



IMPACT OF QUALITATIVE AUDIT ON MARKET VALUE OF NON-FINANCIAL FIRMS IN NIGERIA

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Abstract: This paper dwelt on the effect of qualitative audit as it affects the market value of Nigerian listed non-financial firms. Qualitative audit was proxied by Audit Firm Size (AFS), Audit Experience (AE), Audit Fees (AF), while market value is by market Price per Share (MPS). The work employed Expo facto research design. Data were gotten from the past audited financial statements of 47 companies that were not financial in nature but are listed on the Nigerian Stock Exchange for the period of 12 years (2004-2015) which gave rise to 564 firm observations. Multiple linear regression analysis, particularly, the Ordinary Least Squares (OLS) method was used to analyze the data. The results indicated that audit fees has significant positive effect on market value of the sample firms. More specifically, Audit Fees and AOP have significant positive effect on market value. Recommendations: regulatory bodies such as Securities and Exchange Commission (SEC), Financial Reporting Council (FRC), Corporate Affairs Commission (CAC), and professional accounting bodies like Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) should ensure audit quality by enforcing the sanctions and disciplinary measures on auditors/audit firms that tend to charge higher audit fees which will likely affect audit quality which is seen to have the capability of significantly affecting the market value of non-financial companies in Nigeria positively.

Keywords: *Audit Quality; Market Value; Non-Financial Companies*

1.1 Introduction

Firms' financial statements contain instruction concerning their financial condition and performance. It is used by a broad range of stakeholders which signify that the accuracy of these financial statements is essential for immediate and would be investors and others who need it for strong economic decisions. It is thus very essential that these financial statements be adapted in a mode that should be beneficial, related and possessing the capacity to control user's economic decision (Sadegh, Reza & Farzard, 2013; Arnold, 2013; Marjolein, 2011; Beest, Braam & Boelens, 2009; Lin, Liu & Wang, 2007; Schelker, 2007). This makes independent

external audit so important since it improve the credibleness of financial reporting required; enhance the assurance of users of the financial statements (Jusoh & Ahmed, 2014; Yuniarti & Zumara, 2013).

Audit is a separate activity comprise of an orderly and structured sequence of action, by examining the assertions made by a particular firm about the economic activities in which they are involved and conveying the result in a system of report to the users (Salehi & Mansoury, 2008; Salehi, 2010). It is also an examination of an entity's financial statements adapted by the accountants. Consequently, audit report authenticates the message drawn from the financial statements. In order to realize

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increased credibility of financial statements, there is need for quality audit to be in place. The auditor appraising the firms' financial statements should be separate from the administration providing this same information and should have the skill and willingness to express assurance on the audit profession (AQ).

1.2 Statement of the Problem

The auditing profession fulfills a role in giving suitable assurance to distinct users of financial statements as it affects the reliability and credibility of the figures communicate by management in the financial statements. But this seems unprofitable as several issue of corporate financial failure in Nigeria like Cadbury Nigeria Plc, African Petroleum, Lever Brothers Nigeria Plc and Nampak have posed a great debate on the credibility of audit detail since these circumstances arise from audited financial statements where the auditors fail to comprehend the financial misstatements and manipulations. This has caused a great deal of frustration to investors and other users of financial statements therefore, bringing about serious negative effect on investors' financial decisions.

1.3 Objectives of the Study

The general aim of the paper is to find out the outcome of audit quality on the market value of listed non-financial companies in Nigeria. Hence, the definite objectives of this study include: 1. To find out the impact of Size of Audit on the market value of listed non-financial companies in Nigeria;

2. To determine the outcome of Experience of Auditors (AE) on the market value of listed non-financial companies in Nigeria.

3. To examine the result of Audit Fee (AF) on the market value of listed non- financial companies in Nigeria.

1.4 Research Questions

1. What is the effect of Size of Audit Firm (AFS) on the market value of Nigerian listed non-financial firms?

2. What is the impact of Audit Experience (AE) on market value of non-financial firms listed on NSE?

3. What effect has Audit Fee (AF) on the value of Nigerian no-financial firms?

1.5 Research Hypotheses

They are listed in Null Form:

HO₁: Size of Audit Firm (AFS) has no significant influence on the market value of Nigerian listed non-financial firms

HO₂: Experience of Audit (AE) does not have significant consequence on market value of Nigerian listed non-financial companies

HO₃: Payment for Audit Fee (AF) has no significant effect on market value of Nigerian listed non-financial firms

Literature Review

2.2 Conceptual Framework

2.2.1 Audit Quality

Audit quality is a complex and multi-faceted concept. International Auditing and Assurance Standards Board (IAASB) (2011) states that there have been a number of attempts to conceptualize 'audit quality' in the past but none has resulted in a separation that has achieved total notice etc (Beattie, Fearnley & Hines, 2010; Okolie, 2014). Again, audit quality perception may depend on whose eye one is looking through because the various stakeholders such as shareholders, creditors, and other users of the financial statements may have distinct views as to what create audit quality. However, the classic definition of audit quality that is cited by most audit researchers is that of De Angelo (1981) which defines audit quality as, assessed joint probability that a stated auditor will both detect material misstatements in the buyer's financial statements and narrate the material misstatements. According to this sort, audit peculiarities are a function of the auditor's ability to detected material misstatements and record the errors.

2.2.1.1 Factors Influencing Audit Quality

Audit quality can be influenced by many factors. According to Francis (2004) and Adeyemi, Okpala and Dabor (2012) factors that control audit quality includes: Audit fees, Audit tenure, Audit firm size, Audit



committees. In addition to these, Okolie and Izedonmi (2014) maintained that Audit independence is one of the factors influencing audit quality. Arezoo (2011) grouped factors affecting audit quality into direct and indirect factors, where direct factors include measures like financial reporting compliance with GAAP, quality control review, bankruptcy, desk review and SEC performance whilst the indirect factors include audit size, audit tenure, industry expertise, audit fees, economic dependence, reputation, and cost of capital.

2.2.1.2 Measures of Audit Quality

The measures of audit quality adopted in this study are derived from the definition of audit quality by DeAngelo (1981) to include (1) Audit competence and (2) audit independence which according to Knechel (2013) are orthogonal. That is, a proper mix of these two traits brings about improved audit quality. 1. Audit Competence. It is deduced from DeAngelo (1981) definition of audit quality that audit competence is the technical ability of the auditor to detect errors in the financial statements. Lee and stone (1995) explain fitness as the expertise that can be used clearly enough to conduct audits objectively. (a) Quality of Audit and Size of audit Firm has been one of the most commonly used audit quality variables in previous research and has consistently provided positive impact on quality of audit. Wibowo and Rossieta (2010) maintained that probability for high audit quality increases as the audit firm size gets bigger. Audit firm size explains whether a client financial statement is audited by a large company or by a small company (De Angelo, 1981).

Audit Quality and Value of Firm

Lawani, Umanhonlen and Okolie (2015) state that value of firm is the total value of the company's stock. According to Muhibudeen (2015) business can be valued differently depending on the context which may include; Economic value, accounting value and the market value of stock. This study is concern with market value that refers to the value of a firm on the stock market.

Audit Firm Size and Market Value

Audit firm size is explained as whether a firm's financial statement is audited by a large or small audit company. Where a firm is audited by a large audit firm referred to as the Big-4 auditors, there is assurance that the financial statements are presenting a true and fair view consequently, investors based their decisions on the report by Big-4 auditors that are perceived to possess quality. It was based on this that Tagi (2013) affirms that a high audit quality by Big-4 auditors affects the value of the firm positively. Prior to Taqi (2013) assertion; Aber, Hysen, Skender and Arben (2012) are of the view that, Big-4 auditors have positive effect on the stock prices of firms audited by them.

iv. Audit Fees and Market Value

An audit fee is the fee that a company is expected to pay to an external auditor for performing audit and assurance services, audit fees can either be high or low. Some scholars are of the view that high audit fees can only be paid for quality services therefore, higher audit fees means higher audit quality (Moizer, 1997; Francis, 2004; -Rodrigo & Andre, 2012). These perceived audit quality in high audit fees is rather transmitted into high firm value in the market as proponents of audit quality via high audit fees believe that the high fees is paid for the numerous and thorough work done by the auditors hence exerts influence on the prices of company's shares in the market meaning that share prices of companies with high audit fees will increase as the high audit fees is translated as quality audit and assurance services in the market. Some scholars seem to be different in their views and opinion as they are highly optimistic that high audit fees can impair auditor independent judgment and opinion (Li & Lin, 2005). Zunaidah, John, Amariah, Zuraidah and Carl (2013) observe that high audit fees can affect the value of shares of the company paying the audit fees negatively as the high audit fees alerts the market that the auditors have sold their integrity for the high



cost of their services thus, have reported what the management desires and not the independent audit opinion about the affairs of the company. Consequently, results to a reduced value of the firm paying the high fees. Companies are grouped in sectors where the companies can be listed on the Nigerian Stock Exchange (NSE). These sectors include: agricultural, conglomerate, natural resources, industrial goods, oil and gas, consumer goods, constructions/real estates, health care, information and communication technology, services and financial sector, totaling 11 sectors operating in Nigeria (NSE, 2016).

2.3 Theoretical Framework

2.3.1 Agency Theory

The manager undertakes to perform certain duties for the investors and the investor undertakes to reward the managers.

2.4 Empirical Studies

2.4.1 Empirical Studies on Audit Firm Size (AFS) and Market Value

Lin, Liu and Wang (2007) studied the market effect of qualitative auditing and auditors' with quality from the angle of the Chinese. The implication of the findings is that big Chinese Auditors are seen as more effective in enhancing earnings management system which results in higher earnings. Coefficient of Responses (CoRs) found that audit information is valued by the market in the Chinese states and big auditors have been able to distinguish themselves in the Chinese Stock Exchange. Also, Xin, Andre, Elaine and Hong (2008) examine the effect of quality of audit as it affects Initial Public Offer (IPO) under-pricing using sample of Australian firms for a period of eight years using regression model on the 371 sampled observed data. The results shows that good auditors that were proxies by Big4 serve as a signaling device that promotes post-issue market value of equity.

Empirical Studies on Experience in Auditing and Market Value Ziaee (2014) explored the impact of quality of

audit on the performance of listed companies in Tehran Stock Exchange. The work used audit period, reputation of audit and firm audit experience as variables for quality of audit. Correlation analysis technique was used and the study finds that there is a relationship between audit quality and financial performance of companies. There seems to be dearth of studies on audit experience and market value therefore, this study is adding to the extant literature in this area.

Empirical Studies on amount paid for Audit on Value of Market

Similarly, Taqi (2013) examines the consequences of audit quality from the signaling theory perspective. This study unlike most studies administers questionnaire to 101 accountants. It uses path analysis and the result shows that audit quality proxied by audit fees has an effect toward higher valuation of clients Jusoh and Ahmad (2014) investigate the relationship between quality of audit and performance of firms in Malaysia. The study proxies firm performance by ROA and Tobin's Q testing for both book value performance and market share value performance. The study sampled 730 listed firms in Malaysia, used multivariate regression analysis to analyze the data obtained from the sample on a three (3) year period. The result shows that quality of audit proxied by fees paid on audit affects very positively both the performance indicators (ROA and Tobin's Q). This is possible since audit quality has the potentials of reducing agency cost hence resulting in increased performance. Antonio (2014) studied the relationship between fees paid on audit and value of firm using Brazilian public companies, from 2009 - 2011. The study proxied firm value by Tobin's Q using regression for the analysis and found that increase in audit fees increases Tobin's Q of the audited company.

3.2 Research Design

This study adopted an ex-post facto research design. The design is used because of its importance and relevance in



causal research such as this one. It is also used because it is a design that is good for an occasion where the researcher does not have effective control over the independent variables because the situation necessitating the study already has taken place. This design is deemed most apt considering that the study is making use of already existing audited financial statements of listed companies in Nigeria.

3.2.1 Population

The population of the study covers the whole of non-financial firms quoted on the floor of the Nigerian Stock Exchange (NSE) that remained listed as at the year ended 31 December, 2015. This brings the study population to a total of 130 companies

3.2.2 Sample Size and Sampling Technique

This study used the following criteria to select the sample:

1. The firm must have been listed on the Nigerian Stock Exchange consistently for twelve (12) years under study. The company must not be classified under the financial sector
3. The company must have complete data values for each financial year covered in the study period. The use of the criteria above produced a sample size of 47 companies listed on the the NSE.

3.3 Sources of Data and Methods of Data Collection

This study depended basically on secondary data bearing in mind the nature of its design. The requisite data on audit quality were extracted from the financial statements especially the auditor's reports, profit and loss accounts, statements of financial position and notes to the accounts as contained in their audited annual reports and accounts for the relevant years (12 years- 2004-2015).

3.4 Techniques of Data Analysis

Descriptive statistics, correlation and regression analysis was employed to analyze panel data obtained for the study. Multiple regressions using the ordinary least square (OLS) method was adopted to at the results of the analysis. OLS was used because it minimizes the errors between the

actual and observed data in the study.

The study first measured and analyzed the market value variables and the audit quality variables using data obtained from a cross-section of listed companies in Nigeria. To determine the effect of quality audit on the market value of firm, the study determined the dichotomous variables which include: size of audit firm, audit industry specialization. The price per share in the market was obtained and taken as reported by the NSE. Regression analysis was used to process data with the help of SPSS version 21. Microsoft Excel was employed for data processing and analysis. ANOVA (analysis of variance: F-test) was also used to discover whether there is significant effect of the different categories of AQ surrogate on the market value of companies in Nigeria.

3.4.2 Model Specification

The model for the study is hereunder presented.

$$MPS=f(AQ) \quad MPS = f(AFS, AQ, AF)$$

Where;

f = Function of MV= Market Value MPS= market price per share AQ=Audit Quality AFS= Audit Firm Size AF=Audit Fees Using the multiple regression analysis technique, this model was reconstructed for the study as follows:
 $P S = \beta + \beta AFS + \beta AF + \beta Q + 0.123$ Where; β = the constant β, \dots, β =the regression coefficients 126 e =the error term

Data Presentation, Analysis and Discussion of Results

4.1 Introduction

4.2 Data Presentation and Analysis

Table 4.2: Correlation Analysis of the Study Variables

Variables MPS AFS AE AF

MPS 1.000



AFS 0.447*** 1.000

AE -0.057 0.106*** 1.000

AF 0.591*** 0.567*** 0.152*** 0.311*** 1.000

Source: Based on Field data

*** = Significant at 5%

4.2.2 Descriptive Analysis

This section presents the result from the descriptive statistics analysis in Table 4.3 as

follows.

Table 4.3: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
AFS	564	0.00	1.00	0.66	0.47
AE	564	3.00	64.00	34.47	18.80
AF	564	2.40	5.28	3.91	0.52
MPS	564	0.22	1200	40.37	96.45
Valid N	564				

Source: Extract from Results Analyzed via SPSS v 21

Table 4.3 shows that the mean of MPS is 40.37 with a fluctuation of about 96.45; this indicates that non-financial companies listed in Nigeria operate at a mean market value of ₦40.37 with likely variations of about ₦96.45k. The fluctuation is higher than the mean value implying that the MPS of the companies under study is low.

AFS has a mean value of 0.66 with a standard deviation of 0.47. AFS of about 66 percent indicates that on the

average, about 70 percent of the companies in the study are audited by the Big-4 audit firms. The standard deviation of 0.47 is an indication that there is a considerable cluster of firm choices around the Big-4 and that most studied companies are audited by Big-4 with low variation of only 0.47 of companies not audited by Big-4 auditors.

AE has a mean value of 34.47 and a deviation of 18.80. This is an indication that most of

the firms studied are audited by experienced auditors with a little variation of

inexperienced auditors who have audited the financial reports in the data used for the

study. AF is observed to have a mean of ₦3.9 million with a deviation of ₦0.52 million meaning that on the average, sizable number of the companies studied pay high fees on audit services while few firms paying less than a million in a year of observation in the study. If high audit fees relate with high quality of audit which improves value of market then, we should be expecting a robust result on the regression coefficient of AF since most companies included in this study pay high fees on audit as indicated by the result in Table 4.3.

4.4 Regression Analysis

The main tool used to analyze data for this study was the regression analysis. The result of regression analysis is presented in Table 4.5 and 4.6 as follows:

Table 4.6: Regression Coefficients

T-test P-Value Constant = -2.07 -7.89 0.000; AFS = 0.087 2.061 0.040; AE -0.170 -5.119 0.000 AF 0.527 13.261 0.000 R=0.426, F(6,557)=68.84, p=0.000

Source: Results of Analysis via SPSS v 21

Table 4.6 presents the regression result determining the



effect of AQ variables on the market value explained by MPS. The coefficients of the various variables describe the effect of each independent variable on the market value.

The result indicates that if AQ is not a factor to consider in the value of firm, MPS will significantly reduce by 2.07 units occasioned by factors outside this study. The result also indicates that if a company is audited by a Big4 auditor, it will significantly cause an increasing effect on the MPS by 8.7 percent. Hence, we infer that since the Big-4 audit firms are well known and have gained reputation for audit quality; an audit by them will impact on the market value (MPS) of companies audited by them.

On the contrary, an increase in audit by an experienced auditor (AE) will reduce MPS significantly by 17 percent. This seems to contradict the principles of learning curve (experience curve) which state that the more one does a thing the more they get better at it.

If continuous audit is supposed to earn audit quality for such an auditor then where the audit quality is transmitted to the market it should increase the clients' market value but this seems not to be upheld by our result. Hence, we are of the opinion that it is not just how long an auditor does the work but how well he understand the special industrial issues in his clients' industry.

Likewise, the result indicates that an increase in AF will significantly increase MPS by 52.7 percent. It means that if all other factors are held constant, and AF is increased by a level, it will significantly increase MV with about 53 percent. The result is agree with the assertions that AF explains high quality audit and that consumers in recognizing that more AF improves audit quality therefore are prepared to pay higher fees in order to receive the services.

4.5 Test of Hypotheses

The hypotheses formulated for the study were tested in this section using the t-values and p-values produced

by SPSS output. Table 4.6 presents the calculated 'T' values which are used to compare the critical infinity value of t which is ± 1.96 .

This gives the region of acceptance and rejection to enable decision making based on the decision rule presented in chapter three: Accept or reject the null hypothesis if the critical value is greater or less than the calculated value, respectively. (i.e. Accept H_0 if $\pm 1.96 > t\text{-cal.}$ and Reject H_0 if $\pm 1.96 < t\text{-cal.}$). These hypotheses are tested in this section and presented as follows:

Ho1: Audit Firm Size (AFS) has no significant effect on the market value of Nigerian listed non-financial companies Table 4.6 presents the result for testing this hypothesis. It shows that t-cal. for AFS is 2.061 with P-value of ($p=0.040$). The t-cal. is less than t-critical and the p-value is less than 0.05. This means that AFS has a significant effect on the MV of Nigerian listed non-financial companies. We therefore reject the null hypothesis.

Ho2: Audit Experience (AE) does not have significant effect on market value of Nigerian listed non-financial companies Table 4.6 presents the result for the test of this hypothesis given t-cal. value to be -5.119 as against -1.96 of t tabulated. Since the t-cal. is less than t-critical and the p-value is less than 0.05 (the P-value of 0.0005 shows a 1% level of significance); we therefore reject the null hypothesis that AE has a significant effect on MV of listed non-financial companies in Nigeria.

Ho3: Audit Fee (AF) has no significant effect on market value of Nigerian listed non-financial companies Table 4.6 above also presents result for testing H_0 . We note that the values of t-cal. and P-value stand at 13.261 and 0.0005 respectively. Since the t-cal. is less than t-critical and the p-value is less than 0.05, were rejected the null hypothesis. This means that there is a significant effect of AF on MV of Nigerian listed non-financial companies.



4.6 Discussion of Findings

4.6.1 Discussion of Findings on Audit Firm Size (AFS) and Market Value

AFS (Audit Firm Size) shows that if all the other variables are held constant and there is an addition of one more unit to AFS, it will cause a significant positive effect of about 9 percent on market value. That is, an audit by the Big-4 auditors result in higher impact on the MV of firms audited by them. This finding tends to follow the assertion by De Angelo (1981) that large audit firms have less incentive to behave opportunistically and because they have more wealth and more valuable reputation which they are assumed to guard, hence ensuring audit quality. Having said that, stakeholders appear to believe that large audit firms perform better and therefore assuring higher audit quality. Thus, this presumed audit quality by the Big-4 auditors as per our findings has an influence on the price of shares in the market. Some researchers such as Imhoff (1988) are however of the opinion that the large auditor firms do not really possess audit quality but perceived quality due to their reputation. Whether it is a real or perceived audit quality, our finding shows that an audit by the Big-4 audit firms sends signals to the market and further positively influence the market price per share of non-financial companies listed in Nigeria. This finding is consistent with the findings of Okolie (2014), Farouk and Hassan

4.6.2 Discussion of Findings on Audit Experience (AE) and Market Value

AE (Audit Experience) on the other hand shows a significant negative effect on the MV of non-financial companies studied in Nigeria. The regression result shows that an additional unit of AE will reduce MPS by 17 percent meaning that the experience of an auditor does not count in the market as it is possible that an audit firm can be in operation for years but may be inexperienced in some specific areas hence, may be unable to deliver well in such specific and special areas. This is possible as

AIS shows a positive impact on MV as against AE. It therefore implies that it does not really matter how long an audit firm remains in operation but how well they are able to understand the clients' financial environment. This finding is not consistent with the study by Ziaee (2014) as they found a very strong relationship between audit experience and firm performance. This difference may be accounted for by the difference in the dependent variable, method of data collection (questionnaire) and the location of study (Iran). This study expanded on prior studies by utilizing AE as audit quality proxy to determine if it has any effect on the market value of companies audited by experienced auditors and found that AE has a negative effect on the market value of non-financial companies listed in Nigeria.

4.2.6.4 Discussion of Findings on Audit Fees (AF) and Market Value

AF (Audit Fee) is another independent variable in this study. It impacts positively on the market value by about 53 percent. This positive effect is a statistically significant impact. AF presents the highest impact on market value in this study. It suggests that more or high AF indicates high audit quality because good auditors will charge fees that will cover their above average cost incurred to be able to produce a service of above average quality. Consequently, stakeholders perceive audit quality in high audit fees; this assertion reflected in our finding that a naira addition to AF will increase MPS of non-financial companies listed in Nigeria significantly. This finding is not consistent with that of Zunaidah, John, Amariah, Zuraidah, and Carl, (2013) and Okolie (2014) where they found that AQ proxied by AF had a negatively significant effect on firm performance proxied by TQ. Impliedly, the reason for this variation in findings may be in the difference in the dependent variables in the case of the study by Zunaidah, John, Amariah, Zuraidah, and Carl, (2013) and possibly, the study period and number of observations in the study



by Okolie (2014). We also discovered that this study's finding is consistent with that of Taqi (2013) and Farouk and Hassan (2014).

5.1 Conclusion & Recommendations

This study has examined and documented evidences on the effect of audit quality on market value of listed non-financial companies in Nigeria. The study used 564 company-year observations from 2004 to 2015, proxied audit quality by three variables (viz, AFS, AE, AF) and market value by MPS for the purpose of robustness. A multiple regression was conducted and the result shows that AFS, AF, AQ affects market value positively. On the other hand, AE effect on the market value is negatively significant. We hereby conclude that, audit quality significantly relates with market value and substantially affects the market value of listed non-financial companies in Nigeria positively. This conclusion is substantive where audit quality is proxied by Audit Firm Size, AE, Audit Industry Specialization, Audit Fees, Audit Tenure, and Audit Opinion Type. This conclusion is also validated by the result of the r which presents a combined effect of all the independent variable/surrogates (AFS, AE, AF) on the dependent variable (market value).

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