FIRM ATTRIBUTES AND AUDIT QUALITY

By

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DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

UNIVERSITY OF BENIN

MARCH, 2025.

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE IN ACCOUNTING OF THE UNIVERSITY OF BENIN, BENIN CITY.

MARCH, 2025.

DECLARATION

I, **Favour Bose ANAVI**

Declare That:

This project work is based on a study undertaken by me in the Department of Accounting Faculty of Management Sciences, University of Benin, under the supervision of prof. Ilaboya. O.j, This work has not been previously submitted for award of a degree elsewhere. All ideas and views are product of my personal research efforts and all references to work of others have been duly acknowledged.

_____ _____

Favour Bose ANAVI **Date:**

MGS2007727

(DECLARANT)

CERTIFICATION

This is to Certify that this research work is submitted by **Favour Bose ANAVI** with matriculation number **MGS2007727** to the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city under the full supervision of PROF. ILABOYA. O.J and in accordance with the requirements of the Department of Accounting of the University of Benin, Benin City for the Award of Bachelor of Science Degree in Accounting

_____ _____

PROF. ILABOYA. O.J **Date:**

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(Project Coordinator)

_____ _____

Prof. O. Obaretin **Date**

(Head of Department)

DEDICATION

I want to dedicate to God and to my parents Mr Samuel Anavi and Mrs Theresa Anavi for their love and continuous support towards my education.

ACKNOWLEDGEMENT

I would like to express my deepest gratitude to Almighty God, who has been my guiding light and source of strength throughout this project.

To my supervisor, PROF. ILABOYA. O.J, I am grateful for your guidance, expertise, and support. Your constructive feedback and encouragement have been valuable to me, and I appreciate the time and effort you invested in helping me complete this project.

To my loving parents, Mr Samuel Anavi and Mrs Theresa Anavi, I am forever grateful for your unwavering support, encouragement, and prayers. Your selfless love and dedication have been a constant source of inspiration to me.

To my Siblings and friends, I thank you for your friendship, love support, and encouragement. You have made this journey worthwhile, and I am honored to have you all in my life.

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ABSTRACT

This study examined firm attributes and audit quality. The research aimed at assessing the impact of firm attributes on audit quality, identify key indicators of audit quality and evaluate the relationship between various variables of firm attributes and audit quality. Secondary data were collected from a target population which is made up of 13 deposit money banks that are currently quoted on the Nigeria Exchange Group for a period of 6years ranging from 2018 to 2023 using the annual report and accounts specifically the preliminary pages and financial statements. The study adopted a descriptive research design, with data analyzed using mean, median, standard deviation, skewness and Kurtosis.The analysis includes descriptive statistics, correlation analysis, and regression results to determine the nature and significance of the relationships among the variables. Based on the findings, the study concludes that firm attributes have limited influence on audit quality, as most of the independent variables were not statistically significant in the regression model. This suggests that other factors, such as corporate governance mechanisms, regulatory frameworks, and auditor independence, may play a more substantial role in determining audit quality. While firm size, leverage, and audit firm size showed some level of association with audit quality, the results were not strong enough to draw definitive conclusions.

These findings align with some previous studies that suggest firm-specific characteristics may not be the sole determinants of audit quality. Instead, audit quality may be more influenced by external regulatory oversight, the ethical conduct of auditors, and industry-specific factors. The study highlights the need for a broader approach to improving audit quality, considering governance structures, audit standards, and stakeholder expectations.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The genesis of research into firm attributes and audit quality can be traced back to the aftermath of high-profile accounting scandals such as Enron, WorldCom, and Tyco. These corporate collapses exposed systemic vulnerabilities in the auditing profession and ignited a fervent debate about the factors contributing to audit failures. Audit quality is defined as the probability that an auditor detects and reports material misstatement in the accounting system of an auditee (DeAngelo, 1981). Jennifer Francis (2005) made significant contributions to the understanding of how auditor specialization impacts audit quality. Her research emphasized the importance of industry-specific knowledge in enhancing audit effectiveness. The relationship between firm attributes and audit quality has been a focal point in accounting and finance research for several decades. This interest is primarily driven by the critical role of audit quality in ensuring the reliability of financial information, which underpins investor confidence and economic stability. The bedrock of efficient capital markets is predicated on the reliability and integrity of financial information. This reliance has engendered a robust system of checks and balances, with auditing serving as a cornerstone. The audit function, essentially an independent examination of financial statements, is designed to provide assurance to stakeholders that the financial information presented fairly reflects the underlying economic reality. The quality of audits, however, is not

uniform. Several factors, including the attributes of the audited entity, significantly influence the nature and extent of audit procedures, thereby impacting the reliability of the audit opinion.

Mary L. DeFond and Roslyn S. Harris focused on the role of audit committees in providing checks and balances on management. While not directly addressing firm attributes, their research indirectly contributes to understanding the impact of firm characteristics on audit quality. The interplay between firm attributes and audit quality has thus been a focal point of academic and professional interest for several decades. Audits, as independent examinations of financial statements, serve as a critical bulwark in safeguarding the accuracy and fairness of financial reporting. The quality of these audits, in turn, is significantly influenced by the attributes of the audit firms undertaking them. A substantial body of empirical research has delved into the intricate relationship between firm attributes and audit quality. DeAngelo (1981) pioneered this field by examining the correlation between audit firm size and audit quality. DeAngelo introduced the concept of auditor independence as a critical determinant of audit quality. He argued that larger audit firms, with greater resources and reputation, were more likely to be independent and thus provide higher quality audits. This research ignited discussions about the role of audit firm size in influencing audit outcomes.

Firm attributes like size, industry, ownership structure, and board characteristics significantly impact audit quality. Larger firms often attract higher-quality audits due to increased scrutiny. Daniel Jensen's work has often centered on the impact of corporate governance mechanisms,

including board structure and ownership concentration, on audit quality. His research has shown that stronger corporate governance can lead to higher audit quality by increasing the demand for independent and rigorous auditing. Watts and Zimmerman's work has been influential in developing positive accounting theory, which provides a framework for understanding how economic incentives and information asymmetry affect accounting choices and audit quality. Their research has highlighted the role of firm attributes, such as size, industry, and ownership structure, in shaping the demand for audit quality.

William R. Knechel and Jerold L. Zimmerman expanded on the foundational work of DeAngelo by examining how firm characteristics, such as size and industry, influence audit quality. Their research focused on the relationship between auditor switching and earnings management. They demonstrated that firm size and industry are significant factors in determining the likelihood of auditor switching. They argued that larger firms, operating in more complex industries, are more likely to switch auditors due to increased audit risk and the potential for conflicts of interest.

The concept of firm attributes as well as the quality of audit has really drawn the attention of several academic researchers all over the world. Literature on the quality of audit is increasing gradually as the time goes by (Asiriuwa, Aronmwan, Uwuigbe & Uwuigbe, 2018). The reason behind this may be as a result of the importance attached to it. The issue of audit quality is regarded by various interest groups in the company to be important (Babatolu & Aigienohuaw,

2016). In auditing profession, the quality of audit is regarded as one of the issue that is most important (Akhalumeh, Agweda & Ogunkua, 2017). Audit quality simply refers to the auditor's capability in discovering as well as reporting financial statement errors (Ndubuisi, Okeke & Chinyere, 2017). Audit quality "describes how well an audit detects and reports material misstatements (including intentional and unintentional errors) of financial statements, reduces information asymmetry between management and stockholders and help to protect the interests of stockholders" (Chen, Elder & Liu, 2005, p. 1). The quality of audit could be affected by a number of factors that can be noticed to be divided into the specifications of auditor and the attributes of auditing process (Hosseinniakani, Inacio & Mota, 2014). Audit firm attributes could have implications on audit quality. Audit firm attributes include auditor independence, audit firm rotation, audit fees, as well as audit tenure.

1.2 Statement of the research problem

This study seeks to know how does firm attributes impact the quality of audits performed on firms.Does the ownership structure of a firm, such as the proportion of shares held by institutional investors or the presence of controlling shareholders, influence the quality of audits and how does board characteristics affect the quality of audit.It seeks to fill in the gaps of various studies carried out by previous scholars and know how various factors of the firm like board size,firm profitability and board independence influence the quality of audit in an organisation.

Hence, this research work aims to bridge the gap in knowledge of the impact of firm attributes and audit quality which will help in improved decision making and reliability of an organisation's audited financial statement.

1.3 Research questions

1. What is relationship between firm size and audit quality?
2. How does firm age influence audit quality?
3. What is the relationship between firm leverage and audit quality?
4. How does firm profitability influence audit quality?
5. What is the relationship between firm liquidity and audit quality?

1.4 Research objectives

The broad objective of this study is to examine the impact of firm attributes on audit quality.

Specifically the study seeks to:

1. determine the relationship between firm size and audit quality
2. ascertain the relationship between firm age and audit quality
3. determine the relationship between firm leverage and audit quality
4. evaluate the relationship between firm profitability and audit quality
5. investigate the relationship between firm liquidity and audit quality

1.5 Hypothesis of the study

The hypothesis of the study in their null form is given as follows:

Ho1: There is no significant relationship between firm size and audit quality

Ho2 : There is no significant relationship between firm age and audit quality

Ho3: There is no significant relationship between firm leverage and audit quality

Ho4: There is no significant relationship between firm profitability and audit quality

Ho5: There is no significant relationship between firm liquidity and audit quality

1.6 Significance of the study

This research hope will contribute to the existing body of knowledge by examining the impact of firm attributes on audit quality.

This study will be useful and beneficial to the following stakeholders:

1. Shareholders:

High-quality audits ensure that the financial statements are accurate and reliable, providing shareholders with a clear picture of the company's financial health. By understanding the impact of firm attributes on audit quality, shareholders can assess the risk associated with investing in a particular company.

2. Investors:

By understanding the relationship between firm attributes and audit quality, investors can make more informed investment decisions. They can assess the reliability of financial information and identify firms with higher-quality audits. Investors can assess the risk associated with investing in a particular firm by considering its attributes and the potential impact on audit quality.

3. Creditors:

Creditors can use the findings of such a study to assess the creditworthiness of borrowers. A higher-quality audit can indicate a lower risk of default. Creditors can make more informed lending decisions by considering the firm's attributes and the potential impact on the reliability of its financial information.

4. Regulators:

Regulators can use the findings to develop effective regulations and standards that promote high-quality auditing. Regulators can target their oversight efforts on firms with specific attributes that may be associated with lower audit quality.

5. Auditors:

Auditors can use the findings to assess the risk associated with specific client engagements and allocate resources accordingly. Audit firms can use the findings to identify areas where they

can improve their audit quality, such as enhancing their audit procedures or investing in training and technology.

6. Management:

Management can use the findings to improve their corporate governance practices and ensure that the firm's financial reporting is accurate and reliable. Management can use the findings to communicate with investors and analysts about the firm's commitment to high-quality financial reporting.

1.7 Scope of the study

This study aims at examining the impact of firm attributes on audit quality. This research covers 12 companies in Nigeria such as 11plc, Amino international plc, Capital oil plc, Con oil plc, Etena plc, Adova plc(formerly Forte oil plc), Japaul oil and maritime services, Mrs oil Nigeria plc, Oando Nigeria plc, Rak unity petroleum company plc, Seplat petroleum development plc, Total Nigeria plc.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPTUAL REVIEW

2.1.1 AUDIT QUALITY

Audit quality is viewed as one of the most important issues in the audit activities (Kit, 2005) and is defined as probability that financial statements are fairly presented when an unqualified opinion is given (Simunic, 2003). Audit quality is defined as the probability that an auditor detects and reports material misstatements in the accounting system of an auditee (DeAngelo, 1981).The user of financial reports may believe that high audit quality means the absence of material misstatements. The auditor conducting the audit may define high audit quality as satisfactorily completing all tasks required by the firm's audit methodology. Chan & Wong (2002)note that audit quality, though unobservable, impacts the probability of successful detection of discrepancies between the firms' favourable report and the true quality of the project. There is a belief of users about the quality of an audit. This expectation can be broken into the actual quality and the perceived quality. Both actual quality and perceived quality have been argued as important issues in audit quality definition. Actual audit quality can be considered as the probability of reducing the risk of reporting a material misstatement in the financial statement (Palmrose, 1988). While perceived quality is the belief of financial statement users about auditor's ability to reduce the material misstatements. In this situation, greater perceived audit quality can result in investment process improvement in audited clients. Jackson, Moldrich,

& Roebuck (2007) posit that true audit quality is when the audit does not result in a type I error (a failing company being given an unqualified report) or a type II error (a non-failing company being given a qualified report). Audit quality is the production of accurate and reliable financial statements (Dresdner & Fischer, 2020).

. Audit quality is a goal-oriented audit activity and it is about the perception of users as well (Almutairi, Dunn & Skantz, 2009). For example, audit quality is achieved when a certain audit activity is carried out in accordance with Generally Accepted Auditing Standards (GAAS)1 to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in accordance with Generally Accepted Accounting Principles and (2) are not materially misstated whether due to errors or fraud‖ (Government Accountability Office, 2003, p. 13). Additionally, personal qualities should also be maintained, including, independence, impartiality, professional demeanor and other related traits (Mednick, 1990). Financial Reporting Council (2006b) considers five factors that influence audit quality to includes: audit firm culture, skills and personal qualities of audit partners and staff, the effectiveness of the audit process, and the reliability and usefulness of audit reporting, amongst factor that are exogenous to the auditors. Earlier studies used observable outcomes as proxies for audit quality this includes; audit opinions, auditors' selection and change, decisions, financial statements outcomes and analysts forecast. Francis (2004) reviewed 25 years of empirical researches and found that difference exists in the audit quality which can be concluded by examining different auditors. Moizer (1998) examines

the issue of audit quality from a behavourial perspective, typically identifying attributes that are perceived by financial statement preparers, auditors and users that are related to audit quality. He found out that the big audit firms provide quality service.

Titman and Trueman (1986) see audit quality as the accuracy of the information reported by auditors. The purpose of an audit, according to Akhalumeh, Agweda and Ogunkua (2017) is to make sure that assurance are provided on financial statements and the quality of the audit is therefore the degree of the promise that material misstatements are not found in such financial statements. The quality of audit is examined by the ability of the auditor to ascertain the standards of accounting breaches as well as their incentives for such breaches to be reported. That is to say that the quality of audit is a product of the competence of auditor as well as independence. Akhalumeh, et al., (2017) stated in their study that the quality of audit is considered to be one of the issues that are most vital of the auditing profession. The audit exercise ability is to find out material error as well as fraud that lead to those material misstatements of various financial statements and where such exist is what is considered to be audit quality. Audit quality definition, according to Davidson and Neu (1993), is said to be found on the ability of the auditor to find out and ensure material misstatements are eliminated as well as the manipulations that result in reported net income.

Nyaboke and Omwenga (2016) sees audit quality in two ways: to start with, finding out misstatements and financial statement errors, secondly, ensuring that misstatements of these

material and errors are reported. De Angelo (1981, P.186) in his view sees “audit quality as the market assessed joint probability that a given auditor will both discover a breach in a client’s accounting system, and report the breach”. DeAngelo definition captures attribute critically to the role played by auditors in financial statement preparation. According to Hennes, Leone and Miller (2012), auditors are likely to be changed by various corporations with the reputation for financial reporting that is credible when their quality of audit is questioned in other to avoid the consequences of capital market of unreliable financial reporting. Suyono (2012) explained in his study that the quality of an audit simultaneously depends on the characteristics of a number of audit firms such as auditor experience, auditor independence and auditor accountability. The quality of audit was also measured by using peer review result (Colbert & Murray, 1998).

INDICATORS OF AUDIT QUALITY

Audit quality indicators highlight how they are important for pointing out the significance of audit quality. Professional skepticism, professional expertise, and professional experience are three major inputs indicating three features of audit quality inputs. Here, professional skepticism remains an important element as an auditor is required to apply this judgmental tool while collecting audit evidence. Similarly, professional experience and professional expertise collectively reflect how an auditor must possess them and apply them for obtaining audit evidence to satisfy their audit objectives. Additionally, the processes include risk assessment and the quality of audit evidence as both collectively and individually indicate how they are relevant

and required for collecting an audit procedure. At the same time, they also point out how they are associated to audit quality as well.

1. Inputs

Professional skepticism is highly correlated with audit quality (Chen et al., 2009). Professional skepticism can be simply defined as a way not to accept the perspective of client and their related documents; instead, putting one's professional judgment to evaluate and understand the hidden truth behind any suspicious transactions and activities as well (Johnson, 2016). For example, if an auditor conducts an audit process by implementing more audit procedures and surplus audit activities for identifying material misstatements and violations, this would generate additional and reliable audit evidence that would increase audit quality (Hurtt et al., 2008; Bernardi, 1994,; Shaub and Lawrence, 1996). At the same time, if the same auditor is easily willing to understand and accept the perspective of clients and their provided audit evidence, this would not be helpful in detecting fraud and material misstatement as the attitude of the auditor is not professional enough to unearth all those factors and audit evidence sufficient enough to detect material deviations and misstatements as well.

Professional expertise is another important input element affecting audit quality (Mednick, 1990). Before joining an audit firm, a perspective auditor is required to pass various technical examinations and other tests essential to test and improve the audit-related technical competency and professional level. Professional experience is another valuable input element essential for

improving audit quality (Saha and Roy, 2017). after obtaining an audit-related qualification, an auditor is required to conduct various audit engagements where he applies all of his theoretical and conceptual frameworks for understanding and evaluating the performance of internal controls and other risk-related transactions and activities as well.

2. Processes

Risk assessment is highly correlated to audit quality (Beasley, Clune, & Hermanson, 2005). Fundamentally, risk assessment consists of three broad activities: Identification, analysis and management of risk (Knapp, 1991). In the first process, it is the prime responsibility of an auditor to detect and identify risk and its presence (O'Donnell and Schultz, 2003). For example, if an auditor observes that their client is not using close-circuit cameras for monitoring the activities of their warehouse staff workers; this situation could increase the risk of theft and other similar operational risk-related challenges for the client. After detecting this major system failure risk, it becomes the responsibility of the auditor to mention this risk in their report. At the same time, the auditor must analyze this risk and figure out its various ramifications for the client and their business activities (Pincus, 1989; Peecher and Piercey, 2008). Without highlighting and mentioning the potential issues that could be caused by the absence of close-circuit cameras in the warehouse, it would be very difficult for the auditor to justify their perspective and its importance. Subsequently, the auditor must suggest certain recommendations for managing the risk. For instance, the auditor could recommend installing close-circuit cameras at the crucial

positions inside the warehouse. At the same time, 24 hour monitoring of the warehouse would be essential for detecting any theft activity and other suspicious communications between the warehouse workers.

The quality of audit evidence also affects audit quality (Enofe, Mgbame, Efayena, & Edegware, 2014). Auditors always want to see whether systems and risk management procedures are strong enough to prevent, detect, and control any risk from affecting the performance of client's system. In other words, auditors are not hired to only try to find system failures so as to improve their public image and performance in the industry, but they are hired to evaluate whether their client's system is fully complying with their local and international regulatory regimes and their specific and general requirements as well. As a result, to prove and validate their perspective, auditors are required to substantiate their perspective through the support of audit evidence (Johnstone, Gramling, & Ritenberg, 2013).

3. Outcomes

Audit report remains an important source for audit quality (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013). After conducting various audit engagements and audit procedures, an auditor develops an audit report in which various elements, risks, going concern concept, strategic accounting and other policies are taken into account. Subsequently, the auditor expresses their opinion on highly risky transactions and policies and on overall outlook of the financial statements. If the auditor has found material deviations and misstatements, this would

force the auditor to give a qualified audit opinion relating to the financial statements. In contrast, if the auditor is unable to detect any significant and material misstatements during their audit procedure, this would convince them to issue an unqualified audit opinion for their client's financial statements. However, in case of certain minor or some major irregularities are found, the auditor is legally mandated to give a qualified audit opinion but he has to restrict the scope of the qualified audit opinion so as to ensure the integrity of the overall financial statements and their individual segments as well (Peecher and Piercey, 2008). However, auditor's report is of little value as it does not satisfy the expectations of all users (Church et al., 2008). Here, the perspective of Church et al., (2008) is worth elucidating. For example, there are various users who find it difficult to understand each and every part of an audit report because they lack accounting and auditing understanding of basic terms and their practical applications. Under this situation, it becomes very difficult, especially for new investors, who plan to enter into the field of investment. At the same time, the quality of an audit report becomes unimportant as it fails to fill ―information gap‖ (Mock et al., 2013)

2.1.2 Concept of Firm Attributes

Firm's attributes are the specific features that define and differentiate an individual firm in terms of the uniqueness of its resources being utilized in its operations from other corporate entities. These attributes include: firm age, firm size and leverage (Kwaltommai, Enemali, Duna & Ahmed, 2019). This implies that firms' attributes are those unique individualities that set a business firm apart from its peers which relatively are the strategic drivers of the firm's decision-

making processes and performance parameters both endogenously and exogenously. But Farouk, Magaji and Egga (2019) differently viewed firms' attributes as structural elements that may either be controllable or uncontrollable factors, which may be internal or external to the company's strategic decision. Such structural attributes include size, leverage and age. In the opinion of Schmalensee (1985), firms' attributes are firm's differentiating factors within an industry that determines the firm's business units across the specific industry (Rumelt, 1991). This implies that firms' attributes are business specific attributes that drive corporate income generation. According to Irom, Joshua, Ahmed and Emmanuel (2018), firms' attributes are the specific firm factors that either negatively or positively affect the operations of a firm. Such attributes include: leverage, market share, liquidity, firm age, firm size, capital and dividend. And similarly, Siyanbola, Sanyaolu, Ogbebor and Adegbie (2020) viewed firms' attributes as those attributes that are typical to a business firm, which include: profitability,size and age.

Firms' attributes are identified internal structure, unique strategies and distinctive

profiles of organizations, which are resource-based, that affect the performance and success of the business firm (Oluwatayo, Amole & Alagbe, 2019). Hence, firms' unique attributes are important dynamics or elements that are used to influence firms' level of profitability and going concern. It deals with qualitative nature of firms' performance, but which are measured with the use of quantitative metrics. Firm attributes therefore, refer to the various information reported by firms in their financial statements for a particular accounting period which can send a message to

various stakeholders of firms about their performance (Abdullahi, 2016). They are also referred to as those incentive variables that are relatively sticky at firms' level across time which affect the firm's internal and external decisions (Shehu & Ahmad, 2013). They are seen as factors that are mostly under the direct control of management and often account for the inter-firm differences in financial performance (Kazeem, 2015). They are those distinctive features peculiar to companies by which they can be identified and can be viewed from different perspectives. These attributes are reported by firms in their financial statements and send a message to various stakeholders of firms about their performance (Abdullahi, 2016).

Firm attributes can be categorized into market related (firm size, audit firm status and industry type), performance (profit margin, return on equity and liquidity), ownership (high spread ownership and low spread ownership) and structure (gearing) attributes (Naser, Al-Khatib, & Karbhari, 2002). They could also be categorized into firm structure (firm size and leverage), performance (profitability, liquidity and growth) and monitoring (board compo- sition and institutional shareholding) attributes (Shehu, 2012 and Shehu & Ahmad, 2013). Kazeem (2015), however, categorizes firm attributes into financial (firm size, growth, risk, liquidity, tangibility and leverage) and non-financial (firm age, management competencies and scope of operation) attributes.

Firm attributes are also viewed differently by various researchers. For instance, Uwubanmwen, A. and Obayagbona (2012) view them as Company Fundamentals and looked at

Lever- age, size, price-earnings ratio and book-to-market value.Adedoyin (2011), Kaguri (2013), and Abdullahi (2016), view them as firm characteristics. Adedoyin (2011), looked at growth, profit, risk, age and size, while Kaguri looked at size, diversification, leverage, liquidity, age, premium growth and claim experience. Abdullahi (2016), on the other hand looked at size, leverage, liquidity, operating expenses, and managerial shareholding. Similarly, Rabiu (2019) in a study on firm attributes and share prices view firm attributes as profitability, growth, leverage, firm size, board size, board gender, audit committee com- position, audit committee meeting, managerial and institutional share ownership. Chukwu, Damieibi and Okoye (2019) in their study view firm attributes as firm size, leverage and profitability . Ifada, Faisal, Ghozali and Udin (2019) view company attributes as dividend Policy, Ownership Concentration, liquidity, capital structure and profitability. Jeroh (2020) however view them as Corporate financial attributes and looked at Return on Assets, Revenue Growth, Earnings Per Share, Capital Structure, Asset Tangibility and Firm Size.

Firm attributes are among the areas that receive considerable attention in terms of research among scholars in recent times. Therefore, this study contributes to the growing body of literature on firm attributes. The review reveals that firm attributes are defined differently by various scholars, but the common feature of their definition is that firm attributes are those distinctive features peculiar to companies by which they can be identified and may include profitability, growth, risk, liquidity, size, leverage, age, diversification, location, management

competence, tangibility, board size, composition, meetings, age, gender, audit committee size, meetings, fi- nancial literacy, composition, managerial, institutional, foreign, concentrated, block and fam- ily share ownership among others.

Categories of Firm Attributes

Firm attributes are the specific characteristics that define a company and influence its performance. These attributes are?

1. Size:

This refers to the scale of a company, often measured by its total assets, market capitalization, or revenue. As firms grow larger, they can achieve lower average costs per unit of output. This concept is well-established in economic theory and has been extensively studied by scholars like Adam Smith and Alfred Marshall. Larger firms may have greater market power, allowing them to influence prices and industry standards. This is a key concept in industrial organization economics, as explored by scholars such as Michael Porter. Larger firms typically have easier access to capital markets, allowing them to invest in growth and innovation. This is supported by research in corporate finance, such as the work of Jensen and Meckling (1976).

2. Leverage:

This refers to the extent to which a company uses debt financing to fund its operations.

The optimal capital structure is a balance of debt and equity financing. This theory, pioneered by Modigliani and Miller (1958), suggests that capital structure decisions can impact a firm's cost of capital and valuation. High leverage can increase agency costs, as managers may be tempted to take on excessive risk to boost short-term performance. This is a key concern in corporate finance and has been studied by scholars such as Jensen and Meckling (1976).

3. Profitability:

This refers to a company's ability to generate profits. Profitability is a key indicator of a company's financial health and its ability to create value for shareholders. Profitable companies tend to attract investors and command higher valuations. Profitable companies can reinvest profits to fund growth and innovation.

4. Efficiency:

This refers to a company's ability to use its resources effectively. Efficiency can give a company a competitive advantage, allowing it to offer lower prices or higher quality products. Efficient companies can reduce costs and improve profitability.

5. Growth:

The rate at which a company's revenue, earnings, or market share is increasing. High growth rates often indicate strong future prospects. It can require significant investment, which may strain a company's resources. Mateev and Anastasov (2010) have found that an enterprise's

growth is related to size as well as other specific characteristics like financial structure and productivity.

2.2 Review of Empirical Literature

2.2.1 Firm size and Audit Quality

Larger boards may have more diverse perspectives and expertise, leading to more rigorous oversight of financial reporting and internal controls. This can improve the accuracy and reliability of financial information. DeAngelo (1981) found that auditors with more clients have more to lose by failing to report a discovered breach in a particular client's records when incumbent auditors earn client-specific quasi-rents. Since then many researchers support this conclusion (Teoh& Wong, 1993, Francis &Krishman, 1999, Reynolds & Francis, 2000). Bae and Lee (2013) concluded that board size is positively associated with audit quality measured by discretionary accruals and modified opinions. A larger board may have more resources and experience to evaluate complex financial issues. This can lead to better-informed decisions and a reduced risk of errors or omissions. Al-Najjar (2018) argues that larger boards are more likely to have diverse perspectives and expertise, leading to more rigorous oversight of financial reporting and internal controls. This, in turn, can improve the accuracy and reliability of financial information.

Khundhair et al. (2019) supports the notion that larger boards can enhance monitoring effectiveness and reduce agency costs. A larger board can provide more diverse perspectives,

leading to better decision-making and oversight of management. Mustafa et al. (2018) had a different view from the others. He suggests that larger boards may experience communication difficulties and coordination challenges, which can hinder effective decision-making and oversight. Additionally, larger boards may suffer from a free-rider problem, where some directors may not contribute as much to the board's work. Usman et al. (2018) and Saidu & Aifuwa (2020) highlight the importance of other factors, such as board independence and CEO power, in determining the impact of board size on audit quality. They suggest that the relationship between board size and audit quality may be contingent on these other factors. While the exact nature of the relationship between board size and audit quality is still debated, it is clear that board size is an important factor to consider.

2.2.2 Firm Profitability and Audit Quality

Profitable firms may be less likely to exert undue pressure on their auditors to issue favorable audit opinions. This is because they have a lower risk of financial distress and are less reliant on external financing. Researchers like DeFond and Zhang (2001) have argued that more profitable firms can allocate greater resources to their audit process. This includes hiring more experienced auditors, investing in advanced audit technologies, and spending more time on each audit engagement. Studies by Francis and Yu (1998) suggest that profitable firms may be less likely to exert undue pressure on their auditors to issue favorable audit opinions. This is because they have a lower risk of financial distress and are less reliant on external financing. Francis and Yu (1998) have found that more profitable firms may be able to attract and retain top-tier

auditors, who are more likely to conduct high-quality audits. This is because they can offer higher compensation packages and more attractive career opportunities. Khanna and Rajan (1994) have argued that highly profitable firms may be more attractive clients for auditors. This can lead to a conflict of interest, as auditors may be tempted to issue favorable audit opinions to retain the client.

Watts and Zimmerman (1978) have suggested that more profitable firms may have more complex financial transactions and operations. This can increase the risk of errors and omissions in the financial statements, making it more difficult for auditors to detect and correct them. Many studies have found a positive association between firm profitability and audit quality. This is consistent with the argument that more profitable firms can afford to invest in higher-quality audits. DeFond and Zhang (2001) have found that auditors may be less likely to scrutinize the financial statements of highly profitable firms, as they may assume that these firms are less likely to engage in fraudulent or misleading accounting practices. More profitable firms may be able to attract and retain top-tier auditors, who are more likely to conduct high-quality audits. This is because they can offer higher compensation packages and more attractive career opportunities.

2.2.3 Firm Age and Audit Quality

Older firms generally possess a wealth of accumulated experience. This experience can translate to a deeper understanding of industry-specific risks, accounting complexities, and effective audit methodologies. Long-established firms have had more opportunities to refine their audit processes and develop robust quality control mechanisms. Older, well-established firms often have a strong reputation to uphold. This reputation serves as a powerful incentive to maintain high audit quality, as any lapses could severely damage their standing. A strong brand can attract and retain top talent, further contributing to audit quality. Older firms typically have more extensive resources, including advanced technology, specialized training programs, and comprehensive audit manuals. These resources can enhance the effectiveness and efficiency of audits. Older firms may become resistant to change and innovation. This rigidity can hinder their ability to adapt to evolving accounting standards, technological advancements, and emerging risks. Established routines and practices may become outdated, leading to a decline in audit quality.

Over time, auditors in older firms may become overly familiar with their clients, potentially leading to complacency and a reduction in professional skepticism. This familiarity can impair their ability to identify and assess potential misstatements. Older firms

may be slow to adapt to new audit technologies, and audit methodologies. This can cause a decrease in audit quality, when compared to firms that are utilizing the newest most effective technologies.

2.2.4 Firm Leverage and Audit Quality

Firm leverage, the use of debt financing to increase a company's return on equity, can have a significant impact on audit quality. While higher leverage can increase the potential for financial distress and earnings manipulation, it can also lead to increased scrutiny and higher-quality audits as auditors may be more likely to conduct thorough reviews of the financial statements. DeFond and Zhang (2001): These researchers found that highly leveraged firms are more likely to be audited by larger, more prestigious audit firms. This suggests that investors and creditors may demand higher-quality audits for firms with higher levels of debt. Core, Holthausen, and Leftwich (1999) found that higher levels of leverage are associated with lower-quality financial reporting. However, they also found that the negative impact of leverage can be mitigated by strong corporate governance mechanisms, such as independent boards and active audit committees.

The impact of financial leverage on audit quality is complex and depends on a variety of factors. While higher leverage can increase the risk of financial distress and earnings manipulation, it can also lead to increased scrutiny and higher-quality audits. To mitigate the

negative impacts of leverage, it is important for firms to maintain strong corporate governance practices, including independent boards and active audit committees.

2.2.5 Firm Liquidity and Audit Quality

When a firm struggles with liquidity, management may feel pressured to inflate earnings or delay recognizing losses to present a healthier financial picture. This creates a higher risk of material misstatements, requiring auditors to increase their scrutiny. Liquidity issues can force firms to cut costs, potentially weakening internal controls. This increases the likelihood of errors or fraud going undetected. Auditors must assess the effectiveness of internal controls and adjust their audit procedures accordingly.

2.3 Review of Theories

2.3.1 Stakeholder Theory

Edward Freeman proposed Stakeholder's theory in 1984 against the backdrop of the Agency theory. Freeman (1984) used this theory to explain the organization's tripartite relationship – between the agents (employees and the board of directors), the principals (owners), and the stakeholders (creditors, suppliers, government, customers and so on). The stakeholder theory also addresses the role of morals and values in organizational management. This theory is pertinent to our current research because it emphasizes the importance of considering the interests of all stakeholders, including shareholders, creditors, employees, customers, and the community. A firm's financial attributes, such as size and leverage, can impact its ability to meet the needs of its stakeholders. For instance, highly leveraged firms may be more focused on short-

term financial performance, which could lead to increased risk-taking and potential compromises in audit quality.

2.3.2 Agency Theory

Jensen and Meckling proposed this theory in 1976, and it has since become a widely used theory in the fields of management and social sciences (Ezelibe et al., 2017). This theory explains the separation of ownership and management in an organization, as well as the relationship that exists between them. The theory notes that in the presence of information asymmetry, the agent is more likely to pursue his personal interests, which may be detrimental to the organization's owners (Sanda, Mikailu, & Garba, 2005). Ezelibe et al. (2017) stated that the central philosophical tenet of this theory is that parties who enter into an agency agreement will act in their own self-interest and also have the right and freedom to enter into other agreements. Agency theory is relevant to our study because it emphasizes the potential conflict of interest between managers and shareholders. It suggests that larger boards with diverse expertise can enhance monitoring and reduce agency costs, leading to improved audit quality. A larger board can provide more effective oversight of management's decisions and actions, reducing the risk of fraudulent or misleading financial reporting.

2.3.3 Institutional Theory

The New Institutional Theory emerged in the 1970s and 1980s, with key contributions from sociologists like John Meyer, Brian Rowan, Paul DiMaggio, and Walter Powell. Their work challenged traditional rational-choice explanations of organizational behavior, arguing that organizations are often influenced by broader social and cultural forces. This new institutionalism emphasizes the importance of Isomorphism, legitimacy and cognitive structures. Institutional theory is relevant to our study because it suggests that organizations are influenced by institutional pressures, such as industry norms and regulatory requirements. For instance, firms in highly regulated industries may be subject to more stringent audit requirements, leading to higher audit quality. Additionally, institutional pressures can influence a firm's choice of auditor and the quality of the audit services provided.

2.3.4 Signaling Theory

This theory was primarily developed by Michael Spence in the early 1970s. His seminal work, "Job Market Signaling," introduced the concept of how individuals with private information (like their ability or productivity) can signal their qualities to others through observable actions. Signaling theory is relevant to our study because it suggests that firms can use various signals to convey information to external stakeholders. For instance, a firm's choice of auditor can signal its commitment to high-quality financial reporting. A highly regarded audit

firm can enhance a company's reputation and attract investors, leading to a positive impact on its financial performance.

2.3.5 Review Based Theory

The Resource-Based View (RBV) emerged as a significant theoretical framework in strategic management in the 1980s and 1990s. While it draws on earlier economic and organizational theories, its modern formulation can be attributed to several key scholars. Edith Penrose in her 1959 book, "The Theory of the Growth of the Firm," laid the foundation for the RBV by emphasizing the role of firm-specific resources and capabilities in driving growth and performance. Jay Barney's 1991 article, "Firm Resources and Sustained Competitive Advantage," is often cited as a seminal work in the development of the RBV. He introduced the VRIO framework, which suggests that resources must be valuable, rare, inimitable, and non-substitutable to provide a sustainable competitive advantage. Birger Wernerfelt's work on resource-based perspectives of strategy contributed to the development of the RBV by emphasizing the role of firm-specific resources and capabilities in creating competitive advantage. Resource based view theory is relevant to our study because RBV suggests that a firm's competitive advantage stems from its unique bundle of resources and capabilities. Firm attributes, such as size, innovation, and quality, can contribute to a firm's competitive advantage. A firm with strong financial resources and a reputation for high-quality financial reporting may attract higher-quality auditors, leading to improved audit quality.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In this chapter the research design, sources of data, the theoretical framework and model specification will be presented. Also the operationalization of variables, estimation techniques including preliminary tests will be highlighted.

3.2 Research Design

The research adopted a quantitative approach to analyze the impact of firm attribute on audit quality. The longitudinal research design will be employed in this study due to the fact that panel data will be used for the study. This design allows you to examine data collected over multiple periods for the same subjects (e.g., individuals, organizations, countries, etc.), enabling the study of changes over time and the effects of specific variables

3.3 Population of the Study

The population of this study is based on companies quoted on Nigerian exchange group. However, the target population will be made up of all thirteen deposit money banks that are currently quoted on the Nigeria exchange group for a period of six years ranging from 2018-2023. The period 2018–2023 is chosen for this study to ensure the analysis is based on recent and relevant data, reflecting current trends and practices within the banking industry. This timeframe captures significant economic and regulatory changes, such as adjustments in monetary policies,

and the impact of the COVID-19 pandemic, which may influence corporate governance practices. Furthermore, it ensures the availability of reliable financial data from audited reports, enabling a comprehensive assessment of the targeted companies within this critical period.

3.3.1 Sample Size

The sample size for this study will be based on a census of the entire thirteen deposit money banks that are currently quoted on the Nigeria exchange group for a period of six years ranging from 2018-2023. This sampling method was adopted due to the fact that the population is quite small and it achievable to study the entire target population.

3.4 Sources of Data

Secondary data will be obtained for this study from the annual report and accounts specifically the preliminary pages and financial statements for the thirteen (13) companies for the six-year period ranging from 2018 to 2023.

3.5 Model Specification

The relationship amongst the variables can be represented in a schema of this form:

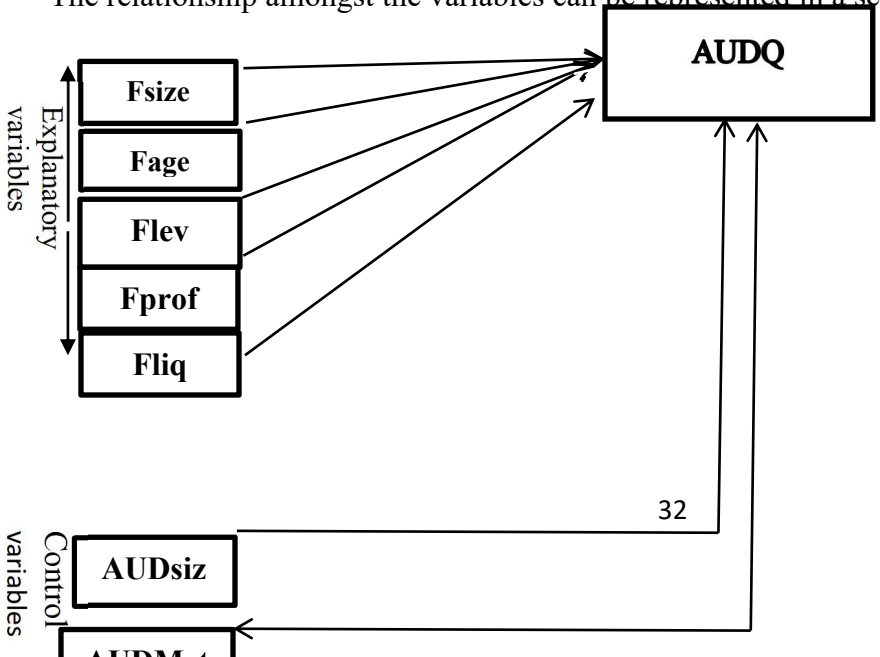

Fig 3.1: Schematic Model of Nexus between taxation and Economic development

Source: *Author's Construction, 2024*

The model is stated in its functional form as given below

AUDQ=F(Fsize, FAGE, FLEV,FPROF,AUDSIZ,AUDMET)…….(1)

Where:

AUDQ= Audit quality

FSIZE = Firm size

FAGE = Firm age

FLEV= Firm leverage

FPROF = Firm profitability

FPROF = Firm Liquidity

AUDS= Audit size

AUDMET= Audit frequency of Meeting

Transforming equation 1 into econometric form and considering the panel nature of the data as subscript we have;

$AUDQ = \beta 0 + \beta 1FSIZE_{it} + \beta 2FAGE_{it} + \beta 3FLEV_{it} + \beta 4FPROF_{t} + \beta 5FLIQ_{it} + \mu_{t}$ ……(2)

To proceed, the study integrates the usual control variable of audit size, and audit meeting. These variables are introduced because of the theory and assumption that successful corporate governance practices impact a company's internal control systems and fraud detection mechanisms. A statutory audit size which is made of three (3) members from shareholders and three members from management making up six in total is seen to increase variety of experience and oversight ability, whilst frequent audit meetings are linked to greater monitoring and decision-making, both of which can boost governance and minimise the risk of fraudulent acts. Thus, the econometric model becomes;

$AUDQ = \beta 0 + \beta 1FSIZE_{it} + \beta 2FAGE_{it} + \beta 3FLEV_{it} + \beta 4FPROF_{t} + \beta 5FLIQ + \beta 4AUDSIZ_{it} + AUDMET + \mu_{t}$ ……(3)

Where;

β_0 = The mean or intercept term

β1- β5 = Unknown coefficient of the independent variables

it = cross section and time covered by the study (2018 – 2023)

U= The error term or stochastic variable.

Based on theory and extant literature, the *a priori* expectation of the signs of the coefficients of the independent variables is given as; $\beta_1 \gtrless 0; \beta_2 \gtrless 0;$.

3.7 Operationalization of Variables

S/N	VARIABLE	VARIABLE TYPE	MEASUREMENT	Source of information
1	Audit Quality	dependent	Using dummy variable 1 for Big four audit firms and 0 for non-big four audit firm	Lawrence et al.(2010)
2	Firm size	independent	Measure as the log of total asset	Tamara et al.(2020)
3	Firm age	Independent	Measure based on the year of incorporation	Akben-Selcuk,2016)
4	Firm Profitability (FP)	Independent	A measure of a firm's financial performance, indicating how efficiently a company is generating profit. Measurement: Commonly measured using Return on Assets (ROA).	Ibrahim and Hanefah(2022)
5	Firm Leverage (FL)	Independent	The degree to which a company uses borrowed funds to finance its operations. Measurement: Typically measured using the debt-to-equity ratio, which is the total debt divided by shareholders' equity.	Peters and Romi(2014)
6	Firm	Independent	This is measured as	Blahova

	Liquidity		current asset divided current liability	(2012)
6	Audit Meeting (AUDMET)	Control	The frequency of meeting by the auditors which is measured as the number of time that auditors of the company's in a year meet in a year	Hittin et al(2006)
7	**AUDII Size (AUDSIZ)**	Control	The total number of auditors on the company's board Measurement: Audit size is measured as the total number of auditors on the board which is made of three (3) members from shareholders and three members from management making up six in total, as disclosed in the company's annual reports.	Meniqoui et al (2016)

Source: *Author's compilation* (2025)

3.8 Data Estimation Technique

3.9 Data Estimation Techniques

Data analysis will be conducted with descriptive statistics and inferential statistics. The descriptive statistics such as mean and standard deviation will be used to depict trends and relations among variables. The Pearson correlation will be used to test the correlation level

between dependent and independent variable. The inferential statistics will make use of the probit model due to the dichotomous nature of the dependent variable.

3.8.1 Diagnostic Tests

Probit regression models require diagnostic tests to ensure the validity and reliability of the results. Some key diagnostic tests include:

Variance Inflation Factor (VIF)

This test quantifies the severity of multicollinearity in an ordinary least squares. It is used to describe how much multicollinearity exists in a regression analysis.

Goodness-of-Fit Test:

Perform tests like the Hosmer-Lemes how test to assess how well the model fits the data. This test compares observed outcomes with predicted probabilities to ensure the model captures the underlying patterns

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter presents the analysis and interpretation of the research findings based on the data collected. The objective is to evaluate the relationship between firm attributes and audit quality, as outlined in the study's hypotheses. The analysis includes descriptive statistics, correlation analysis, and regression results to determine the nature and significance of the relationships among the variables.

The chapter begins with a summary of the descriptive statistics, providing an overview of the dataset, including measures such as mean, median, standard deviation, skewness, and kurtosis. This is followed by correlation analysis, which examines the strength and direction of relationships between audit quality and firm attributes. Additionally, regression analysis is conducted to test the hypotheses and assess the predictive power of the independent variables on audit quality. Confidence intervals for the regression coefficients are also evaluated to determine the reliability of the estimated effects.

The results are discussed in relation to existing literature, highlighting areas of alignment or divergence with previous studies. The chapter concludes with key insights derived from the analysis, forming the basis for discussions in subsequent chapters.

Firm attributes and audit quality

	AUDQ	FSIZE	FAGE	PROF	LIQ	LEV	AUDSIZE	AUDMET
Mean	0.948718	7.220365	43.11538	0.033106	1.179012	1.349545	5.230769	5.743590
Median	1.000000	6.923534	33.50000	0.013917	0.571725	0.892305	5.000000	6.000000
Maximum	1.000000	9.986380	129.0000	0.283007	11.65149	20.32676	7.000000	8.000000
Minimum	0.000000	0.000000	1.000000	0.000000	0.000000	0.000000	3.000000	1.000000
Std. Dev.	0.222000	1.735145	32.25667	0.054346	1.821909	2.990333	0.881602	1.790566
Skewness	-4.068667	-1.488360	1.186908	3.175437	3.570230	5.048289	-0.465280	-0.689402
Kurtosis	17.55405	8.658854	4.014762	12.90385	18.25251	28.45390	1.985534	3.347685
Jarque-Bera	903.6193	132.8713	21.66044	449.8647	921.7823	2436.986	6.159018	6.571453
Probability	0.000000	0.000000	0.000020	0.000000	0.000000	0.000000	0.045982	0.037413

Source: Researchers Compilation,2025

The descriptive statistics table presents insights into firm attributes and audit quality (AUDQ) based on a sample of 78 firms. The mean value of AUDQ is 0.9487, with a median of 1.000, indicating that the majority of firms exhibit high audit quality. However, the distribution is highly negatively skewed (-4.0687), meaning most firms have an AUDQ value of 1, with a few having lower values. The Jarque-Bera test yields a p-value of 0.0000, confirming that the distribution is non-normal.

Firm size (FSIZE) has a mean value of 7.22 and a median of 6.92, with a maximum of 9.99 and a minimum of 0. The negative skewness (-1.4884) suggests that the majority of firms are on the smaller side, with a few large firms pulling the average upwards. The high kurtosis (8.6589) further indicates the presence of extreme values. Similarly, firm age (FAGE) varies significantly

across firms, with an average age of 43 years but a standard deviation of 32.26, suggesting considerable heterogeneity in firm maturity.

Profitability (PROF) has a mean of 0.0331, indicating that, on average, firms have a low profit margin. However, the distribution is highly positively skewed (3.1754), meaning a few firms have significantly higher profitability than the rest. Liquidity (LIQ) and leverage (LEV) also exhibit extreme variations, with high skewness and kurtosis values, reflecting the presence of outliers in the dataset. The high Jarque-Bera test statistics for these variables confirm non-normality.

Audit firm size (AUDSIZE) and audit methodology (AUDMET) appear to be more stable, with lower skewness and standard deviations. The median audit firm size is 5, suggesting that most firms engage medium-sized audit firms, while AUDMET has a median of 6, indicating the use of relatively standardized audit methodologies. However, AUDMET's minimum value of 1 suggests that some firms employ significantly less rigorous audit meetings.

Covariance Analysis: Ordinary
Date: 01/07/25 Time: 10:19
Sample: 2018 2023
Included observations: 78

Correlation Probability Observations	AUDQ	FSIZE	FAGE	PROF	LIQ	LEV	AUDSIZE	AUDMET
AUDQ	1.000000 ----- 78							
FSIZE	-0.073921 0.5201 78	1.000000 ----- 78						
FAGE	0.115093 0.3157 78	0.038585 0.7373 78	1.000000 ----- 78					
PROF	-0.081519 0.4780 78	-0.051293 0.6556 78	-0.026044 0.8209 78	1.000000 ----- 78				
LIQ	0.079484 0.4891 78	0.209517 0.0656 78	-0.026649 0.8168 78	0.026013 0.8211 78	1.000000 ----- 78			
LEV	-0.270752 0.0165 78	-0.081289 0.4792 78	-0.149952 0.1901 78	0.376970 0.0007 78	-0.047320 0.6808 78	1.000000 ----- 78		
AUDSIZE	0.193965 0.0888 78	0.099905 0.3842 78	0.358006 0.0013 78	-0.012429 0.9140 78	-0.011256 0.9221 78	-0.214473 0.0593 78	1.000000 ----- 78	
AUDMET	-0.000838	-0.319167	0.002767	-1.94E-05	-0.261791	-0.041012	-0.044300	1.000000

	0.9942	0.0044	0.9808	0.9999	0.0206	0.7215	0.7002	-----
	78	78	78	78	78	78	78	78

Source: Reseachers compilation

The covariance analysis provides insights into the relationships between audit quality (AUDQ) and various firm attributes. The correlation coefficients indicate the strength and direction of these relationships, while the probability values show their statistical significance.

Audit quality (AUDQ) has a weak and statistically insignificant relationship with most firm attributes. Firm size (FSIZE) has a small negative correlation with AUDQ (-0.0739, p = 0.5201), suggesting that larger firms do not necessarily have higher audit quality. Similarly, firm age (FAGE) has a weak positive correlation with AUDQ (0.1151, p = 0.3157), implying that older firms tend to have slightly better audit quality, though this relationship is not significant. Profitability (PROF) is weakly and negatively correlated with AUDQ (-0.0815, p = 0.4780), indicating that more profitable firms do not necessarily have higher audit quality. Liquidity (LIQ) has a small positive correlation (0.0795, p = 0.4891), while leverage (LEV) has a moderate negative correlation (-0.2708, p = 0.0165), which is statistically significant. This suggests that firms with higher debt levels may experience lower audit quality, possibly due to financial constraints.

Audit firm size (AUDSIZE) has a positive but weak correlation with AUDQ (0.1940, p = 0.0888), implying that firms audited by larger audit firms may have slightly better audit quality.

However, audit methodology (AUDMET) shows no meaningful correlation with AUDQ (-0.0008, p = 0.9942), indicating that the type of audit methodology used does not significantly influence audit quality in this dataset.

Overall, the results suggest that firm leverage (LEV) and audit firm size (AUDSIZE) have the most notable relationships with audit quality, with leverage being the only statistically significant predictor. Other firm attributes, including size, age, profitability, and liquidity, do not show strong or significant associations with audit quality.

Regression Result

Dependent Variable: AUDQ
Method: ML - Binary Extreme Value (Newton-Raphson / Marquardt steps)
Date: 01/07/25 Time: 10:24
Sample: 2018 2023
Included observations: 78
Convergence achieved after 8 iterations
Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	3.419084	5.953962	0.574254	0.5658
FSIZE	-1.362308	0.718306	-1.896556	0.0579
FAGE	0.027611	0.027272	1.012455	0.3113
PROF	-13.04221	12.89612	-1.011328	0.3119
LIQ	1.743127	1.207382	1.443724	0.1488
LEV	-0.149560	0.110057	-1.358937	0.1742
AUDSIZE	1.513274	1.057004	1.431664	0.1522
AUDMET	0.285923	0.427964	0.668100	0.5041

McFadden R-squared	0.335103	Mean dependent var	0.948718
S.D. dependent var	0.222000	S.E. of regression	0.219874
Akaike info criterion	0.474110	Sum squared resid	3.384120
Schwarz criterion	0.715824	Log likelihood	-10.49028
Hannan-Quinn criter.	0.570872	Deviance	20.98057
Restr. deviance	31.55459	Restr. log likelihood	-15.77729
LR statistic	10.57402	Avg. log likelihood	-0.134491

Prob(LR statistic)	0.158309		
Obs with Dep=0	4	Total obs	78
Obs with Dep=1	74		

Source: Eviews, 13.0

The regression analysis examines the relationship between firm attributes and audit quality (AUDQ) using a binary extreme value model. The **McFadden R-squared value of 0.3351** suggests that the independent variables explain approximately **33.5%** of the variation in audit quality, indicating a moderate model fit. However, the **Likelihood Ratio (LR) statistic** of **10.5740** has a probability value of **0.1583**, implying that the overall model is **not statistically significant** at the conventional 5% level. This suggests that while the variables included in the model have some explanatory power, they do not provide a strong prediction of audit quality.

Among the independent variables, **firm size (FSIZE)** has a **negative** and **marginally significant** relationship with audit quality (**β = -1.3623, p = 0.0579**), suggesting that **larger firms tend to have lower audit quality**. This finding could indicate that as firms grow, they may become more complex, making it harder to maintain high audit quality. Conversely, **firm age (FAGE)** has a **small positive** relationship with audit quality (**β = 0.0276, p = 0.3113**), but the effect is weak and statistically insignificant, implying that older firms do not necessarily have better audit quality.

The results also show that **profitability (PROF) has a large negative coefficient (-13.0422), but it is statistically insignificant (p = 0.3119)**. This suggests that profitability does not play a meaningful role in determining audit quality. Similarly, **liquidity (LIQ) has a positive but non-significant effect (β = 1.7431, p = 0.1488)**, indicating that firms with higher liquidity may have slightly better audit quality, though the relationship is not strong enough to be conclusive.

Leverage (LEV) has a negative coefficient (-0.1496, p = 0.1742), suggesting that firms with higher debt levels tend to have lower audit quality. However, the effect is not statistically significant**.** Audit firm size (AUDSIZE) is positively related to audit quality (β = 1.5133, p = 0.1522), implying that firms audited by larger audit firms may experience better audit quality. However, like most other variables, this relationship is not statistically significant. Finally, audit methodology (AUDMET) has a very weak positive relationship (β = 0.2859, p = 0.5041), suggesting that the type of audit methodology used does not significantly influence audit quality.

In conclusion, while some variables show expected relationships with audit quality, none of them are statistically significant at the **5% level**. The findings suggest that firm size and leverage might play a role in determining audit quality, but additional factors perhaps governance mechanisms, regulatory frameworks, or industry-specific dynamics may have a stronger impact. Future research incorporating a larger sample size or additional explanatory variables may help improve the robustness of the model and provide more definitive insights.

Coefficient Confidence Intervals

Date: 01/08/25 Time: 07:38
Sample: 2018 2023
Included observations: 78

		90% CI		95% CI		99% CI	
Variable	Coefficient	Low	High	Low	High	Low	High
C	3.419084	-6.505661	13.34383	-8.455718	15.29389	-12.34644	19.18461
FSIZE	-1.362308	-2.559663	-0.164953	-2.794924	0.070308	-3.264314	0.539698
FAGE	0.027611	-0.017848	0.073071	-0.026780	0.082003	-0.044601	0.099824
PROF	-13.04221	-34.53894	8.454517	-38.76271	12.67829	-47.18991	21.10548
LIQ	1.743127	-0.269476	3.755730	-0.664921	4.151175	-1.453906	4.940160
LEV	-0.149560	-0.333016	0.033895	-0.369062	0.069941	-0.440980	0.141860
AUDSIZE	1.513274	-0.248661	3.275209	-0.594853	3.621401	-1.285571	4.312119
AUDMET	0.285923	-0.427457	0.999303	-0.567625	1.139471	-0.847286	1.419132

The coefficient confidence intervals provide insight into the range of possible values for each independent variable's effect on audit quality (AUDQ). These intervals indicate the precision of the estimated coefficients and whether the effect of each variable is statistically significant. If a confidence interval includes zero, it suggests that the variable may have no real impact on audit quality.

Firm size (FSIZE) has a 95% confidence interval ranging from -2.79 to 0.07, indicating that the relationship between firm size and audit quality is likely negative, but the possibility of no effect remains since the interval includes zero. This suggests that while larger firms may experience lower audit quality, the evidence is not strong enough to confirm this relationship definitively. Similarly, firm age (FAGE) has a 95% confidence interval between -0.026 and 0.082**,** meaning

that its effect on audit quality is weak and statistically insignificant. This implies that older firms do not necessarily have better audit quality.

Profitability (PROF) has a very wide 95% confidence interval (-38.76 to 12.67)**,** which highlights high variability and uncertainty in its relationship with audit quality. Since the interval contains both large negative and positive values, the effect of profitability on audit quality remains **inconclusive**. Liquidity (LIQ) has a 95% confidence interval of -0.66 to 4.15**,** suggesting that while higher liquidity might be associated with better audit quality, the evidence is not strong enough to rule out the possibility of no effect.

Leverage (LEV) has a 95% confidence interval between -0.36 and 0.07, implying that the negative relationship observed in the regression results is not statistically significant. This suggests that highly leveraged firms may experience lower audit quality, but the effect is not strong enough to be conclusive. Audit firm size (AUDSIZE) has a 95% confidence interval of -0.59 to 3.62, meaning that while larger audit firms might enhance audit quality, the effect is not statistically significant. Finally, audit methodology (AUDMET) has a 95% confidence interval of -0.56 to 1.13, indicating that its impact on audit quality is weak and uncertain.

Overall, the confidence intervals confirm that none of the independent variables have a statistically significant impact on audit quality at the 95% confidence level. While some variables, such as firm size and audit firm size, suggest potential relationships with audit quality,

the wide confidence intervals and inclusion of zero indicate high uncertainty in these effects. This suggests that additional factors, such as corporate governance practices, industry regulations, or external audit environment, may play a more significant role in determining audit quality.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This study examined the relationship between firm attributes and audit quality, focusing on factors such as firm size, firm age, profitability, liquidity, leverage, audit firm size, and audit methodology.

5.1 Summary of Findings

1. The findings revealed that firm size had a weak negative relationship with audit quality, suggesting that larger firms might not necessarily experience higher audit quality.
2. Firm age showed a nonsignificant effect, indicating that the number of years a firm has been in existence does not strongly determine its audit quality.
3. Profitability also exhibited an inconclusive relationship, with a wide confidence interval, suggesting that its effect on audit quality is uncertain.
4. Liquidity, leverage, audit firm size similarly displayed weak and non-statistically significant effects, implying that these attributes alone do not strongly influence audit quality.

5.2 Conclusion

Based on the findings, the study concludes that firm attributes have limited influence on audit quality, as most of the independent variables were not statistically significant in the regression

model. This suggests that other factors, such as corporate governance mechanisms, regulatory frameworks, and auditor independence, may play a more substantial role in determining audit quality. While firm size, leverage, and audit firm size showed some level of association with audit quality, the results were not strong enough to draw definitive conclusions.

These findings align with some previous studies that suggest firm-specific characteristics may not be the sole determinants of audit quality. Instead, audit quality may be more influenced by external regulatory oversight, the ethical conduct of auditors, and industry-specific factors. The study highlights the need for a broader approach to improving audit quality, considering governance structures, audit standards, and stakeholder expectations.

5.3 Recommendations

Given the findings, the study recommends that

1. Firms and regulatory bodies should focus on enhancing audit quality through improved corporate governance and stricter enforcement of audit regulations. Firms should implement strong internal controls and engage reputable audit firms with a track record of independence and professionalism. Regulators should ensure that audit firms adhere to high ethical standards and continuously improve audit methodologies to enhance the credibility of financial reporting.

2. Companies should adopt comprehensive financial reporting standards that enhance disclosure quality. Transparent reporting ensures that auditors can provide better assessments of a firm's financial position.
3. Companies should manage their liquidity and leverage levels prudently, as poor financial health may influence management's pressure on auditors to manipulate financial reports. Strengthening financial stability reduces the risk of misstatements.
4. Firms should maintain a balanced liquidity position to avoid financial distress that could pressure auditors into manipulating reports. Companies experiencing liquidity challenges should prioritize financial planning and transparency in reporting their financial health.

5.4 Recommendation for further studies

Future research should explore additional factors that may influence audit quality, such as auditor independence, industry-specific risks, and the impact of emerging financial reporting standards. Expanding the scope of the study to include a larger sample size or different economic environments could provide further insights into the determinants of audit quality.

5.5 Contributions to Knowledge

This study contributes to the existing body of knowledge by providing empirical evidence on the relationship between firm attributes and audit quality. It offers insights into the weak or inconclusive effects of firm size, firm age, profitability, liquidity, leverage, audit firm size, and

audit methodology on audit quality. The study emphasizes the need for a more comprehensive approach to understanding audit quality, incorporating governance, regulatory, and industry-related factors.

5.5 Suggestions for Further Studies

Despite its contributions, the study has some limitations. First, the sample size was limited to a specific period and set of firms, which may restrict the generalizability of the findings. Second, the study focused on firm attributes without considering qualitative factors such as auditor independence, regulatory enforcement, and ethical considerations, which could significantly impact audit quality. Lastly, the statistical significance of the variables was relatively low, suggesting that other explanatory factors should be examined in future research.

Thus, future research should explore additional determinants of audit quality, including corporate governance practices, auditor reputation, and the influence of regulatory frameworks. Studies could also adopt a mixed-methods approach by incorporating qualitative insights from auditors and financial experts. Expanding the research to different industries and economic settings could provide a more holistic understanding of audit quality and its influencing factors.

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APPENDICES

	AUDQ	FSIZE	FAGE	PROF	LIQ	LEV	AUDSIZE	AUDMET
Mean	0.948718	7.220365	43.11538	0.033106	1.179012	1.349545	5.230769	5.743590
Median	1.000000	6.923534	33.50000	0.013917	0.571725	0.892305	5.000000	6.000000
Maximum	1.000000	9.986380	129.0000	0.283007	11.65149	20.32676	7.000000	8.000000
Minimum	0.000000	0.000000	1.000000	0.000000	0.000000	0.000000	3.000000	1.000000
Std. Dev.	0.222000	1.735145	32.25667	0.054346	1.821909	2.990333	0.881602	1.790566
Skewness	-4.068667	-1.488360	1.186908	3.175437	3.570230	5.048289	-0.465280	-0.689402
Kurtosis	17.55405	8.658854	4.014762	12.90385	18.25251	28.45390	1.985534	3.347685
Jarque-Bera	903.6193	132.8713	21.66044	449.8647	921.7823	2436.986	6.159018	6.571453
Probability	0.000000	0.000000	0.000020	0.000000	0.000000	0.000000	0.045982	0.037413
Sum	74.00000	563.1884	3363.000	2.582287	91.96295	105.2645	408.0000	448.0000
Sum Sq. Dev.	3.794872	231.8260	80117.96	0.227418	255.5900	688.5411	59.84615	246.8718
Observations	78	78	78	78	78	78	78	78

Covariance Analysis: Ordinary
Date: 01/07/25 Time: 10:19
Sample: 2018 2023
Included observations: 78

Correlation Probability Observations	AUDQ	FSIZE	FAGE	PROF	LIQ	LEV	AUDSIZE	AUDMET
AUDQ	1.000000 ----- 78							
FSIZE	-0.073921 0.5201 78	1.000000 ----- 78						
FAGE	0.115093 0.3157 78	0.038585 0.7373 78	1.000000 ----- 78					
PROF	-0.081519 0.4780 78	-0.051293 0.6556 78	-0.026044 0.8209 78	1.000000 ----- 78				

LIQ	0.079484	0.209517	-0.026649	0.026013	1.000000			
	0.4891	0.0656	0.8168	0.8211	-----			
	78	78	78	78	78			
LEV	-0.270752	-0.081289	-0.149952	0.376970	-0.047320	1.000000		
	0.0165	0.4792	0.1901	0.0007	0.6808	-----		
	78	78	78	78	78	78		
AUDSIZE	0.193965	0.099905	0.358006	-0.012429	-0.011256	-0.214473	1.000000	
	0.0888	0.3842	0.0013	0.9140	0.9221	0.0593	-----	
	78	78	78	78	78	78	78	
AUDMET	-0.000838	-0.319167	0.002767	-1.94E-05	-0.261791	-0.041012	-0.044300	1.000000
	0.9942	0.0044	0.9808	0.9999	0.0206	0.7215	0.7002	-----
	78	78	78	78	78	78	78	78

Dependent Variable: AUDQ
Method: ML - Binary Extreme Value (Newton-Raphson / Marquardt steps)
Date: 01/07/25 Time: 10:24
Sample: 2018 2023
Included observations: 78
Convergence achieved after 8 iterations
Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	3.419084	5.953962	0.574254	0.5658
FSIZE	-1.362308	0.718306	-1.896556	0.0579
FAGE	0.027611	0.027272	1.012455	0.3113
PROF	-13.04221	12.89612	-1.011328	0.3119
LIQ	1.743127	1.207382	1.443724	0.1488
LEV	-0.149560	0.110057	-1.358937	0.1742
AUDSIZE	1.513274	1.057004	1.431664	0.1522
AUDMET	0.285923	0.427964	0.668100	0.5041

McFadden R-squared	0.335103	Mean dependent var	0.948718
S.D. dependent var	0.222000	S.E. of regression	0.219874
Akaike info criterion	0.474110	Sum squared resid	3.384120
Schwarz criterion	0.715824	Log likelihood	-10.49028
Hannan-Quinn criter.	0.570872	Deviance	20.98057
Restr. deviance	31.55459	Restr. log likelihood	-15.77729

LR statistic	10.57402	Avg. log likelihood	-0.134491
Prob(LR statistic)	0.158309		
Obs with Dep=0	4	Total obs	78
Obs with Dep=1	74		