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THE EFFECT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF NIGERIAN BANKS

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Abstract

The main objective of this study is to determine the effect of audit quality on the financial performance of Nigerian banks. Specifically, the study shall address the effect of audit quality on return on assets ratio, cash generation ratio and operating profit margin ratio of Nigerian banks. The study made use of ex-post facto and correlational research deisgn. The study shall focus on the Nigerian banking sector, and banks quoted on the exchange as shown on the Nigerian Stock Exchange Factbook shall serve as the population. The main source of data was secondary data obtained from the financial statements of the individual banks that formed subjects of the study. The study findings showed that while audit quality had significant effect on return on assets and operating profit margin it had no effect on cash generation ratio of the banks. The study recommends the institutionalization of strong corporate governance principles in banks that will ensure self-regulation of firms and avoid ethical misconduct. In addition the use of joint auditors is suggested, as the volume of transactions in most Nigerian firms is constantly increasing.

1.1 INTRODUCTION:

The turbulent effects of the global financial crisis have highlighted the critical importance of credible high quality financial reporting (Farouk & Hassan, 2014). Also, in Nigeria, a series of well-publicized cases of accounting improprieties, such as is reported in relation to Wema Bank, NAMPAK, Finbank, and Springbank in Nigeria, has captured the attention of investors and regulators alike (Adeyemi&Fagbemi, 2010). Achieving quality financial reporting depends on the role that the external audit plays in supporting the quality of financial reporting of quoted companies (Farouk & Hassan, 2014). The main criteria for calculating the financial situation of an organization is the financial statement of it (Anvarkhatibi, Safashur&Mohammadi, 2012). Auditing is the independent examination and expression of opinion on the financial statement of an enterprise or organization by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation. It aims at providing solution to the inevitable problem of credibility in report and accounts (Okoli, 2012).

According to Farouk and Hassan (2014), 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 audit report issued by the auditor is considered as an important informational tool for many parties (Kabajeh, Al Shanti, Dahmash,&Hardan, 2012). The financial statements, which are examined and accepted by the auditor, are considered as the most important part of the auditor's report content for making financial decisions by many parties (Khasharmeh, 2003,as cited in Kabajeh et al., 2012). Many financial decisions can be made by these parties based on these audited financial statements. The auditor's report including financial statements is considered as a trusted informational frame for many financial decisions (Kabajeh et al., 2012). External financial statement users, including current and potential investors, creditors and others need reliable financial information on which to base their resource allocation decisions (Farouk & Hassan, 2014).

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 (Farouk & Hassan, 2014).
Furthermore, enhancing disclosure quality increases transparency and facilitates investors to better assess firms' performance (Lin, Liu, & Wang, 2007). Initially, fraud detection was considered the primary objective of the audit process until approximately the middle of 20th century (Agyei, Aye, &Owusu-Yeboah, 2013). Chandler, Edwards and Anderson in 1993 concluded that the main objective of auditing has changed from fraud detection to 'verification of financial statements'. This is because the audit profession wanted to avoid legal suits by businesses and the general public. Four types of opinion usually emerge from the audit function unqualified, qualified, and adverse and disclaimer of opinion after examining, based on the data obtained from that organization (Anvarkhatibi, Safashur, &Mohammadi, 2012).
The type of opinion is usually the outcome of the audit exercise performed by the audit firm. Audit is an important part of the regulatory and supervisory infrastructure and thus an activity of significant public interest (Farouk & Hassan, 2014). Auditors, by performing their audits in accordance with the Generally Accepted Auditing Standards (GAAS), will attest to the fairness of corporate financial reports (Lin, Liu, & Wang, 2007), and, the reports issued (clean, reserved, abstention from giving opinion, contrary) have a clear impact on the decisions which might be made by the users of this report (Kabajeh et al., 2012).When the financiers of organizations have confidence and trust in the audited financial report of an organization, they are bound to pour in more funds into the organization, which in turn results in increased financial performance (Farouk & Hassan, 2014).

1.2 STATEMENT OF THE PROBLEM:

The quality of corporate financial disclosure has become an important policy issue following notorious corporate scandals(Lin, Liu, & Wang, 2007)that occurred in both the international and local scene,for example: Enron scandal of 2001; Parmalat in 2003; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009 (Ajani, 2012; Miettinen, 2011).Countries all around the world have set codes of best practice as guidelines to address governance and financial reporting anomalies (Adeyemi, Okpala, & Dabor, 2012): Cadbury Report was produced in United Kingdom, Sarbanes Oxley in United States, The Dey Report in Canada, the Vienot Report in France, the Olivencia Report in Spain, the King's Report in South Africa, Principles and Guidelines on Corporate Governance in New Zealand and the Cromme Code in Germany (Adeyemi, Okpala, &Dabor, 2012). The goal of these regulations was to improve firms' corporate governance environments (Bhagat& Bolton, 2009, as cited in Adeyemi, Okpala, &Dabor, 2012).

However, despite the interventions of regulatory authorities, the challenges of ensuring credibility in financial reporting and auditing are still prevalent (Adeyemi, Okpala, &Dabor, 2012). It has been found that while the perceived reliability of audited financial information has declined, the perceived relevance of audited financial information has increased (Farouk & Hassan, 2014). According to Okoli (2012) the problem in many organizations is that funds and properties are entrusted to certain individual employees in the organization and in most cases these individual workers are not brought under thorough surveillance. Apart from improved financial management, audit helps to give the generally required management control over assets (Okoli, 2012).
Moreover, employee frauds are minimized, investors are assured of their investment interest, and, the internal revenue board gets the assurance that the profit figure on which tax is based is not manipulated (Okoli, 2012).According to Farouk and Hassan (2014)audit quality is one of the most important issues in audit practice today. The quality of audits affects the utility of auditing function (Chaney &Philipich, 2002, as cited in Lin, Liu, & Wang, 2007). The informational content of the auditor's report can be defined as a financial informational frame which contains many meanings and indications which can be trusted, accepted and used to make many financial decisions by many users of this information (Al Thuneibat, 2009, as cited in Kabajeh et al., 2012). Adeyemi and Fagbemi (2010) observed that concerns have emerged about reduced audit quality. Economist (2004) as in Adeyemi and Fagbemi (2010) noted that there are questions about the independence of the "Big 4" and suggested that concentration is lowering the quality of audits.
The effect of audit quality on financial performance has recently received attention from researchers in the western world (Farouk & Hassan, 2014). Studies have shown that audit quality has an impact on the financial performance of an organization (Beasley, 1996; Heil,2012; Miettinen, 2011).While these

studies provide evidence from vibrant capital markets, very little research on the relationship between audit quality and the financial performance of organizations has been conducted in countries where capital markets are less developed (Farouk & Hassan, 2014).It is against this backdrop that this study is set out to address the effect of audit quality on the financial performance of banks in Nigeria.

1.3 OBJECTIVES OF THE STUDY:

The main objective of this study is to determine whether audit quality has an effect on the financial performance of Nigerian banks. The specific objectives are as follows:

1. To determine whether audit quality has a significant effect on return on assets ratio of Nigerian banks.
2. To determine whether audit quality has a significant effect on cash generation ratio of Nigerian banks.
3. To determine whether audit quality has a significant effect on operating profit margin ratio of Nigerian banks.

REVIEW OF RELATED LITERATURE

2.1 CONCEPTUAL FRAMEWORK

2.1.1 Brief History of Audit Practice in Nigeria

Prior to independence in 1960, audit practice in Nigeria followed the British style; the early accountants in the country were British trained (AbdulGaniyy, 2013, p. 2). All the pre-independence Company Ordinances in Nigeria only placed statutory demand on Companies to appoint auditors but did not provide for the qualification of auditors to relate to any professional body of accountants. This was obviously due to lack of any professional accounting body during that period. Consequently, it was not all the auditors in the country at that time that was even British qualified professional accountants. However the proportion of those that were qualified by the British standard, being chartered accountants (either of England and Wales or Scotland) was very popular and immediately after independence, the idea of establishing a professional body of accountants for regulation of accounting and audit practices became an issue.

The British trained accountants coordinated their effort together and formed The Association of Accountants in Nigeria (AAN) which was incorporated in 1960 (Ajayi, 1997, as cited in AbdulGaniyy, 2013, p. 3). In 1965, the Association's effort to obtain statutory recognition was achieved when the Institute of Chartered Accountants (ICAN, 1965) was established by an Act Parliament (No. 15) with 250 members (AbdulGaniyy, 2013). By May 2011, it has 32,722 members both within and outside Nigeria. Until 1993, only the members of the Institute were entitled to practice as accountants and statutory auditors in the country.

The Association of National Accountants (ANAN) was formed in 1979 and incorporated in September, 1983. By December 2010, its membership had grown to 16,207 (ANAN, 2008). These two bodies ICAN and ANAN are now charged with the regulation of audit practice in Nigeria.

2.1.2 Definition of Auditing

The Institute of Chartered Accountants of India [ICAI] defines audit in AAS 1 or SA 200 (Basic Principles Governing an Audit) as "The independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion there on".

Spicer and Pegler: "Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied."

The Institute of Chartered Accountants of Nigeria [ICAN] defines auditing "as a systematic process of objectively obtaining and evaluating evidence in respect of certain assertions about economic actions and events, to ascertain the degree of correspondence between those assertions and established criteria and reporting the results to interested parties" (ICAN, 2009).

2.1.3 Fundamental Principles of Independent Auditing

The Auditors' Code, published by APB, prescribes nine fundamental principles of independent auditing, as follows:

(a) Accountability: Auditors act in the interests of primary stakeholders, whilst having regard to the wider public interest. The identity of primary stakeholders is determined by reference to the statute or agreement requiring an audit: in the case of companies, the primary stakeholders are the general body of investors.
(b) Integrity: Auditors should act with integrity, discharging their responsibilities with honesty, fairness and truthfulness. Integrity helps to insulate auditors from matters of conflict of interests and elevate their objectivity. Confidential information obtained in the course of the audit is disclosed only when required in the public interest, or by operation of law.
(c) Objectivity and independence: Auditors should be seen to be objective in all their dealings with their clients. They express opinions independent of the entity and its directors.
(d) Competence: This is the ability to carry out professional duty with great knowledge and skills. Auditors should e\
(e) Xhibit competence, derived from the acquired qualifications, training and practical experience. Auditing demands understanding of financial reporting and business issues, together with expertise in accumulating and assessing the evidence necessary to form an opinion.
(f) Rigour: Auditors approach their work with thoroughness and attitude of professional scepticism. This was emphasised in the famous pronouncement of Lord Dennins, which states that "an auditor is not a blood hound, but should approach his job with professional scepticism believing that someone, somewhere, has made a mistake and that a check needs to be carried out to ensure that no such mistake was made and this forms the whole essence of auditing." Auditors assess critically the information and explanations obtained in the course of their work and such additional evidence as they consider necessary for the purpose of their audits.
(g) Judgement: Judgement Auditors apply professional judgement, taking account of materiality in the context of the matters on which they are reporting.
(h) Clear communication: Auditors' reports contain clear expressions of opinion which are set out in writing for proper understanding.
(i) Association: Auditors allow their reports to be included in documents containing other information only if they consider that the additional information is not in conflict with the matters covered by their reports and that they have no cause to believe it to be misleading.
(j) Providing value: Auditors add to the reliability and quality of financial reporting. They provide to directors and officers constructive observations arising from the audit process, thereby contributing to the effective operation of the business entity

2.1.4 The Auditor's Report

The auditor's report is the auditor's primary means of communication with an entity's stakeholders—as such, it has to be meaningful and have value for them. More than ever before, users of audited financial statements are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. The global financial crisis also has spurred users, in particular institutional investors and financial analysts, to want to know more about individual audits and to gain further insights into the audited entity and its financial statements. And while the auditor's opinion is valued, many perceive that the auditor's report could be more informative (IAASB, 2014).

The informational content of the auditor's report can be defined as a financial informational frame which contains many meanings and indications which can be trusted, accepted and used to make many financial decisions by many users of this information (Al Thuneibat, 2009, as cited in Kabajeh et al., 2012).

Auditors can issue any one of the following reports:

1) Clean report: Where the auditor gives a clean report, if discovered deviations are not of a relative significance.
2) Reserved opinion: Where the auditor gives a reserved report, if discovered deviations are relatively significant (physical), but they are not essential; i.e., they do not affect all or most of financial statements components.
3) Abstention from giving opinion: Where the auditor gives this kind of report in several cases, the most important of it, is the auditor's work scope narrowing.
4) Contrary opinion: Where the auditor gives a contrary report if discovered deviations are physical and essential; namely, they affect all or most of financial statements components which makes the

financial statement unfair and misleading (Arab Society of Certified Accountants, 2001, as cited in Kabajeh et al., 2012).

According to the International Standard on Auditing (700) (UK & Ireland): 'The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole".

2.1.5 Basic Elements of the Auditors' Report

The auditor's report includes the following basic elements, ordinarily in the following layout:

a) Title;
b) Addressee;
c) *Opening or introductory paragraph*
(i) Identification of the financial statements audited;
(ii) A statement of the responsibility of the entity's management and the responsibility of the auditor;
d) *Scope paragraph (describing the nature of an audit)*
    (i) A reference to the ISAs or relevant national standards or practices;
    (ii) A description of the work the auditor performed;
e) *Opinion paragraph* containing
(i) A reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards); and
(ii) An expression of opinion on the financial statements;
f) Date of the report;
g) Auditor's address; and
h) Auditor's signature.

2.1.6 Appointment of Auditors in Nigeria

Section 357 of the Companies and Allied Matters Act provides for the appointment of auditors. The section states as follows:

(a) Every company shall at each annual general meeting appoint an auditor or auditors to audit the financial statements of the company, and to hold office from the conclusion of that, until the conclusion of the next, annual general meeting.
(b) At any annual general meeting a retiring auditor, however appointed, shall be reappointed without any resolution being passed unless:
    (i) he is not qualified for re-appointment;
(ii) a resolution has been passed at that meeting appointing some other person instead of him or providing expressly that he shall not be re-appointed; and
(iii) He has given the company notice in writing of his unwillingness to be re-appointed.

Where notice is given of an intended resolution to appoint some other person or persons in place of a retiring auditor, and by reason of the death, incapacity or disqualification of that other person or of all those other persons, as the case may be, the resolution cannot be proceeded with, the retiring auditor shall not be automatically re-appointed by virtue of this sub-section.

Where at an annual general meeting, no auditors are appointed or re-appointed, the directors may appoint a person to fill the vacancy:

(a) The company shall, within one week of the power of the directors becoming exercisable, give notice of that fact to the Corporate Affairs Commission; and if a company fails to give required notice the company and every officer of the company who is in default shall be guilty of an offence and liable to a fine of N 100 for every day during which the default continues;
(b) The first auditors of a company may be appointed by the directors at any time before the company is entitled to commence business and auditors so appointed shall hold office until the conclusion of the next annual general meeting:

Provided that:

(i) the company may at a general meeting remove any such auditors and appoint in their place any other person who has been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than 14 days before the date of the meeting; and

(c) The company may, in a general meeting convened for that purpose, appoint the first auditors and thereupon the said powers of the directors shall cease.

The directors may fill any casual vacancy in the office of auditor but while any such vacancy continues, the surviving or continuing auditor or auditors, if any, may act.

2.1.7 Requirements of the Companies & Allied Matters, Act (CAMA) 2004, Cap C20

Section 359 of CAMA contains the following provisions as regards auditor's report:

(1) The auditors of a company shall make a report to its members on the accounts examined by them, and on every balance sheet and profit and loss accounts, and on all group financial statements copies of which are to be laid before the company in a general meeting during the auditors' tenure of office.

(2) The auditors' report shall state the matters set out in Schedule 6 to this Act.

(3) In addition to the report made under subsection (1) of this section, the auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company.

(4) The audit committee referred to in subsection (3) of this section shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members) and shall examine the auditor's report and make recommendations thereon to the annual general meeting as it may think fit.

Provided, however, that such member of the audit committee shall not be entitled to remuneration and shall be subject to re-election annually.

(5) Any member may nominate a shareholder as a member of the audit committee by giving notice in writing of such nomination to the secretary of the company at least 21 days before the annual general meeting.

(6) Subject to such other additional functions and powers that the company's articles of association may stipulate the objectives and functions of the audit committee shall be to –

a. Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
b. Review the scope and planning of audit requirements;
c. Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;
d. Keep under review the effectiveness of the company's system of accounting and internal control;
e. Make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the company; and
f. Authorise the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

2.1.8 The Concept of Audit Quality

Conceptually, DeAngelo (1981) as in Adeyemi and Fagbemi (2010) defined audit quality as the market-assessed joint probability that the auditor discovers an anomaly in the financial statements, and reveals it.

The probability that the auditor will discover material misstatement is a function of his competent, while the probability that he would report the misstatement is dependent on his integrity (Dabor&Ibadin, 2013). Thus, it is the competence and integrity of the auditor that affects the quality of audit. The quality of audit will also affect the quality of financial reports (Dabor&Ibadin, 2013). It is believed that large auditing firms have more resources and they have eager needs to protect their reputations, so they will perform better audit services than the smaller audit firms.

Audit quality is difficult to measure and many researchers apply a variety of proxy in their studies (Lin, Liu, & Wang, 2007). Although so many different proxies have been utilized, most researchers generally agree that the size or brand name of audit firms is an appropriate indicator of audit quality (see Lennox, 1999; Reynolds & Francis, 2000; DeFond et al., 2000; Chaney &Philipich 2002; Monem, 2003).

2.1.9 Audit Committee

Studies on Audit Committee (hereinafter AC) and it's implication on corporate governance/corporate unglobal acceptance of AC as a relevant governance structure, including recent efforts towards increasing legislation, in a wide variety of environments can be linked to claims made in professional and governmental reports about AC benefits on a number of aspects of corporate governance.

Table 1: A framework of expected AC effects

Area of Impact	Example of effects

Structural incentives	Factors associated with Ac adoption and potential reduction in agency costs Links with other governance arrangements, e.g. large audit firms Reduction in directors' legal liability
Audit function	Selection and remuneration Independence of external auditors Impact on the audit process and on auditor communication Monitoring of internal control and audit
Financial reporting quality	Impact on errors and irregularities Adoption of accounting standards and accounting policy choice Legal/regulatory action for defective reporting Audit qualifications
Corporate performance	Impact of Ac adoption on share prices and wealth creation

Source: Turley and Zaman (2004)

Furthermore, Turley and Zaman (2004) observed that it is often as a consequence of reviews of alleged weakness in audit effectiveness that recommendations for AC requirements have been made and actual outcomes in this area are therefore an important subject for evaluation.

2.2 THEORETICAL FRAMEWORK

This theoretical framework upon which this study is based is *agency theory*, a supposition that explains the relationship between principals and agents in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. The primary agency relationships in business are those (1) between stockholders and managers and (2) between debt holders and stockholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics.

When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests)[1].

The two problems that agency theory addresses are:

1. The problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify (because it difficult and/or expensive to do so) what the agent is actually doing; and
2. The problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions[2].

2.3 EMPIRICAL REVIEW

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

[1]Available at http://www.referenceforbusiness.com/encyclopedia/A-Ar/Agency-Theory.html

[2] Available at http://www.investopedia.com/terms/a/agencytheory.asp

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.

HoaiNam (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 compromises 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.

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

Choi, Kim, and Zang (2010) examined whether the association between audit fees and audit quality is asymmetric and thus nonlinear in the sense that the association is conditioned upon the sign of abnormal audit fees for their total sample of client firms with both positive and negative audit fees.

Ettredge, Kwon, and Lim (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.

Miettinen (2011) examined the relationship between audit quality and financial performance. Audit quality was measured using auditor size and audit committee meeting frequency. The result shows that audit quality has both a direct effect as well as a mediating effect through audit size on financial performance.

Bouaziz and Triki (2012) examined the effect of the characteristics of the audit committee on financial performance on a sample of 26 Tunisian firms listed on the Tunis Stock Exchange. The result showed that auditor size had an impact on return on assets and return on equity of the firms.

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The study made use of ex-post facto and correlational research design.Kerlinger and Rint (1986) explained that in the context of social science research and ex post facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. A correlational research design is the measurement of two or more factors to determine or estimate the extent to which the values for the factors are related or change in an identifiable pattern. In correlational research, the goal is to determine whether two or more variables are related (Marczyk, DeMatteo, &Festinger, 2005).

3.2 POPULATION OF THE STUDY

The population of the study is made up of banks quoted on the Nigerian Stock Exchange as shown on the Nigerian Stock Exchange Factbook. The banks are as follows:

1. Access Bank Plc
2. Diamond Bank Plc
3. Ecobank Transnational Incorporation
4. Fidelity Bank Plc
5. Guaranty Trust Bank Plc
6. Skye Bank Plc

7. Sterling Bank Plc
8. UBA Plc
9. Union Bank Nigeria Plc
10. Unity Bank Plc
11. Wema Bank Plc
12. Zenith Bank Plc

3.3 TECHNIQUE(S) OF DATA ANALYSIS

The study made use of multiple regression technique in testing the formulated hypotheses. Hair, Black, Babin, Anderson, and Tatham (2006) defined multiple regression technique 'as a statistical technique which analyses the relationship between a dependent variable and multiple independent variables by estimating coefficients for the equation on a straight line'.

3.3.1 DESCRIPTION OF VARIABLES

Independent variables:

1. Audit Quality [AQ]: This variable is dichotomous in nature. Size of audit firm (big 4 and non-big 4) was used as proxy for audit quality. Audit quality was set equal to one (1) if the information obtained from companies audited reports show that it is audited by one of the "big 4" audit firms (KPMG; Ernst and Young; Akintola Williams Delloitte; PWC), otherwise zero (0). This operationalization follows the approach used in Kane and Velury (2002) where big audit firms are assumed to have quality audit services than other smaller audit firms.
2. Audit Committee Meetings [ACM]: This variable is measured as the number of times the audit committee meets in a year, i.e., the number of meetings held by the audit committee of the bank.
3. Client size [LSALEj]: This is measured by log of sales (Ettredge, Kwon, & Lim, 2008).
4. Capital Intensity [CAPINTj]: This is measured by log of gross property plant and equipment divided by sales (Ettredge, Kwon, & Lim, 2008).
5. Leverage [LEV]: Total Liabilities/Total Debts

Dependent Variables [Financial Performance Variables]:

1. Return on Assets [ROA]: Net Income/Average Total Assets
2. Cash Generation [CG]: Cash flow from operations / Profit/Loss for continuing operations adjusted for items that do not affect cash flow
3. Operating Profit Margin [OPM]: Operating profit/Gross earnings

3.3.2 MODEL SPECIFICATION

$$ROA = \alpha + \beta\,[ACQ] + \beta\,[ACM] + \beta\,[LSALEj]x_3 + \beta\,[CAPINTj] + \beta\,[Lev] + \mu$$

$$CG = \alpha + \beta\,[ACQ] + \beta\,[ACM] + \beta\,[LSALEj]\,x_3 + \beta\,[CAPINTj] + \beta\,[Lev] + \mu$$

$$OPM = \alpha + \beta\,[ACQ] + \beta\,[ACM] + \beta\,[LSALEj]\,x_3 + \beta\,[CAPINTj] + \beta\,[Lev] + \mu$$

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 DESCRIPTIVE STATISTICS OF SECONDARY DATA

The descriptive statistics for the following variables: Audit Quality [AQ]; Audit Committee Meeting [ACM]; Return on Assets [ROA]; Cash Generation [CG];and, Operating Profit Margin [OPM] 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 (Farouk & Hassan, 2014).

Table 4.1: Descriptive Statistics of Secondary Data

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Quality	37	0	2	1.00	.333
No of Audit Committee Meetings	33	4	6	4.48	.755
ROA	37	-.57	.08	.0034	.09768
CG	39	-15.33	6.06	.1460	3.95285
OPM	41	-4.33	1.32	.0721	.74418
Valid N (listwise)	30				

Source: SPSS Ver. 22

Table 4.1 above shows that the mean of Audit Quality, No of Audit Committee Meetings, ROA, CG and OPM are 1, 4.48, .0034,.1460 and .0721 respectively. From this it could be seen that on the average Nigerian banks employ one of the big '4' audit firms (KPMG; Ernst and Young; Akintola Williams Delloitte; and, PWC), a maximum value of 2 also shows the presence of joint auditors on certain situations. The average no of meetings held by the audit committee was 4 times per year. The dependent variables ROA, CG and OPM had mean value less than 1.

4.2 TEST OF HYPOTHESES:

Hypothesis One

H_1: Audit quality has a significant effect on return on assets ratio of Nigerian banks.

Table 4.2: Hypothesis One (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.622[a]	.386	.259	.09263

a. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

The table above, table 4.2 shows the model summary results, with respect to R, the multiple correlation coefficients, that is the linear correlation between the observed and model predicted values of the independent variable. R showed a value of .622, which is above the benchmark of 0.5 (Hair, Black, Bush & Anderson, 2010). R square, the coefficient of determination is the squared value of the multiple correlation coefficients; as per, Table 4.2 above, the value of .386 (that is about 38.6%) of the variation in return on assets is explained by the model.

Table 4.3: ANOVA Result of Hypothesis One

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.130	5	.026	3.022	.030[b]
	Residual	.206	24	.009		
	Total	.336	29			

a. Dependent Variable: ROA
b. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

Since, F computed > F table value, i.e. 3.022>2.62, we reject the null hypothesis and accept the alternate, thus '*Audit quality has a significant effect on return on assets ratio of Nigerian banks*'.

Table 4.4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.070	.509		-.137	.892
	Audit Quality	.208	.064	.619	3.278	.003
	No of Audit Committee Meetings	-.009	.022	-.062	-.387	.702
	LSALEj	.011	.015	.130	.752	.459
	CAPINTj	-.019	.103	-.030	-.183	.857
	Lev	-.198	.510	-.069	-.389	.701

a. Dependent Variable: ROA
Source: SPSS Ver. 22
From the table above, only Audit Quality had a significant effect (<.05) all other variables had Sig. values greater than .05.

Hypothesis Two

H_1: Audit quality has a significant effect on cash generation ratio of Nigerian banks.

Table 4.5: Hypothesis Two (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.498[a]	.248	.097	2.94159

a. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

From the table above, R, the multiple correlation coefficients, showed a value of .498, which is below the benchmark of 0.5 (Hair, Black, Bush & Anderson, 2010). R square, the coefficient of determination is the squared value of the multiple correlation coefficients; as per, Table 4.5 above, showed a value of .248 (that is about 24.8%) of the variation in cash generation is explained by the model.

Table 4.6: ANOVA Result of Hypothesis Two

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	71.305	5	14.261	1.648	.184[b]
	Residual	216.323	25	8.653		
	Total	287.628	30			

a. Dependent Variable: CG
b. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

Since, F computed < F table value, i.e. 1.648 > 2.60, we accept the null hypothesis and reject the alternate, thus '*Audit quality has no significant effect on cash generation ratio of Nigerian banks*'.

Table 4.7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.550	15.064		1.231	.230
	Audit Quality	.668	1.971	.068	.339	.738
	No of Audit Committee Meetings	1.311	.701	.326	1.870	.073
	LSALEj	.281	.449	.117	.626	.537
	CAPINTj	.637	3.265	.035	.195	.847
	Lev	-30.032	15.488	-.371	-1.939	.064

a. Dependent Variable: CG
Source: SPSS Ver. 22
From the table above, all variables had Sig. values greater than .05.

Hypothesis Three

H_1: Audit quality has a significant effect on operating profit margin ratio of Nigerian banks.

Table 4.8: Hypothesis Three (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620[a]	.384	.266	.69620

a. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

From the table above, R, the multiple correlation coefficients, showed a value of .620, which is above the benchmark of 0.5 (Hair, Black, Bush & Anderson, 2010). R square, the coefficient of determination is the squared value of the multiple correlation coefficients; as per, Table 4.8 above, showed a value of .384 (that is about 38.4%) of the variation in operating profit margin ratio is explained by the model.

Table 4.9: ANOVA Result of Hypothesis Three

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.871	5	1.574	3.248	.021[b]
	Residual	12.602	26	.485		
	Total	20.473	31			

a. Dependent Variable: OPM
b. Predictors: (Constant), Lev, No of Audit Committee Meetings, LSALEj, CAPINTj, Audit Quality
Source: SPSS Ver. 22

Since, F computed > F table value, i.e. 3.248 > 2.59, we reject the null hypothesis and accept the alternate, thus '*Audit quality has a significant effect on operating profit margin ratio of Nigerian banks*'.

Table 4.10: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.654	3.353		.195	.847
	Audit Quality	1.540	.462	.586	3.333	.003
	No of Audit Committee Meetings	-.055	.165	-.052	-.335	.740
	LSALEj	.079	.106	.124	.743	.464
	CAPINTj	-.037	.772	-.008	-.049	.962
	Lev	-2.808	3.406	-.140	-.824	.417

a. Dependent Variable: OPM
Source: SPSS Ver. 22

From the table above, only Audit Quality had a significant effect (<.05) all other variables had Sig. values greater than .05.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Key Findings:

Our empirical results from our test of hypotheses revealed the following:

1. That audit quality has an effect on the return on assets (ROA) ratio of Nigerian banks.
2. That audit quality has no effect on the cash generation (CG) ratio of Nigerian banks.
3. That audit quality has an effect on the operating profit margin (OPM) ratio of Nigerian banks.

5.2 Conclusion

Our study sought to establish the effect of audit quality on the financial performance of Nigerian banks. Our Findings indicated that audit quality had a significant effect on return on assets and operating profit margin but no significant effect on cash generation of the banks. The findings of these study are consistent with that of Farouk and Hassan (2014) which found that auditor independence and auditor size have significant impacts on the financial performance of quoted cement firms in Nigeria. Based on the findings recommendations were proffered for relevant stakeholders.

5.3 Recommendations

The following policy recommendations are suggested for firms and policy makers:

1. The institutionalization of strong corporate governance principles: The failure of notable corporations around the world has been attributed to poor corporate governance mechanisms and ethical behaviour. Strong corporate governance principles will ensure self-regulation of firms and avoid ethical misconduct.

In addition this should also be complemented with a macro corporate governance framework by policy makers, presently the effort of the Central Bank of Nigeria (CBN) is acknowledged in this respect but more needs to be done in other to match the rapid changes occurring in capital markets and the internationalization of finance.

2. The use of joint auditors: The use of joint auditors is also encouraged, as the volume of transactions in most Nigerian firms are constantly increasing the possibility of efficiency and effectiveness in audit might be likely eroded, this phenomenon can be curbed through the use of joint auditor firms. Also the mandatory rotation of auditors has been suggested in most studies, this trend can strengthen the independence and reliability of the audit function.

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