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EXPLORING THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND AUDIT QUALITY IN NIGERIA'S LISTED FIRMS

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Abstract: The study examined corporate governance and audit quality of listed firms Nigeria. Specifically, the study examines the effect of corporate governance mechanisms on audit quality of listed firms in Nigeria using data from 2018 to 2022. The study employed the ex post facto research design while data is gotten from the financial statement of 31 companies which are purposively sampled out of 156 firms listed on the Nigerian Exchange Group. The panel regression technique is employed as a method of data analysis. The first hypothesis is tested using a fixed effect regression model. The result shows that both board size and audit committee size have negative insignificant effect on audit tenure of listed firms in Nigeria. On the other hand, board diversity has a negative significant effect on audit tenure of listed firms in Nigeria. The second hypothesis is tested using a random model. The result shows that both board size and board diversity have positive insignificant effect on audit fee of listed firms in Nigeria. On the other hand, audit committee size has a negative insignificant effect on audit fee of listed firms in Nigeria. The third hypothesis is tested using a pooled model. The result shows that board size has a positive significant effect on audit firm size of listed firms in Nigeria. On the other hand, board diversity has a positive insignificant effect on audit firm size of listed firms in Nigeria while, audit committee size has a negative insignificant effect on audit firm size of listed firms in Nigeria. It is recommended that, corporate governance of firms in Nigeria should adhere to regulations that require companies to rotate their external auditors periodically to prevent long-standing audit tenure relationships that could compromise quality of audit service provided. This will foster a healthier audit environment and encourage auditors to maintain objectivizes.

Keywords: corporate governance, audit quality, firms, Nigerian Exchange Group, board diversity, audit fee, firm size

Background to the Study

Corporate organizations need to attract funds from investors for growth and expansion. Investors need to be sure that their investment in any corporation is sound financially and will continue to be so in foreseeable future, investors need to have confidence that their business is being managed in the best interest and will continue to be

profitable (Al-Thuneibat, Al-Issa & Ata-Baker, 2017). Corporate governance is one of the mechanisms that will restore investor's confidence in an organization, due to corporate failure. There have been high profile corporate collapses that have arisen despite the fact that the annual report and accounts of organizations seem fine (Enofe, Mgbame, Aderin & Ehi-Oshio, 2013). These corporate failures have adverse effect on many stakeholders. These collapses have led to the demand by stakeholder for sound corporate governance structure in the organization. Lack of effective corporate governance meant that such collapses could occur even with the presence of an auditor (Eneisik, 2022). Good corporate governance can help ensure quality audit and prevent such corporate collapses from happening again and restore investor confidence (Ilona, Abidin & Zaluki, 2019). Audit quality, on the other hand, refers to the likelihood that financial statements are free from material misstatement and that the auditing process conforms to accepted standards. High-quality audits are essential in maintaining the integrity of financial reporting, which in turn, strengthens investors' confidence (Enofe, Mgbame, & Okunega, 2013). In Nigeria, the role of audit quality has been under intense scrutiny due to various financial scandals and the failures of major companies to meet ethical financial standards. These events have exposed weaknesses in both corporate governance structures and the effectiveness of the auditing process (Bala & Yakubu, 2021). Corporate governance in most countries functions differently. In Japan and most of the South East Asian countries, business groups with their pyramidal and cross-ownership structures are common governance devices (Zureigat, 2011). In these countries legal requirements for management and part of the controlling family, are rather weak (Chadegani, 2011). In continental Europe a concentrated ownership structure is the distinguishing feature and the corporate law again plays a role in determining the effectiveness of corporate governance mechanisms (Kang & Shivdasani, 1999). Here, large shareholders have ample incentives and ability to control management, therefore, the classic manager– shareholder conflict does not appear predominant. Due to the reduction of the free-rider problem of monitoring and/or the increased alignment of incentives, large shareholders potentially add value which serves as attribute of corporate governance. Corporate governance is enhanced in Nigeria with the promulgation of the investment securities act 1999, as well as the capital market and ease of obtaining redress in the law courts for corporate abuses (Abdullah, Ismail & Jamaluddin, 2008; Adeyemi, Akhalumeh, Agweda & Ogunkuade, 2017). As stated in Adane and Wudu (2014); Augustine, Chijioke, Adeyemi, Obehioye and Ehi (2017), the presence of institutional infrastructures aid shareholder rights, dividend payment demand to reduce cash flows, reduces agency problems. Best practices expected of firms though not responded according to expectations in Nigeria have brought to the knowledge of managers what is expected of them to promote good corporate governance (Demaki, 2011). The proposed adoption of the International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) by Nigeria is a drive towards enthroning corporate disclosures and governance as operated in major advanced countries (Semiu, Okwy & Eyesan, 2016). In Nigeria, Garba and Abubakar (2014) noted increases in transparency in corporate governance and quality of audit prior to the proposed introduction of Nigerian Corporate Governance Code 2018. The Nigerian Corporate Governance Code 2018 states the minimum requirement of firms to ensure good corporate governance mechanism and audit quality. The requirements for corporate governance likely enhance the audit quality which Okolie, A. O. (2014) posited that audit quality is greatly influenced by the corporate governance mechanism of firms. In Europe Claessens and Djankov (1999) observed a growing rate of corporate governance in firms, increase in investment and development of acceptable dividend policies which he argued has influence on audit quality. The Central Bank of Nigeria has also put in place strategies to regulate family ownership of firms, protect minority

shareholders, and improve audit quality. The control of firms by a clique of shareholders, impedes the independence of the board of directors, creating potential avenues for expropriation and establishing the conditions for weak audit quality (Enofe, Mgbame, Aderin & Ehi-Oshio, 2013). Corporate governance can be seen as a system of rules, practices by which an organization is governed, administered and managed to achieve set goals and objectives. Corporate governance is concerned with both the shareholders and the internal aspects of the company such as internal control and the external aspects such as an organizations relationship with the shareholders and other stakeholders. D'Souza and Saxena (1999) reported that corporate governance ensures that company attains its corporate objectives and assist audit and ensures operations of companies are at optimum efficiency. There are many indicators of corporate governance such as board structure, board composition, board diversity, and audit committee size. The current study adopts board size, board diversity and audit committee size as proxies of corporate governance. Board size is the total number of directors on the board of companies, which is inclusive of the chief executive officer and chairman in an accounting year. Board size of a company have significant impact on the audit quality of the organization because board of directors with experience and skill in accounting and finance ensure that there is proper supervision, monitoring of financial reporting quality and sound audit quality practices. The international best practice is having a board with more non-executive than executive directors for ensuring independence of the board. Board composition is concerned with the issue of board independence, board diversity, experience and functionally background. Board diversity refers to a corporate board that has a combination of both women and men as directors. Audit committee are member's board members and shareholder's representatives appointed to assist audit functions. Good corporate governance practices are expected to enhance audit quality, which in the opinion of the external auditor is one of the determining factor that provide effective monitoring of management in the financial reporting process (Connelly & Limpaphayom, 2004). Effective corporate governance and audit quality are vital components for corporate organization to ensure proper internal control and to monitor financial reporting process. Good corporate governance practices assume the provision of high quality audit for the company. High quality audit companies are constantly attempting to improve the quality of corporate governance practice to their client Musah, Padi & Okyere, 2022). These are intrinsic aspects of corporate governance and audit quality the study is bound to explore.

Statement of the Problem

Despite various reforms aimed at improving corporate governance and audit practices in Nigeria, there remains a significant gap in the effectiveness of these systems. Weak corporate governance frameworks and poor audit quality have contributed to corporate failures, financial misstatements, and reduced investor confidence in Nigerian companies (Adegbite, 2012). Cases of financial scandals, such as the collapse of large firms in the banking and oil sectors, highlight the persistent challenges in enforcing robust corporate governance mechanisms and ensuring high-quality audits (Bala & Yakubu, 2021). A key issue in Nigeria is the lack of effective enforcement of governance codes and audit standards. While regulatory bodies like the Financial Reporting Council (FRC) and the Securities and Exchange Commission (SEC) have introduced frameworks to strengthen corporate governance, the widespread lack of compliance, coupled with weak regulatory oversight, limits the impact of these reforms (Osemeke & Adegbite, 2016). This inadequacy often results in compromised audit quality, as auditors may fail to rigorously verify financial statements due to conflicts of interest, weak independence, or insufficient professional competence (Enofe, Mgbame, & Okunega, 2013).

The problem is further compounded by a lack of transparency and accountability in many organizations, particularly in the public sector, where corporate governance structures are often weaker (Okike, 2007). These deficiencies in governance directly affect audit quality, which in turn diminishes the reliability of financial information disclosed to stakeholders, thereby undermining trust in the financial markets (Ogbonna & Appah, 2012). Addressing these issues is critical to improving Nigeria's corporate governance landscape, enhancing audit quality, and fostering greater investor confidence. Financial crises and corporate failure of many firms is attributed to weakness and failures in corporate governance and poor audit quality. For example, the Eron case. In such cases, audit firms who audit companies' financial statement issued unqualified audit opinion, that the financial statement of the firms shows a true and fair view and that the records or accounts of the firms are prepared in compliance to accounting standards, auditing standards and generally accepted accounting. However, despite these unqualified audit opinions or going concern report issued by audit firm or auditors to the firms, the firms continue to fail and collapse. This necessitated the demand by stakeholders (regulators and academics) for high audit quality and good corporate governance.

Objectives of the Study

The main objective of the study is to examine corporate governance and audit quality in Nigeria while the specific objectives of the study are to:

i. Examine the effect of corporate governance (Board size, board diversity & audit committee size) on audit fee of listed firms in Nigeria.

ii. Ascertain the effect of corporate governance (Board size, board diversity & audit committee size) on audit tenure of listed firms in Nigeria.

iii. Assess the effect of corporate governance (Board size, board diversity & audit committee size) on audit firm size of listed firms in Nigeria.

Research Hypotheses

The following are the research hypotheses set to be tested in this study;

HO_1: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit fee of listed firms in Nigeria.

HO_2: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit tenure of listed firms in Nigeria.

HO_3: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit firm size of listed firms in Nigeria.

Conceptual Review Concept of corporate governance

Corporate governance refers to the structural mechanisms put in place to regulate the financial and non-financial activities of the firms towards effective and efficient performance (Zimmermann, Goncharov & Werner, 2004). Corporate governance, as a concept, can be viewed from at least two perspectives: a narrow one in which it is viewed merely as being concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Bakare, 2019); and a broad perspective in which it is regarded as being the heart of both a market economy and a democratic society (Berglof & Perotti, 1994). The narrow view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory. In contrast, Black, Jang and Kim (2006), proponents of the broader perspective used the examples of the resultant problems of the privatization crusade that has been

sweeping through developing countries since the 1980s, and the transition economies of the former communist countries in the 1990s, that issues of institutional, legal and capacity building as well as the rule of law, are at the very heart of corporate governance. Besides, the bitter experience of African financial crisis of the 1990s underscores the importance of effective corporate governance procedures to the survival of the businesses (Bebeji, Mohammed & Tanko, 2015). This crisis demonstrated in no unmistakable terms that even strong economies, lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence collapse" and emphasizing the need for mutual cooperation between the public and the private sector through audit quality in developing the capacity to ensure effective corporate governance with a view to ensuring the development of market-based economies and democratic societies based on the rule of law (Carvalhal-da-Silva, André & Ricardo, 2004).

Concept of audit quality

Audit quality refers to the overall reliability and integrity of the audit process, ensuring that the financial statements of an organization provide an accurate and fair representation of its financial condition. A high-quality audit adheres to relevant auditing standards, such as the International Standards on Auditing (ISA), and provides assurance that the financial information being reported is free from material misstatements, whether due to fraud or error. Essentially, the quality of an audit influences the trust that stakeholders—such as investors, regulators, and the general public— place in a company's financial reports (DeAngelo, 1981). This trust is critical for the transparency and accountability of financial markets. One of the most important determinants of audit quality is the independence and objectivity of the auditor. An auditor must be impartial and free from conflicts of interest to ensure that they can objectively evaluate the financial statements of the organization they are auditing. Without independence, the risk of biased audit opinions increases, undermining the credibility of the financial statements. Alongside independence, the competence and expertise of the auditor also play a significant role. Auditors with strong technical knowledge, industry experience, and analytical skills are more capable of identifying potential issues in the financial reporting process (Francis, 2011). Therefore, both independence and professional expertise are key components in ensuring audit quality. This definition contains two aspects of audit quality, the competence of the auditors for detecting misstatement and the independence for reporting such misstatement. Audit quality of the firms ultimately depends on integrity, objectivity, intelligence, competence, experience and motivation of personnel who perform, supervise and review the work (Walid & Soliman, 2020). Wati and Bambang (2003) reported that audit quality is the audit process carried out by auditors in accordance with the generally accepted auditing standard. The quality of audit can be seemed in terms of the financial statement outcome reported earnings, reliability of the financial statement and error in reported earnings. Yuniarti (2011) reported that audit quality determinant are audit firm size, audit firm specialization, audit independence. The current study adopts audit tenure, audit firm size and audit fee as indicator of audit quality. Audit tenure is the length of time an auditor performs services for his client. Audit firm tenure can be seen as the duration of time an audit firm spends in performing their service with a particular client (Yadav & Chakraborty, 2020). There has being some concerned about the length of the auditor – client relationship, which may impair the quality of audits. However, it's debated intensively. There are two schools of thought, on one side the argument is that shorter audit tenure results in lover audit quality because the auditor has less knowledge and familiarity with the client operations (Weir & Laing, 2001). On the other side, the argument is that longer audit firm tenure strengthens the auditor-client relationship and bond which can impair the auditor's independence and objectivity resulting in lower audit quality (Soliman

& Abd Elsalam, 2012). Audit firm size is a strong determinant of high quality audit, many scholars associate big audit firm with having higher expertise, experience and skill relative to non-big audit firms claiming that large accounting or auditing firm have more resources to devote to developing expertise (Rajan, 1992; Ogoun & Perelayefa, 2020).

Board of Directors size and audit quality

The board of directors (BOD) is an elected group of individuals that represent shareholders and is responsible for protecting and managing shareholders' interests in the firm. The board is a governing body that normally meets at regular intervals to set policies for corporate management and oversight (Abdullah, Ismail & Jamaluddin, 2008). The board of directors does play an important role in influencing the company's decisions and compliance with the Corporate Governance Code of Practices, indicating the effectiveness of the board (Chen & Steiner, 1999). Farinha (2003), stated that the ability of the company to access debt financing is somewhat improved by the effectiveness of the board in monitoring the top management's etiquettes. Managers are more likely to assist audit team with the needed information since they are enaged in the daily management of the firm (Hillman, Cannella & Harris, 2002). A study carried out on the corporate governance and competencies of audit team of Japanese Public Listed Company by Harada and Nguyen (2006) reflected that the number of people who serve on the board of directors were important components of the effectively chosen only competent audit firms.

Audit committee size and audit quality

The audit committee is the one responsible for overseeing financial reporting and disclosure of the company. The role of an audit committee includes the monitoring of accounting policies, the oversight of any external auditors and also the discussion of risk management policies with the board of directors and the management. Chartered Financial Analyst (CFA)in 2020 highlighted that all U.S. publicly traded companies must maintain a qualified audit committee in order to be listed on a stock exchange, as the audit committee is the main operating committees of a company's board of directors (Moscu, 2013). CFA also stated that at least one audit committee member who qualifies as a financial expert and the audit committee members must be made up of independent outside directors. In Nigeria, given the importance of an audit committee to the governance structure of a company, the establishment of an audit committee is mandated for listed companies (Saleh, 2016). The board of directors are to appoint the audit committee by the recommendation of the nominating committee, in consultation with the audit committee chairman (Oxelheim & Randoy, 2003). The board must take into account factors to determine the composition of the audit committee such as size, independence and desired skills of the audit committee members. The Listing Requirements in Nigeria that the size of the audit committee should be up to 6 to the extent it represents the board and the shareholders in the audit affairs of the firm (Xie, Wallace & De Dalt, 2003). This is meant to ensure trust and confidence in the audit process of the firm Also, the size of audit committee members determine the expertise the committee will have and how that can aid external audit quality (Uadiale, 2010). Audit committees are increasingly being seen as one of the more effective corporate governance levers used in both the Anglo-Saxon and Japan-German models of corporate governance. Since Cadbury (1992) Committee recommendations, all the so-called corporate governance best practice codes recommend institution of audit committees in order to improve monitoring quality of both internal and external audits. The audit committee is responsible for recommending the selection of an external auditor, ensuring the soundness and quality of internal accounting and control practices, and monitoring the external auditor's independence from senior management (Wang, 2009). Nicholson and Kiel (2007) suggested that the existence of an audit committee was associated with

a lower incidence of shareholder litigation alleging management fraud, quarterly earnings restatements, SEC enforcement actions, illegal acts, and auditor turnover due to accounting disagreement with management. In addition, Drobetz, Schillhofer and Zimmermann (2004) suggested that interaction between external auditors and the audit committee can potentially improve the quality of information provided to the external stakeholders. In the context of Nigeria, according to the Nigerian Code of Corporate Governance (2018), the board should establish an audit committee with at least three independent directors and 3 representatives of shareholders.

Board diversity and audit quality

Studies have established that female director have significant impact on board inputs and organizational or committees' outcomes. Many corporate governance reforms around the world stress on the need to have gender diversity on the board to enhance board effectiveness (Adane & Wudu, 2014). The agency theory also underscores the importance of board room diversity which gender is one of such important diversities. It is expected that gender diversity will play an important role in firms' audit fees determination either from the risk base perspective or from demand for high quality audit perspective (Adeyemi, Akhalumeh, Agweda & Ogunkuade, 2017). A lot of studies have underscored the importance of gender diversity on boards in it influence on effective corporate governance (Adeyemi & Fagbemi, 2010). It appears there is a general consensus that female representation on the board improves the quality of governance as they increase the intensity of monitoring and are more independent (Usman et al., 2018). A study by Arens, Elder and Beasley (2010) showed that gender balanced boards and audit committees improves the quality of audit. This can only be achieved through high demand for quality audit by engaging specialist auditors which should result in higher audit fees. Burke and Mattis (2013) in their study on the influence of gender diversity on audit fees found that board with more females demand more quality audit which increases the cost of audit in line with the agency theory. Prior studies have shown that women are more conservative and less risk takers compared to their male counterparts (Darmadi, 2013). This means that with a female in charge as the CEO, they are more likely to be rule complaints and avoid losses. To achieve this, it can be anticipated that females as CEOs will require higher quality audit than males. The demand for higher quality audit increases the work and audit effort which will result in higher audit fees (Ferreira & Gyourko, 2014). On the other hand, it can be argued that because females are more cautious and rules complaint, they might reduce the inherent risk in an audit through improving the integrity of the financial reporting process (Francoeur, Labelle & Sinclair-Desgagné, 2008). The auditor may view a firm with a female CEO as having less inherent risk of financial misstatements and, therefore, be willing to reduce the scope of the audit leading to lower audit fees. This suggests that firms with female CEOs are associated with lower audit fees. The direction of the association between CEO gender and audit fees is, therefore, an empirical question.

Theoretical Review

This study is anchored on the theory of inspired confidence as propounded by Limperg Theodore in the late 1920s but the agency theory is also discussed as it is relevant to corporate governance and audit quality of the firm.

Theory of inspired confidence

This theory was propounded by Professor Limperg Theodore in the late 1920s (Shukri & Abdullah, 2022) and could also be referred to as the rational expectations' theory. According to the theory, auditors should organise and perform their duty in a manner that will not distort the expectation of various stakeholders (Shukri & Abdullah, 2022). The theory of inspired confidence establishes a crucial link between corporate governance and audit quality studies. This theory posits that stakeholders' confidence in financial reporting is not solely based

on the reliability of financial statements but is also influenced by the perceived quality of the audit process and the effectiveness of corporate governance mechanisms. In the realm of corporate governance, effective oversight mechanisms such as independent boards, transparent disclosure practices, and strong internal controls can instill confidence in stakeholders that the company is being managed responsibly and ethically. When these governance structures are robust, they inspire confidence among investors, regulators, and the general public, thereby fostering a positive perception of the organization's financial health. Audit quality studies examine the competence and independence of auditors in evaluating financial statements. The theory of inspired confidence suggests that if audits are conducted rigorously and independently, stakeholders will perceive financial statements as more trustworthy, enhancing their confidence in the organization's financial reporting. Moreover, effective corporate governance practices complement audit quality by providing auditors with a strong foundation to work from, thereby improving their ability to detect misstatements or irregularities (Bakare, 2019). **The Link:** The Theory of Inspired Confidence is closely linked to the topic of **corporate governance and audit quality in Nigeria** because it provides a framework for understanding how high-quality audits contribute to stronger governance and enhanced stakeholder trust. In Nigeria, where weak governance practices and low audit quality have undermined public confidence, the theory underscores the need for independent, skilled, and ethical audits to restore faith in the financial system. Addressing these challenges in line with the theory is essential for improving both corporate governance and audit quality, which are critical for sustainable economic development and attracting investment.

Empirical Review

Since the issue of corporate governance and audit quality has been reviewed in the theories above, several studies have been conducted on the topic using data from both developed and developing economies. Some of these studies are reviewed below: Shukri and Abdullah (2022) examined the relationship between corporate governance quality and audit quality in Malaysia. The notion of corporate governance quality was assessed by examining the characteristics of the audit committee of the firms and their study utilized the audit fee as its proxies for audit quality. Using a multiple linear regression in testing the research hypotheses, their results show that audit committee characteristics have a relationship on the audit fees, as a proxy of the audit quality. Their study result suggests that the existing corporate governance framework in Malaysia in relation to the audit committee proven to be effective in monitoring audit process. This study provides an insight for the Malaysian Accounting Standard Board (MASB), regulatory authorities, Malaysian Institute of Accountant (MIA), accounting professionals and academicians on the best practice of corporate governance especially in Malaysia. Musah et al. (2022) examined the effect of board characteristics, audit committee characteristics and gender diversity on audit fees of listed firms in Ghana. They adopted a quantitative approach relying on secondary data extracted from annual report of listed companies in Ghana. Their study used descriptive analysis, correlation analysis and panel regression analysis to analyze the data collected. Their results showed that listed firms in Ghana have good corporate governance structures in terms of board size, board independence, board chairperson independence etc. The study also shows that female representation on board and other top-level positions among listed firms is low. The results of the regression analysis show that board size, board chairperson independence, management shareholding and female representation on the board were significant determinants of audit fees in Ghana. Among these variables board size and independent board chairperson had positive relationship while management shareholding and female representation on the board had negative relationship with audit fees. Hazaea et al. (2022) analyzed the

impact of COVID-19 on audit quality based on the investigation of three auditing aspects, namely: audit fees, audit procedures, and auditors' salaries in Saudi Arabia and Yemen. For data collection, they distributed fifty-five (55) questionnaires to internal auditors, external auditors, managers of audit offices, and financial managers. A descriptive, regression analysis, and T-test were used. The study results reveal that the audit quality has been significantly affected due to the devastating effect of COVID-19 on audit fees, audit procedures, and audit staff salaries. In addition, the results show that Yemen is severely affected due to several factors, which include a lack of modern auditing systems. Also, private ownership of establishments and the absence of laws for determining audit fees negatively impacted the audit quality. John and Abimbola (2022) examined the determinants of audit quality in the context of the Nigerian listed consumer goods companies. Using the ex-post facto research, a sample of six (6) companies were randomly selected from a population of twenty existing companies. Correlation and regression analysis for data analysis. The outcome of their study revealed a statistically nonsignificant but positive relationship with the board size as a proxy for corporate governance, audit firm size and company size on one hand, and audit quality on the other hand. However, a negative and statistically insignificant relationship is established between the tenure of the audit firm and audit quality in the Nigerian consumer goods sector. Tinuola, Olusegun, Oluwayemisi and Omotayo (2021) examined effect of audit committee characteristics on audit quality in Nigeria, for 10 years spanning from 2009-2018. Specifically, they assessed the effect of audit committee size on audit quality in the oil and gas sector and examined the effect of audit committee meetings on audit quality in the oil and gas sector. Their study adopted an expo-facto research design using logistic regression. It was discovered that audit committee size exerted a positive significant effect on audit quality of firms in the oil and gas sector in Nigeria and that audit committee meeting exerts a positive but insignificant effect on audit quality of firms in the oil and gas sector in Nigeria. Walid and Soliman (2020) investigated the effect of corporate governance and audit quality on investment efficiency of non-financial listed firms in the Egyptian Stock Exchange (EGX), especially firms recorded in EGX 100 for four years' period (2013–2018). They used Structural Equation Modeling (SEM) to analyze data for the study. Their study shows evidence that management that has good corporate governance mechanisms obtains a suitable atmosphere to prepare transparent financial statements, which helps enhance the auditor's role and improve audit quality. Improving audit quality lowering audit independence, which increases the trust of investors in management decisions, this leads to reduce pressure on management and improve efficiency of investment decisions. Yadav and Chakraborty (2020) examined the effect of female directors on the firm market-based financial overall performance of listed Indian corporations using an econometric modeling approach. They used the company's annual unit of analysis with a sample of 60 BSE listed corporations across several industries. The research study result using panel least squares and random effects estimation models indicates, a positive and significant correlation between the proportion of female directors and Tobin q. However, results are observed to be strong when market-to-book values of share were used as company financial performance. They observed out that the number of companies with no female directors has decreased throughout the 12 years of study which they argued can also be due to the external pressure created by the new company governance code 2013.

Methodology

Research Design

The study adopts ex-post facto research design. Ex-post facto research design involves ascertaining the impact of past factors on the present happening or event. Ex-post facto research design as an inquiry to discover whether

and to what extent a variable or event which occurred in the past has impact on the occurrence of the present event. Ex-post facto research design is concerned with the existence of independent and dependent variables.

Population of the Study

The population of any study is the total number of elements under investigation. For the purpose of this study, the population comprises of the 156 firms that are listed on the Nigerian Exchange Group as at June 2023.

Sample Size and Sampling Techniques

The purposive sampling method is used in selecting the sample for the study. The study selected 31 firms as sample size for the study. The sample selected is deemed to satisfy the predetermined criteria for selection. This study use of this method is to select at least 20% out of 156 firms that are listed on the Nigerian Exchange Group. The study choice of 20% is premised on the general rule of thumb (10%) for a sample size. Similarly, Tapang, Bessong and Ujah (2015) agreed that 10% sample serve as an appropriate workable sample size for a study. Notwithstanding, the study adapted to 20% in order to suit the authors bias that 10% alone is not enough due to the crosssectional factors embedded in the nature of the listed firms. The main criteria for selection of the companies are as follows:

1. They must be listed on the Nigerian stock exchange during the period under investigation and must also be operational during the relevant period.
2. Each firm selected must also have complete data covering the period under investigation (2018 to 2022).

The list of the selected companies is presented along-side the data in appendix I at the end of the work for perusal.

Sources of Data

The research work adopts the secondary source of data in obtaining all the data needed for the study. Extracted data from the audited financial statements of the sampled companies is meticulously examined and relevant data extracted from the period 2018-2022 for analysis.

Data Analysis Technique

The descriptive statistics is used to summarize the collected data in a clear and understandable way using numerical approach. The panel multiple regression technique using ordinary least square regression (OLS) method is adopted in investigating the relationship between the dependent and independent variables. The study adopts the preliminary test for incidences of co-linearity in the model are also necessary. To do this, the unit root test, the multi-collinearity test, and the Hausman test is deployed to be used. The main advantage of these statistics is that they filter out variables that might distort the result of regression analysis.

Model Specification

The study adapts the model used by Tinuola et al., (2021), which is stated as;

Audit firm size = f (Board size + Audit committee size+ Audit committee meetings)… Model 1 Thus, the model for this study is specified as;

Audit fee= f (Board size + Board diversity + Audit committee size controlled by firm size)……. Model 2

Audit tenure= f (Board size + Board diversity + Audit committee size controlled by firm size)…….Model 3

Audit firm size= f (Board size + Board diversity + Audit committee size controlled by firm size)…… Model 4

This is written in econometric form as;

$\mathbf{AF_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BD_{it} + \beta_3 ACS_{it} + FS_{it} + U_{it}}$ **……. Model 5** $\mathbf{AT_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BD_{it} + \beta_3 ACS_{it} + FS_{it} + U_{it}}$ **……. Model 6** $\mathbf{AS_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BD_{it} + \beta_3 ACS_{it} + FS_{it} + U_{it}}$ **……. Model 7**

Where; α = Constant

AF = Audit fee (Log of audit fee paid).
AT = Audit tenure (Log of audit tenure). **AS** = Audit firm size ('1' if big 4 and '0' if not big 4).
BS= Board size (Log of total members on the firms board of directors).
BD= Board diversity (Total female members divided by the board size).
ACS= Audit committee size (Log of total audit committee size).
FS = Firm Size (Log of total assets of the firms at a time). **It= Cross-section** ($_i$) at time ($_t$) **U** = Error term used in the model. β_1 – β_3= Beta coefficient of the independent variables.
Decision Rule: Accept the null hypothesis if the calculated value is greater than the significant level of 0.05.

Data Presentation

This section presents the procedures that are followed in explaining the data used for this study which include; descriptive statistics and data stationary test. The actual data used for this analysis is placed in appendix 1 at the end of the study for perusal.

Descriptive Statistics

Table 4.1 presents the results of descriptive statistics of AT, AF, AS, BS, BD, ACS, and FS variables used in the analyses. The mean values, maximum, minimum, and Standard Deviation are recorded. The number of observations for the study is 155 (31 companies for 5 years each).

Table 4.1: Descriptive Statistics

Variable |	Obs	Mean	Std. Dev.	Min	Max
AT |	155	2.503226	1.345383	1	5
AS |	155	.5741935	.4960675	0	1
AF |	155	96923.81	174074.8	1500	800000
BS |	155	10.21935	3.338619	4	20
BD |	155	.2058934	.1117289	0	.6666667
ACS |	155	5.445161	.7129774	4	8
FS |	155	2.42e+08	8.24e+08	57440	6.45e+09

Source: Author's computation from Stata tables in appendix ii

For independent variables, AT data reveal a mean value of 2.5 years with a deviation of 1.3 years. AT has a maximum and minimum values of 5 years and a year. On the other hand, AS show a mean of 0.57 possibility for a big 4 company with a standard deviation of 0.49 possibility. AS has maximum and minimum values of 1 representing big 4 audit firms and 0 representing non-big 4 audit firm. AF data reveal a mean value of 96.9 million Naira with a deviation of 174.07 million Naira. AF has a maximum and minimum values of 1.5 million Naira and 800 million Naira. For the dependent variables, the BS data reveal a mean of approximately 10 members with a standard deviation of 3 members. The maximum and minimum values of BS are 20 and 4 members respectively. Also, the BD reveal a mean ratio of approximately 0.21 with a deviation of 0.11. BD further reveal a maximum ratio of 0.66 with a minimum ratio of 0. Furthermore, data for ACS reveal a mean of approximately 5 with a standard deviation of 0.7129774. The maximum and minimum values of ACS are 8 and 4 members respectively.

In respect to the study control variable, the FS data reveal a mean value of 242 million Naira with a deviation of 824 million Naira. FS further reveal a maximum value of 645 billion Naira with a minimum value of 57.4 million Naira. The variables' maximums, minimums, averages, and deviations represent the properties of the data for each variable and the resulting level of variation. **a) Stationarity Test**

Table 4.2: Combined Skewness and Kurtosis Test

	AT	AS	AF	BS	BD	ACS	FS
Skw/Kur (Prob)	0.0000	0.	0.2144	0.0092	0.0000	0.4712	0.7256

Source: Author's Computation from Stata Tables in Appendix II

To ensure normality and standardization for all the variables, the combined Skewness and Kurtosis probability values of all the data are computed using Stata 12. As shown in table 4.2 above, only AF, ACS and FS have probability value that are greater than 0.05 (shown to be normally distributed); while AT, AS, BS and BD are <0.05 which is not normally distributed. Although this is the case, the study in the subsequent sub-section runs a unit root test to see if the data can be used for a linear regression or they may be subjected to differential values before further analysis. Also, the AT, AF, BS and FS data used are transformed into their Log form to enable a uniform unit root or close unit root with AS, BD, and ACS before the final regression analysis. **Data Analysis**

This section shows the result for the regression analysis, as well as data diagnostic test that enables validity of the study regression result.

Diagnostic tests for the regression

This sub-section contains discussions about the diagnostic tests carried out to ensure the validity of the regression result presented. The tables in this sub-section contains result for the unit root test, Hausman test and multicollinearity test. The outcomes are discussed below:

Table 4.3: Cross-section Dependence (CD) Test table

Variable	Prob.	Preferred generation
ACS	0.4493	1st generation
AF	0.5638	1st generation
AS	0.4216	1st generation
AT	0.4632	1st generation
BD	0.2489	1st generation
BS	0.4327	1st generation
FS	0.4617	1st generation

Source: E-View Output in appendix 11

Table 4.4: Unit Root Test

AT	AS	AF	BS	BD	ACS	FS	
Brietung	0.0074	0.0086	0.0217	0.0172	0.0069	0.0088	0.0212
Order	1st	1st	1st	1st	1st	1st	1st

Ho: Panels contain unit roots

Ha: Panels are stationary

Source: Author's computation from Stata tables in appendix ii

To correct the non-normality for AT, AS, BS and BD data earlier shown in the normality test above, the study ran an Brietung unit-root test for all the study variables. Results for unit root of the data indicates that, all the data including those for AF, ACS and FS are stationary at 1st difference I(I) given probability values that are <0.05 or =0.05. This shows that, although data for AT, AS, BS and BD were not stationary, it does not mean they do not have the same unit root to enable further analysis. Since the variables are stationary at same order, the study assumes that the data are mean reverting without testing for Cointegration. Thus, a panel linear regression is adopted for further analysis. To enable the study chose between the random and fixed effect panel models, the study carries out a Hausman test for each model with the results discussed below: **Table 4.5: Hausman and multicollinearity test tables**

	Hausman	Method	W/F.Prob	Lag-test	VIF
Model 1 (AT)	0.0000	Fixed	0.0000	Nil	1.08
Model 2 (AF)	0.1183	Random	0.0003	Nil	1.08
Model 3 (AS)	0.7227	Random	0.1467	0.0000/Pooled	1.08

Source: Author's computation from Stata tables in appendix ii

The Hausman test result is discussed side by side the VIF test for each model in this sub-section. This is to ensure the validity of each model before final analysis of the model result. For model 1 which test the effect of BS, BD, ACS on AT controlled by FS, the Hausman test reveal a probability statistic of 0.000<0.05. This informs the study decision to choose the fixed effect model in analyzing the model 1 outcome. The average VIF of 1.08<10 for the model, controlled by FS shows that, the model is free from multicollinearity issues. Also, the probability of Fisher statistics is 0.0000, this then means that, result from fixed effect model is valid for analysis in respect to model 1. For model 2 which test the effect of BS, BD, ACS on AF controlled by FS, the Hausman test reveal a probability statistic of 0.1183>0.05. This informs the study decision to choose the random effect model in analyzing the model 2 outcome. The average VIF of 1.08<10 for the model, controlled by FS shows that, the model is free from multicollinearity issues. Also, the probability of Fisher statistics is 0.0003, this then means that, result from random effect model is valid for analysis in respect to model 2. For model 3 which test the effect of BS, BD, ACS on AS controlled by FS, the Hausman test reveal a probability statistic of 0.7227>0.05. This informs the study decision to, first choose the random effect model. The average VIF of 1.08<10 for the model, controlled by FS shows that, the model is free from multicollinearity issues but the probability of Wald statistics is 0.1467>0.05, this then means that, result from random effect model is not valid for analysis. Thus, the study further conducted a Lagranian test to choose between the random effect model or the pooled effect model. The Lagranian test reveal a probability of 0.0000<0.05 which means the pooled regression is most preferred in respect to model 3.

4.2.2 Regression of the estimated model

Table 4.6: Regression result for the three models

Model	AT	AF	AS
R^2 overall	0.0167	0.2625	0.1304 (0.1072)
	Fixed	Random	Pooled

Constant	-4.658152	2.675782	-.8496274
BS (coe)	-.3871753	.0106627	.8775398
BD (coe)	.6322538	.1608931	.4106348
ACS (coe)	-.064965	-.0516842	-.0215187
FS (coe)	.7561182	.2758547	.0801312
F/ChiStat	12.51	**21.07**	**5.62**
F.Prob	0.0000	**0.0003**	0.0003

Source: Extracted from Author's Computation in Appendix ii

The Panel regression results for the 3 models are presented in tables 4.5 above. The outcomes are discussed below: For model 1, the overall R^2 (R-square) value of 0.0167 shows that, the BS, BD, ACS collectively cause the AT to change by 1.67% when controlled by FS, while the remaining 98.33% is caused by other factors not incorporated in the study. The other factors could be financial performance of the company or corporate governance rules. Furthermore, the constant value of -4.658152 shows that, given intercept only model, the AT value will decrease by approximately 4.6 years. But a unit change in BS controlled by FS in the model will lead to a 38.7% decrease in AT. Also, a unit change in BD controlled by FS will lead to approximately 63.2% increase in AT while, a unit change in ACS controlled by FS will lead to approximately 6.4% decrease in AT. Lastly, model 1 reveals a Fisher statistics (f.Stat) of 12.51 with an accompanying probability value of 0.0000 indicating the statistical significance and fitness of the model. For model 2, the overall R^2 (R-square) value of 0.2625 shows that, the BS, BD, ACS collectively cause the AF to change by 26.25% when controlled by FS, while the remaining 73.75% is caused by other factors not incorporated in the study. The other factors could be financial performance of the company or corporate governance rules. Furthermore, the constant value of 2.675782 shows that, given intercept only model, the AF value will increase by approximately log of 2.675782. But a unit change in BS controlled by FS in the model will lead to a 1% increase in AF. Also, a unit change in BD controlled by FS will lead to approximately 16% increase in AF while, a unit change in ACS controlled by FS will lead to approximately 5.1% decrease in AT. Lastly, model 2 reveals a Wald statistics (chi.Stat) of 21.07 with an accompanying probability value of 0.0003 indicating the statistical significance and fitness of the model. For model 3, the pooled R^2 (R-square) value of 0.1304 shows that, the BS, BD, ACS collectively cause the AS to change by 13% when controlled by FS, while the remaining 87% is caused by other factors not incorporated in the study. The other factors could be financial performance of the company or corporate governance rules. But if both financial performance and corporate governance rules are considered by the model, the result will change from 13% variation to 2.32% (0.1304-0.1072=0232). Furthermore, the constant value of -0.8496274 shows that, given intercept only model, the AS value will decrease by approximately 0.84 probability to engage the big 4 audit firm. But a unit change in BS controlled by FS in the model will lead to 87% increased chances to engage AS (The big 4 audit firm). Also, a unit change in BD controlled by FS in the model will lead to 41% increased chances to engage AS (The big 4 audit firm) while, a unit change in ACS controlled by FS in the model will lead to 2.1% decrease chances to engage AS (The big 4 audit firm). Lastly, model 3 reveals a Fisher statistics (f.Stat) of 5.62 with an accompanying probability value of 0.0003 indicating the statistical significance and fitness of the model.

Test of Hypotheses

Table 4.7: Hypotheses results for the three models

Model	AT	AF	AS
BS	0.204	0.960	0.001
BD	0.027	0.426	0.236
ACS	0.147	0.106	0.699

The decision rule is: Reject HO if the calculated P-value of t-statistic is </=0.05. Otherwise, do not reject HO.

Source: Extracted from author's computation in appendix ii Stata tables

HO_1: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit fee of listed firms in Nigeria.

From table 4.6, the P value for BS, BD and ACS against AT in model 1 revealed a calculated pvalues of 0.204>0.05, 0.027<0.05, and 0.147>0.05. As a result, the study accepts the null hypothesis and rejects the alternative in respect to BS and ACS while in the case of BD the null hypothesis is rejected and the alternative accepted. Thus, board size and audit committee size have no significant effect on audit tenure of listed firms in Nigeria. On the other hand, board diversity has a significant effect on audit tenure of listed firms in Nigeria.

HO_2: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit tenure of listed firms in Nigeria.

From table 4.6, the P value for BS, BD and ACS against AF in model 2 revealed a calculated pvalues of 0.960>0.05, 0.426>0.05, and 0.106>0.05. As a result, the study accepts the null hypothesis and rejects the alternative in respect to BS, BD and ACS. Thus, board size, board diversity and audit committee size have no significant effect on audit fee of listed firms in Nigeria. **HO_3: Corporate governance (Board size, board diversity & audit committee size) have no significant effect on audit firm size of listed firms in Nigeria.**

From table 4.6, the P value for BS, BD and ACS against AS in model 3 revealed a calculated pvalues of 0.001<0.05, 0.236>0.05, and 0.699>0.05. As a result, the study accepts the null hypothesis and rejects the alternative in respect to BD and ACS while in the case of BS the null hypothesis is rejected and the alternative accepted. Thus, board diversity and audit committee size have no significant effect on audit size of listed firms in Nigeria. On the other hand, board size has a significant effect on audit size of listed firms in Nigeria.

Discussion of Findings

In this sub-section, the study discusses the findings from the test of hypotheses and regression analyses done above. The discussion is linked to past evidence as well as theoretical prepositions. Below is an objective-by-objective discussion.

The effect of corporate governance (board size, board diversity and audit committee size) on audit tenure of listed firms in Nigeria

The first hypothesis tested revealed that, board size and audit committee size have no significant effect on audit tenure of listed firms in Nigeria. This conforms to the evidence shown in the study done by John and Abimbola (2022) who examined the determinants of audit quality in the context of the Nigerian listed consumer goods companies. Using regression analysis for data analysis. They found a non-significant and negative relationship between the tenure of the audit firm and board size in the Nigerian consumer goods sector. Also similar to this finding is the study of Chukwu and Nwabochi (2019) who investigated the effect of the characteristics of audit committee on timeliness of corporate financial reporting in the Nigerian insurance industry using ordinary least

square method. Their study result revealed a significantly negative relationship between audit committee characteristics and quality of financial reporting. Furthermore, the study test of hypothesis in respect to hypothesis 1 revealed a significant effect of board diversity on audit tenure of the listed firms in Nigeria. This is in line with the study done by Walid and Soliman (2020) who investigated the effect of corporate governance and audit quality on investment efficiency of non-financial listed firms in the Egyptian Stock Exchange (EGX), especially firms recorded in EGX 100 for four years' period (2013–2018). They used Structural Equation Modeling (SEM) to analyze data for their study. They found that, management that has good corporate governance mechanisms obtains a suitable atmosphere to prepare transparent financial statements, which helps enhance the auditor's role and improve audit quality.

The effect of corporate governance (board size, board diversity and audit committee size) on audit fee of listed firms in Nigeria

The second hypothesis tested revealed that, board size, board diversity and audit committee size have no significant effect on audit fee of listed firms in Nigeria. This means that corporate governance has no significant effect on the audit fee of listed firms in Nigeria. This contradicts the evidence shown in the study done by Musah et al. (2022) who examined the effect of corporate governance on audit fees of listed firms in Ghana. They adopted a panel regression analysis. Their results showed that listed firms in Ghana corporate governance were significant determinants of audit fees in Ghana. The reason for the contradiction could be the difference in markets studied by both authors. It might be that, Ghanaian corporate governance rules are stronger and more effective than the Nigerian corporate governance rule. Similar to Musah et al. (2022), Shukri and Abdullah (2022) also examined the relationship between corporate governance quality and audit quality in Malaysia. Using a multiple linear regression in testing the research hypotheses, their results show that audit committee characteristics have a relationship on the audit fees, as a proxy of the audit quality. Their study result also suggests that the existing corporate governance framework in Malaysia in relation to the audit committee proven to be effective in monitoring audit process.

The effect of corporate governance (board size, board diversity and audit committee size) on audit firm size of listed firms in Nigeria

The third hypothesis tested revealed that, board diversity and audit committee size have no significant effect on audit firm size of listed firms in Nigeria. This is in line with the evidence shown in the study done by John and Abimbola (2022) who examined the determinants of audit quality in the context of the Nigerian listed consumer goods companies. Using regression analysis, they found a negative and statistically insignificant relationship the audit firm size and audit quality in the Nigerian consumer goods sector. Furthermore, the study test of hypothesis in respect to objective 3 revealed a significant effect of board size on audit firm size of the listed firms in Nigeria. This means that, the composition of board members is likely to support the engagement of the big 4 audit companies as a result of the reputation shown by the big 4 audit firms in the industry. This assertion is further supported by the preposition made by Theodore in the late 1920s about the theory of inspired confidence. The theory explains the rational expectations' theory wherein it is stipulated that, auditors with competence are capable of performing their duty in a manner that will not distort the expectation of various stakeholders, including the board members.

Conclusion and Recommendations

This study examines the effect of corporate governance on audit quality of listed companies in Nigeria for a period of 5 years covering 2018 to 2022. The study specifically examines the effect of board size, board diversity and audit committee size on audit quality (Audit tenure, audit fee and audit size) of listed firms in Nigeria. To achieve these specific objectives, data are collected from annual reports of the firms. The panel regression model is used as the technique for data analysis. From the regression analysis, the study found that;

i. The first hypothesis is tested using a fixed model. The result shows that both board size and audit committee size have negative insignificant effect on audit tenure of listed firms in Nigeria. On the other hand, board diversity has a negative significant effect on audit tenure of listed firms in Nigeria.

ii. The second hypothesis is tested using a random model. The result shows that both board size and board diversity has positive insignificant effect on audit fee of listed firms in Nigeria. On the other hand, audit committee size has a negative insignificant effect on audit fee of listed firms in Nigeria.

iii. The third hypothesis is tested using a pooled model. The result shows that board size has a positive significant effect on audit firm size of listed firms in Nigeria. On the other hand, board diversity has a positive insignificant effect on audit firm size of listed firms in Nigeria while, audit committee size has a negative insignificant effect on audit firm size of listed firms in Nigeria.

Conclusion

From the findings of the study above, the following conclusions are made:

i. Board size and audit committee size have negative insignificant effect on audit tenure of listed firms in Nigeria. On the other hand, board diversity has a negative significant effect on audit tenure of listed firms in Nigeria.

ii. Board size and board diversity has positive insignificant effect on audit fee of listed firms in Nigeria. On the other hand, audit committee size has a negative insignificant effect on audit fee of listed firms in Nigeria.

iii. Board size has a positive significant effect on audit firm size of listed firms in Nigeria. On the other hand, board diversity has a positive insignificant effect on audit firm size of listed firms in Nigeria while, audit committee size has a negative insignificant effect on audit firm size of listed firms in Nigeria.

Recommendations

In line with the findings of this study, the following recommendations are made;

i. Corporate governance of firms in Nigeria should adhere to regulations that require companies to rotate their external auditors periodically to prevent long-standing audit tenure relationships that could compromise quality of audit service provided. This will foster a healthier audit environment and encourage auditors to maintain objectivity. ii. Corporate governance of Nigerian firms should strengthen regulatory oversight of their boards and audit quality by putting in place ceilings or benchmarks for audit fee to mitigate issues of non-formal audit fee negotiations that may impede the quality and objectivity of external audit service provided. iii. Based on the study's findings, it is recommended that, listed firms in Nigeria should collaborate with audit industry associations to establish mandatory training and continuous professional development programs for auditors. These programs should cover evolving auditing standards, emerging risks, and technological advancements to ensure auditors stay updated with specific industry audit skill and maintain their competence not minding the audit firm size. This will further improve the quality of audit no matter the audit firm engaged by the corporate governance of the listed firms in Nigeria.

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