, it is thought that increasing managers' ownership proportion by reducing information asymmetry will reduce the conflict of interest between managers and shareholders (Mahdavi, Mohammed, Fahime & Mehdi, 2011). In a similar vein, Niskanen, Karjalainen, and Niskanen (2009) used data from 478 Finnish enterprises from 2000 to 2006 to study the association between ownership structure and audit quality demand. The findings demonstrate that increasing managerial ownership reduces the likelihood of a Big4 auditor being hired, but has no effect on the demand for certified auditors. In terms of Big4 audits, their findings also point to a nonlinear relationship between managerial ownership and desire for audit quality. They also discovered that the likelihood of hiring a Big4 auditor rises with the size of the company and the existence of international sales. According to Mahdavi, Mohammed, Fahime, and Mehdi (2011), raising the amount of managerial ownership reduces the chances of selecting a larger audit firm. In this study, management ownership is employed as a proxy for ownership structure. It is indicated by the percentage of a company's directors' holdings to the total number of outstanding shares.

Review of Empirical Studies

For a ten-year period from 2009 to 2018, Olabisi, Kajola, Abioro, and Oworu (2020) investigated the factors of audit quality among 15 insurance companies out of the 25 listed on the Nigerian Stock Exchange. The researchers used an ex-post facto research methodology and panel data regression technique to find a significant link between audit firm size, audit tenure, audit fee, cash flow, and audit quality (p 0.05). They came to the conclusion that audit fees, audit firm size, audit tenure, and cash flow from operations are critical predictors of audit quality, since each of these has had a considerable impact on the audit quality of Nigeria's publicly traded insurance businesses. Nwakoby, Ezejiofor, and Ajike (2018) investigated the association between board traits and directors tunneling in Nigerian conglomerates. The TEx post fact study approach was used, as well as time series data. With the help of SPSS Version 20.0, hypotheses were tested using multiple regression and Pearson Coefficient Correlation. According to the findings, board size has a negative significant link with related party transactions in Nigerian conglomerates. Another finding is that board independence has a considerable favorable impact on related party transactions in Nigerian conglomerates.

For a period of six financial years, Oyedokun, Yunusa, and Adeyemo (2018) investigated the drivers of audit quality using 12 of the 17 businesses listed in the Nigerian Stock Exchange's Industrial Goods sector (2012-2017). They used STATA to conduct panel regression analysis and discovered that auditor tenure had a positive but insignificant connection with audit quality. From 2010 to 2016, Ndubisi, Okeke, and Chinyere (2017) investigated the factors of audit quality in a sample of ten (10) healthcare companies listed on the Nigerian Stock Exchange (7 years). With the help of E-view 9, they used the Ordinary Least Square (OLS) and Granger causality tests and found evidence of a positive and statistically significant relationship between audit independence, audit tenure, audit firm size, and audit quality of healthcare firms listed in Nigeria at the 5% level of significance.

Ezejiofor and Erhirhie (2018) looked into the impact of audit quality on deposit money bank financial performance in Nigeria. The data for the study was acquired from annual reports and accounts of listed Nigerian deposit money institutions, using an ex post facto research design. To examine the hypotheses, regression analysis and coefficient correlation were used. The findings revealed that audit quality has a substantial impact on the financial performance of Nigerian deposit money institutions. Ndubisi and Ezechukwu (2017) investigated the factors that influence audit quality among Nigerian deposit money institutions. They looked at the impact of audit fee, audit firm tenure, and audit firm size on audit quality in particular. They used secondary data from 2010 to 2015 to do their research. Employing the Pearson coefficient of correlation, Ordinary Least Square (OLS) and Granger causality test, they find that there is a positive and statistically significant relationship between audit fees, audit tenure, audit firm size and audit quality of banks listed on the floor of Nigerian Stock Exchange at 5% level of confidence. The impact of corporate particular factors on audit quality was investigated by Akhalumeh, Agweda, and Ogunkuade (2017). They investigated the impact of firm size, board size, board independence, leverage, and firm profitability on Big4 audit quality. The study's data came from annual reports and accounts of fifty-five (55) companies registered on the Nigerian Stock Exchange, with 2010 serving as the case study. They used multiple regression analysis and discovered that all of the explanatory variables and the dependent variable indicated above have a substantial positive association. Eriabie and Dabor (2017) looked at the impact of audit quality on earnings management in all eighteen banks that were listed on the stock exchange in December 2010. They based their findings on secondary data collected between 2005 and 2010. (representing the pre-IFRS era). They used multiple

regression analyses, which were carried out year by year across the study's six-year duration. They discovered that both the audit fee and the change in auditor are related to abnormal loan loss provision, which they utilized as a proxy for earnings management. Onaolapo et al. (2017) investigated the impact of audit fees on the audit quality of Nigerian cement manufacturing enterprises. They used secondary data from four (4) manufacturing businesses' published annual reports over a six-year period (2010-2015). Using the OLS model estimate technique, they discovered that audit fee, audit duration, client size, and leverage ratio all had a significant association with audit quality. While only the audit fee has a significant beneficial impact on audit quality, the other variables of leverage, client size, and audit tenure do not. Ogoun and Owota (2016) investigated the factors that influence audit quality in Nigerian small and medium-sized audit businesses. They looked at the impact of audit fee, customer retention, and market expansion on audit quality in particular. Their research included panel data from a panel of small and medium-sized audit firms in Nigeria, which was collected using a structured instrument and modeled using the Likert Scale paradigm with values ranging from 1 to 5. They employed pairwise Granger Causality Tests and the standard least square regression approach. They discovered that audit fees and market expansion drive audit quality, whereas client retention strategies had a detrimental impact on audit quality. From 2009 to 2013, Babatolu, Aigienohuwa, and Uniamikogbo (2016) investigate the impact of auditor independence on audit quality in seven (7) randomly selected deposit money institutions in Nigeria. The participants in this study were twenty (20) Nigerian listed deposit money banks. Their findings demonstrated a positive association between audit fee, audit firm rotation, and audit quality, as well as a negative relationship between audit firm tenure and audit quality, using descriptive statistics, correlation, and the ordinary least square (OLS) regression technique. The correlation between audit quality and leverage was substantial, negative, and statistically significant on the correlation matrix. Monye-Emina and Jeroh (2014) used secondary data on selected insurance companies quoted on the Nigerian stock Exchange's floor up to 2013 to investigate the factors of audit report credibility (audit quality) in the Nigerian insurance sector. They used the Ordinary Least Square (OLS) regression technique and discovered that auditor independence, experience, and audit report lag all had positive relationships with audit report credibility, however auditor tenure has a negative association. Akhidime (2015) investigated how Nigerian banks' audit quality is influenced by their board structure and corporate characteristics. Over a five-year period, they tested a total of 19 banks from a population of 25 Nigerian banks. Their binary logistic regression study revealed that non-executive, independent directors, as well as director share ownership, had a beneficial impact on the audit quality of the sample banks. Okolie (2014) investigates the relationship between auditor tenure and independence and earnings management (discretionary accruals) in Nigerian enterprises. On a total of 342 company year observations, the study used secondary data gathered from the Nigerian Stock Exchange fact book. The empirical analysis shows that audit tenure and auditor independence exert significant effects and exhibit significant relationship with the amount of discretionary accruals of quoted companies in Nigeria.

Methodology

The study makes use of ex-post facto research. The suitability of this design for this study is based on its primary goal of studying the relationship between one or more variables in which the variables are not amenable to the researcher's manipulation. Data was acquired only from the annual reports and accounts of the selected quoted companies to guarantee that the information obtained was reliable. Data for the time under consideration was also gathered using relevant NSE-Factbook information.

Population and Sample and Sampling Technique

The study's population comprises of the whole one hundred and seventy (170) firms that were listed on the Nigerian Stock Exchange as of December 2017. (see full list in appendix one and three). This figure includes both financial and non-financial enterprises (57 and 113, respectively).

The study used an equal sample of financial and non-financial organizations as the sample size in order to compare the determinants of audit fees in both financial and non-financial companies. The sampling technique, which was derived from Burley's formula and popularized by Yamane (1967), was used to determine the sample size. The 10% error margin was applied on the entire population in order to arrive at a researchable sample. The formula stated below was adopted:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size;

N = population size (i.e. 170);

e = desired level of significance, (in this case is 10%).

$$n = \frac{170}{1 + 170(0.1)^2} = 62.963$$

n = 63.

Method of Data Analysis

For the purpose of the empirical analysis, the study employed descriptive statistics, of the data was conducted to obtain the sample characteristics among the companies. The panel logistic regression analysis was also used to test the effect of the independent and dependent variables of the study.

Moderation Model

The functional form goes thus;

$AUDQ_{it} = \alpha_O + \alpha_1 MOWN + \mu$ (i)

Where:

Υ_O, β_0, α_O = Constants or Intercepts

Υ_1; β_1; α_1 = Unknown coefficients or parameters to be estimated

it = " i" represents number of companies; and "t" represents period covered

AUDQ = Audit quality for the eight year period (Dependent variable)

MOWN = Managerial ownership for the eight year period (Independent variable)

μ = Stochastic error term

Data Analyses

Table 1. Descriptive Statistics of the variables

Company	AUDQ	MOWN
Mean	0.589	0.255
Median	1.000	0.186
Maximum	1.000	0.890
Minimum	0.000	0.000
Std. Dev.	0.493	0.249
Skewness	-0.365	0.514
Kurtosis	1.134	1.830
Jarque-Bera	42.857	25.877
Probability	0.000	0.0000
Sum	151.00	65.294
Sum Sq. Dev.	61.934	15.921
Observations	256	256

Source: Researchers Computation using E-views 10 (2021)

Table 1 illustrates the characteristics of the variables utilized in the study using descriptive statistics. The result was given in a comparison format, incorporating the results from both of the companies that made up the study's overall sample. A similar tendency was observed in the case of MOWN, where the result reveals that insiders (members of the board of directors) hold roughly 21.3 percent of shares in companies on average, compared to 25.5 percent in the sector, which is higher.

Furthermore, the variable's Jarque-Bera statistics and accompanying probability value indicate that the data follows a normal distribution. However, in panel data analysis, the divergence from normalcy, as seen in most of the variables, does not represent a significant concern. The violation of the normalcy assumption provides no substantial problem in panel data analysis, according to the Central Limit Theorem, as noted in Ghasem and Zahediasl (2012), given big enough sample sizes (> 40). The cumulative normality test is presented in the next sub-section by the pooled normality test.

Test of Hypothesis

The hypothesis is re-stated below prior to the statement of the decision rule and their testing:

H_{O1}: There is no significant relationship between board ownership structure and audit quality of quoted companies in Nigeria.

Table 2. Regression analysis between board ownership and Audit quality

Dependent Variable: AUDQ
Method: ML - Binary Probit (Newton-Raphson / Marquardt steps)
Date: 04/09/21 Time: 22:27
Sample: 2012 2019
Included observations: 512
Convergence achieved after 6 iterations

Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-9.294885	0.983648	-9.449399	0.0000
MOWN	-0.566734	0.291365	-2.945103	0.0518

McFadden R-squared	0.367525	Mean dependent var	0.630859
S.D. dependent var	0.483044	S.E. of regression	0.375742
Akaike info criterion	0.868121	Sum squared resid	71.01460
Schwarz criterion	0.942623	Log likelihood	-213.2390
Hannan-Quinn criter.	0.897326	Deviance	426.4781
Restr. deviance	674.3006	Restr. log likelihood	-337.1503
LR statistic	247.8226	Avg. log likelihood	-0.416482
Prob(LR statistic)	0.000000		

The z-statistics and probability (Sig.) values of the variable from the regression result in Table 2 were used to test the null hypothesis. The decision rule is to accept H_O (null hypothesis) when/if the probability value (p-value) exceeds the typical significance test value of 0.05 but if the probability value is less than any of the three, the study reject H_O. Alternatively, the study accept a variable when the absolute z-Statistic value is greater than or equals to 2.0 (≥2). Therefore, the study concluded that there is a significant relationship between ownership structure and audit quality of quoted companies in Nigeria.

Conclusion and Recommendations

According to the results of the hypothesis testing (HO), management ownership (MOWN) has a negative substantial impact on audit quality. The negative coefficient sign is consistent with the study's apriori expectation, implying that organizations where the top directors possess a substantial percentage of the stock are more likely to have poor audit quality. This result can be explained by the fact that the owners (principals) hand over control of the business to management (according to agency theory), giving the latter vast capabilities.

Thus, if the ownership structure is concentrated on management (i.e., management controls a considerable number of the shares), the agency problem will be exacerbated because the minority shareholder may not have the essential voting rights to implement board changes. The negative coefficient sign contradicts the findings of Abdullah et al (2008), Adeyemi and Fagbemi (2010), Ejeagbasi et al (2015), and Enofe, et al (2013a), who found that executive and non-executive directors' ownership has the potential to improve auditing quality. However, none of the aforementioned studies found it statistically significant in improving audit quality. On the other hand, the result is consistent with Enofe, et al (2013b) which showed evidence that ownership structure asserts significant negative impact on audit quality.

Based on these findings, it can be concluded that the major variable of interest in terms of the determinants of audit quality in Nigerian listed companies is managerial ownership, while the variable of firm profitability is not statistically significant in any of the models and thus is not of critical importance in this study. Based on the findings of this study, the researchers suggested that, given the strict nature of the required capturing of managerial ownership information from annual financial reports, the disclosure of ownership structure be reported in the form of a pyramid to aid the understandable for the benefit of all stakeholders.

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