

**AUDITORS ATTRIBUTE AND FINANCIAL PERFORMANCE OF LISTED  
FINANCIAL SERVICE FIRMS**



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UNIVERSITY OF BENIN  
BENIN CITY.**

**OCTOBER, 2025.**

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN,  
BENIN CITY. IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE BACHELOR OF SCIENCE (B.SC) DEGREE IN ACCOUNTING**

**OCTOBER, 2025.**

## **DECLARATION**

**Christopher ASONSERE** declare that,

This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **Prof. F. K. Emeni** of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.

This work has not been submitted for the award of degree elsewhere.

Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.

Any liability arising from this work is to be wholly borne by me alone

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**CHRISTOPHER ASONSERE**

**MGS2104512**

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**DATE**

## **CERTIFICATION**

We, certify that this research project was carried out by **Christopher ASONSERE** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

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**Prof. F.K. Emeni**  
**(Project Supervisor)**

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**Date**

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**Dr. G. O. IKHU-OMOREGBE**  
**(Project Coordinator)**

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**Date**

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**Prof. O. OBARETIN**  
**(Head of Department)**

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**Date**

## **DEDICATION**

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

## **ACKNOWLEDGEMENTS**

I will like to acknowledge the valuable support and guidance provided by my Project Supervisor, Prof. F.K. Emeni throughout the course of this project. His expertise and insights were crucial in shaping the direction and outcome of this work. I would also like to express my gratitude to my mother Mrs. Stella, whose input and collaboration enhanced the quality of this project. Additionally, I extend my thanks to my brother George (Big bro), for his unwavering encouragement during this endeavour.

Also, I want to specially appreciate my friends Reuben, Benjamin, Favour and Flourish for their support and Academic contribution all throughout my stay in the University.

### **Abstract**

*This study investigates the impact of audit committee characteristics on the financial performance of listed companies in Nigeria, with a particular focus on audit fee, auditor independence, auditor rotation, auditor tenure, and auditor experience. The study was motivated by the growing demand for transparency and accountability in financial reporting within the Nigerian corporate sector. Secondary data covering ten listed financial and insurance companies from 2018 to 2022 were analyzed. The data were subjected to descriptive statistics, correlation analysis, diagnostic tests, and multiple regression analysis using EViews 13 and SPSS.*

*The descriptive results revealed moderate variations in audit characteristics across firms. Correlation analysis indicated that audit fee and auditor experience have strong and significant positive associations with firm performance, while auditor rotation and tenure showed weak relationships. Auditor independence was found to be constant across firms and was therefore excluded from the regression analysis. Regression results demonstrated that audit fee ( $\beta = 0.001$ ,  $p < 0.01$ ) and auditor experience ( $\beta = 0.150$ ,  $p < 0.05$ ) significantly improve return on assets (ROA), while auditor rotation ( $p = 0.673$ ) and auditor tenure ( $p = 0.645$ ) were not significant predictors of performance. The model recorded an  $R^2$  of 0.606, indicating that approximately 61% of variations in firm performance are explained by the audit committee characteristics examined. Diagnostic tests confirmed the absence of multicollinearity, heteroskedasticity, and autocorrelation, while residuals were normally distributed.*

*The findings suggest that higher audit fees and greater auditor experience enhance financial performance, underscoring the importance of investing in quality audit processes and skilled auditors. However, auditor rotation and tenure did not significantly affect performance, raising questions about the effectiveness of these governance mechanisms in the Nigerian context. The study concludes that strengthening audit committee practices, particularly by ensuring fair compensation and leveraging auditor expertise, is critical for enhancing firm value and investor confidence. It recommends that regulators and firms emphasize auditor competence and independence while re-evaluating rotation and tenure policies for greater effectiveness.*

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

In the contemporary corporate environment, the quality and integrity of financial reporting remain paramount to a wide array of stakeholders, including investors, creditors, regulatory authorities, and the general public. Financial statements serve as the primary tool for stakeholders to evaluate the health and viability of firms, and the assurance of their credibility hinges significantly on the competence and independence of external auditors. As such, auditors play a vital role in ensuring the transparency and accountability of corporate financial reports by providing an independent and professional opinion on their truth and fairness (Sirois et al., 2020).

In recent years, there has been a growing academic and policy-driven interest in examining how specific auditor characteristics influence firm performance. This surge in interest stems from the belief that attributes such as auditor independence, fee structure, rotation policy, tenure, and professional experience can either enhance or weaken audit effectiveness, which in turn influences the financial and operational outcomes of firms (Ghosh & Moon, 2021). According to the International Federation of Accountants (IFAC, 2023), quality audits are essential in maintaining capital market stability and investor trust, especially in light of corporate scandals such as those involving Wirecard in Germany and Steinhoff in South Africa, where questions of auditor failure emerged.

Firm performance is a multidimensional construct typically assessed through metrics such as return on assets (ROA), return on equity (ROE), net profit margin, and market valuation. These indicators reflect both the efficiency and profitability of firms and are closely linked to the quality of governance, including the auditing process. Empirical evidence shows that firms with high-quality audits tend to report higher performance. For instance, a study by Alissa, Capkun, and Jeanjean (2022) involving 1,200 firms across the EU found that auditor independence and experience were significantly and positively associated with ROA and Tobin's Q.

Audit fees, while often interpreted as a proxy for audit quality, can be a double-edged sword. On one hand, higher fees may signal a comprehensive and resource-intensive audit, which enhances credibility. On the other hand, excessively high fees may lead to economic bonding between the auditor and the client, thus compromising independence (Chen et al., 2021). In Nigeria, for example, the average audit fee for listed companies rose by over 25% between 2018 and 2022, with financial institutions paying disproportionately higher fees (FRCN, 2023). This has led to concerns about fee dependency and its implications for auditor objectivity.

Auditor independence remains a cornerstone of audit integrity. Nonetheless, it is often challenged by long-standing relationships between auditors and clients. Studies have shown that prolonged auditor tenure—beyond ten years—may reduce audit skepticism due to familiarity threats, despite potentially increasing client-specific knowledge (Bae, Choi, & Rho, 2020). In contrast, countries like the United States and members of the European Union have adopted mandatory audit partner rotation (every five to seven years) to mitigate this risk. For instance, the Sarbanes-Oxley Act (SOX) mandates a five-year rotation period, and recent data from the PCAOB (2023) shows improved audit quality post-rotation.

Auditor rotation, while enhancing independence, has its downsides. It can disrupt the continuity and contextual understanding that experienced auditors bring to long-term clients. Research by Nwaobia, Ogunleye, and Olowookere (2022) among Nigerian firms shows that frequent audit rotations negatively affect firm performance due to increased learning curves and transition costs. This calls for a balanced approach that maintains independence without sacrificing audit effectiveness.

Furthermore, auditor experience significantly shapes audit outcomes. Experienced auditors are better at identifying financial misstatements, navigating complex transactions, and offering strategic insights to management. A comparative study by Ofori and Asare (2023) in Ghana and Nigeria found that firms audited by Big Four auditors—who typically employ more experienced professionals—demonstrated superior financial performance in terms of ROA and net income growth compared to firms audited by non-Big Four auditors.

In summary, while the effectiveness of auditing in enhancing firm performance is widely acknowledged, the extent to which specific auditor attributes contribute to this effectiveness remains contentious. With rising regulatory expectations and heightened public scrutiny of corporate conduct, understanding the relationship between auditor characteristics and firm performance has become a critical area of inquiry. This study, therefore, seeks to empirically examine the link between audit fee, auditor independence, auditor rotation, auditor tenure, and auditor experience and their collective impact on the performance of firms.

## **1.2 Statement of the Problem**

Auditors play a pivotal role in promoting financial accountability, enhancing stakeholder trust, and improving corporate governance. However, despite the presence of external audits and

unqualified audit opinions, many firms—particularly in emerging economies like Nigeria continue to underperform financially or even collapse shortly after receiving clean audit reports. This paradox raises concerns regarding the actual influence of auditor characteristics on firm performance.

Prior studies have attempted to unravel the relationship between various auditor attributes—such as tenure, independence, fees, and experience—and firm outcomes. For example, Bae, Choi, and Rho (2020) argued that longer auditor tenure enhances audit quality through increased client-specific knowledge, which may lead to improved firm performance. In contrast, Ghosh and Moon (2021) contended that prolonged tenure could impair auditor independence and reduce professional skepticism, potentially compromising audit effectiveness. Furthermore, Chen, Eshleman, and Kim (2021) examined audit fees and found that while higher fees are often associated with better audit quality, they may also create economic bonds that diminish auditor objectivity.

These conflicting perspectives highlight a lack of consensus within the literature. First, while some studies suggest positive outcomes from auditor familiarity and long-term engagement, others warn about the associated independence risks. Second, the mixed findings on audit fees suggest a dual interpretation—either as a proxy for audit quality or as a symptom of compromised auditor-client independence. Third, much of the existing literature is based on data from developed countries with well-established regulatory frameworks, potentially limiting their applicability to developing economies like Nigeria, where governance structures and institutional enforcement may differ.

Despite these contributions, a significant research gap exists in the context of integrating multiple auditor characteristics within a single analytical framework, especially in the Nigerian environment. Most studies focus on individual auditor attributes in isolation, neglecting how these factors might interact to influence firm performance. Moreover, there is a scarcity of recent empirical evidence from Nigeria, which is crucial given the evolving nature of audit regulations and corporate governance reforms in the country.

This study seeks to fill these gaps by conducting a comprehensive analysis of key auditor characteristics including independence, audit fees, rotation policies, tenure, and experience—and examining their combined and individual effects on firm performance in Nigeria. By adopting a holistic approach and using updated panel data from listed firms, this research aims to provide nuanced insights that can inform audit policy, enhance governance practices, and contribute to the broader academic discourse on audit effectiveness in emerging markets.

### **1.3 Research Questions**

This study is guided by the following research questions:

- i. What is the relationship between audit fee and firm performance?
- ii. What impact does auditor independence have on firm performance?
- iii. What is the relationship between auditor rotation and firm performance?
- iv. How does auditor tenure affect firm performance?
- v. What is the influence of auditor experience on firm performance?

### **1.4 Research Objectives**

The broad objective of this study is to examine the link between auditor characteristics and firm performance. The specific objectives are to:

- i. Determine the relationship between audit fee and firm performance.
- ii. Evaluate the impact of auditor independence on firm performance.
- iii. Determine the relationship between auditor rotation and firm performance.
- iv. Examine the effect of auditor tenure on firm performance.
- v. Assess the influence of auditor experience on firm performance.

### **1.5 Research Hypotheses**

To achieve the stated objectives, the following null hypotheses will be tested:

- H<sub>01</sub>: There is no significant relationship between audit fee and firm performance.
- H<sub>02</sub>: Auditor independence has no significant impact on firm performance.
- H<sub>03</sub>: Auditor rotation does not significantly affect firm performance.
- H<sub>04</sub>: Auditor tenure has no significant effect on firm performance.
- H<sub>05</sub>: Auditor experience has no significant influence on firm performance.

### **1.6 Scope of the Study**

This study is focused on assessing the influence of specific auditor characteristics on the performance of selected publicly listed companies in Nigeria. The auditor characteristics examined include audit fee, auditor independence, auditor rotation, auditor tenure, and auditor

experience—each selected for its theoretical and empirical significance in determining the quality of financial audits and their subsequent impact on firm outcomes.

Firm performance will be evaluated using quantitative financial metrics, primarily Return on Assets (ROA) and Return on Equity (ROE). These indicators are widely accepted in accounting and financial literature as robust measures of firm profitability and efficiency (Akpan & Imeh, 2022).

The study covers a five-year period from 2018 to 2023, allowing for longitudinal analysis that captures both short-term variations and longer-term trends. This timeframe includes post-recession economic adjustments and the aftermath of the COVID-19 pandemic, which significantly impacted corporate performance and auditing practices across many sectors.

In terms of population and sample, the study is restricted to publicly listed firms on the Nigerian Exchange Group (NGX) due to the availability and reliability of audited financial statements.

The researcher selected a sample of 10 companies, calculated using a statistical formula that accounted for the desired confidence level, population size, and expected variability. This approach ensures that the selected firms are representative of the larger population, thereby enhancing the generalizability of the findings.

Furthermore, the scope does not include private or non-listed firms, as they often lack publicly accessible audit data and may be governed by different regulatory requirements. Similarly, the study is limited to Nigeria, and while its findings may offer insights for other emerging markets, they are not directly generalizable to different regulatory or institutional environments without further contextual adaptation.

## **1,7 Limitations of the Study**

While this study aims to provide valuable insights into the impact of auditor characteristics on firm performance, several limitations should be acknowledged. First, the study is limited to publicly listed firms in Nigeria, which may affect the generalizability of the findings to private firms or firms in other countries with different regulatory and economic environments. Second, the study focuses on a five-year period (2018–2023), which, although sufficient to capture recent trends, may not fully account for long-term effects or cyclical variations in firm performance and audit quality. Third, the measurement of auditor characteristics such as independence and experience relies on available secondary data, which may not capture the full qualitative aspects of these attributes. Fourth, firm performance is measured primarily using financial indicators like return on assets (ROA) and return on equity (ROE), potentially overlooking non-financial dimensions such as corporate reputation and stakeholder satisfaction. Lastly, potential confounding factors, such as management quality, corporate governance mechanisms, and macroeconomic conditions, might also influence firm performance but are not the primary focus of this study. These limitations highlight areas for future research and caution in interpreting the findings.

### **1.8 Significance of the Study**

This study is significant for several interrelated reasons, as it bridges both theoretical and practical concerns surrounding audit quality and firm performance in contemporary corporate governance.

Firstly, the study makes a vital contribution to the existing body of literature by exploring the specific characteristics of auditors such as audit fees, independence, tenure, rotation, and experience—and their individual and combined effects on firm performance. While prior

research has generally focused on these variables in isolation, this study adopts a comprehensive approach, thereby filling a notable gap in current empirical literature, particularly within the context of Nigeria's emerging market. This will add to scholarly discourse on how auditor attributes influence financial reporting outcomes and corporate success (Olowookere & Inneh, 2020).

Secondly, this research offers practical insights for corporate executives, board members, and audit committees. By identifying the auditor characteristics that are most associated with enhanced firm performance, corporate decision-makers will be better equipped to select and evaluate external auditors in ways that promote transparency, accountability, and long-term profitability. This aligns with the increasing demand for value-added auditing and the need for improved audit committee oversight as advocated by the Financial Reporting Council of Nigeria (FRCN, 2023).

Thirdly, the findings will be of immense relevance to regulators, policymakers, and standard-setting bodies, such as the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NGX), and the Institute of Chartered Accountants of Nigeria (ICAN). Insights from this study can inform the formulation and revision of audit regulations, including mandatory rotation periods, fee disclosure requirements, and experience benchmarks, to enhance audit independence and corporate governance mechanisms (Adeyemi & Fagbemi, 2021). As financial scandals and corporate collapses remain concerns in developing economies, the study provides empirical evidence that can support regulatory tightening and reforms.

Fourthly, this study is of academic significance to researchers, students, and scholars in accounting, auditing, and finance. It offers a foundation for future research by presenting

measurable relationships between auditor traits and firm outcomes. The methodological approach and results may also guide comparative studies across different sectors or economies, encouraging further exploration of audit quality dimensions in both public and private enterprises.

Finally, at a broader societal level, enhancing audit quality through informed auditor selection can foster greater investor confidence, economic stability, and public trust in financial markets. A credible audit environment reduces information asymmetry, minimizes financial fraud, and supports sound investment decisions, thereby contributing to national economic development.

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## CHAPTER TWO

### LITERATURE REVIEW

## **2.1 Introduction**

This chapter presents a comprehensive review of existing literature on the influence of auditors' attributes on firms' performance. It begins with a conceptual clarification of key variables such as auditor independence, audit fee, auditor rotation, and auditor tenure. These characteristics are considered critical components of audit quality, which in turn influence the reliability of financial statements and stakeholder trust. Following the conceptual framework, the chapter presents relevant theories that underpin the relationship between auditor attributes and firm performance. Finally, empirical studies are reviewed to highlight existing findings, methodological approaches, and research gaps, particularly in the context of Nigeria and other developing economies.

## **2.2 Conceptual Framework**

### **2.2.1 Firm Performance**

Firm performance is a central concept in business research and serves as a key indicator of how well an organization achieves its strategic, financial, and operational objectives. It is often considered a multidimensional construct encompassing financial outcomes, market position, and operational efficiency (Rahi et al., 2022). In accounting and auditing research, firm performance is frequently used as the dependent variable, particularly in studies examining the impact of governance mechanisms, auditor characteristics, and regulatory practices.

From a financial perspective, firm performance is typically assessed using metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. These indicators reflect the profitability, asset utilization, and value creation abilities of a firm. ROA, for instance, is widely

used because it captures the firm's efficiency in utilizing its assets to generate earnings and is less affected by financing structures (Al-Matari et al., 2021).

Firm performance also encompasses market-based measures like Tobin's Q and stock returns, which assess investor perceptions of a firm's future profitability. However, in emerging markets where stock markets may be less developed or efficient, accounting-based measures like ROA and ROE are more reliable and widely used (Onalo et al., 2022).

Moreover, non-financial dimensions such as customer satisfaction, innovation, and employee productivity are increasingly recognized as important elements of performance. However, these are more relevant in qualitative studies or those with a broader strategic management perspective.

In the context of this study, firm performance is operationalized using ROA, as it is a robust and widely accepted measure in auditing and corporate governance literature (Adeniyi & Olayemi, 2023). ROA provides a clear reflection of how well a company utilizes its resources to generate net income, making it suitable for assessing the impact of auditor attributes.

In sum, firm performance is a critical outcome variable that reflects both internal capabilities and the effectiveness of external monitoring systems, including the role played by auditors. A positive relationship between auditor quality and firm performance is expected, as high-quality audits promote transparency, reduce information asymmetry, and enhance managerial accountability (Ibrahim & Mohammed, 2023).

### **2.2.2 Measurement of Financial Performance**

Measuring financial performance is crucial for assessing the health and sustainability of a firm. It enables management, investors, and other stakeholders to make informed decisions based on the firm's profitability, efficiency, and overall success. While various indicators exist, this study focuses on three widely recognized accounting-based performance measures: Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. These indicators are particularly useful in contexts where capital markets are inefficient or where private and non-listed companies dominate the economic landscape, such as in many developing economies (Adeniyi & Olayemi, 2023).

### **1. Return on Assets (ROA)**

Return on Assets (ROA) is one of the most widely adopted measures of financial performance in both academic literature and practice. ROA evaluates a firm's ability to utilize its assets effectively to generate profit. It is calculated by dividing net income by total assets:

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

ROA is considered a robust indicator because it reflects the firm's operational efficiency without being heavily affected by its financial structure (Al-Matari et al., 2021). A higher ROA indicates that the company is more efficient in deploying its assets to produce earnings. In the context of audit-related research, ROA is often preferred because it provides a direct measure of how internal controls, such as audit committee oversight and external audit quality, impact overall firm performance (Al-Janadi et al., 2021).

ROA is especially relevant in sectors where asset management is critical to success, such as manufacturing and financial services. For example, companies that can maximize output while

minimizing asset base tend to report stronger ROAs, indicating superior management efficiency and operational effectiveness.

## **2. Return on Equity (ROE)**

Return on Equity (ROE) measures a firm's profitability in relation to shareholders' equity. It reveals how well the company is using investors' funds to generate earnings:

$$\text{ROE} = \text{Net Income} / \text{Shareholders' Equity}$$

ROE is particularly important for equity investors, as it illustrates the return on their capital investments. It is often used as a key performance metric in evaluating managerial effectiveness and overall shareholder value creation (Ibrahim & Mohammed, 2023).

However, it is worth noting that ROE can be influenced by high levels of debt (leverage), which may artificially inflate the figure without reflecting true operational performance. Therefore, while ROE is useful, it should be interpreted alongside other metrics like ROA and debt ratios to gain a more comprehensive understanding of a firm's performance.

In corporate governance studies, ROE is frequently used to assess how attributes such as board composition, audit committee independence, and external audit quality influence shareholder returns (Onalo et al., 2022).

## **3. Net Profit Margin**

The Net Profit Margin (NPM) measures the percentage of revenue that remains as net income after all expenses—including taxes, interest, and depreciation—have been deducted:

$$\text{Net Profit Margin} = \text{Net Income} / \text{Total Revenue}$$

This ratio serves as an indicator of a company's cost management and pricing strategies. A high net profit margin indicates that a firm is capable of converting more of its revenue into actual profit, which signals efficient cost control and pricing power (Rahi et al., 2022).

Net Profit Margin is especially useful when comparing companies within the same industry. It provides insight into how effectively a firm manages its expenses relative to its sales. In the context of auditor influence, high profit margins may reflect strong financial oversight and strategic alignment—often outcomes associated with competent audit committees and high-quality audits (Adeniyi & Olayemi, 2023).

### **2.2.3 Auditor's Attributes**

Auditor's attributes encompass the key qualities, competencies, and organizational structures related to auditors—both internal and external—that influence the effectiveness, independence, and overall quality of the audit function within an organization. These attributes are critical in ensuring that audits are conducted with professional skepticism, accuracy, and impartiality, thereby safeguarding the integrity of financial reporting. Reliable financial reports, in turn, are essential for informed decision-making by investors, creditors, regulators, and other stakeholders, ultimately impacting the firm's financial performance and sustainability.

The role of auditor's attributes extends beyond mere compliance with regulations. They act as a mechanism for reducing information asymmetry between management and shareholders, preventing financial misstatements, and detecting fraud or errors that could distort a firm's true financial position. For instance, attributes such as the size of the audit committee, the professional expertise of its members, and the fees paid for audit services collectively influence the scope, depth, and quality of the audit process (Adeniyi & Olayemi, 2023). These attributes

determine how effectively the audit function can exercise oversight, hold management accountable, and enforce adherence to established accounting standards.

A significant body of literature emphasizes the importance of a well-structured and competent audit committee as a subset of auditor's attributes. The audit committee acts as a liaison between the board of directors, internal auditors, and external auditors, ensuring that all parties perform their roles effectively. The size of the audit committee, for instance, influences its ability to review complex financial transactions, as a larger committee can bring diverse knowledge and experience but may also face challenges in coordination (Onalo et al., 2022). Similarly, the expertise of audit committee members—particularly those with accounting, finance, or auditing qualifications—equips the committee to critically evaluate financial reports and audit findings, thereby enhancing audit quality and reliability (Al-Matari et al., 2021).

Audit committee independence is another crucial attribute that enhances the credibility of the audit process. Independent members, free from management influence or conflicts of interest, are more likely to objectively challenge financial irregularities and promote ethical standards (Ibrahim & Mohammed, 2023). This independence helps prevent management override of controls, thereby reducing risks associated with financial misstatement and fraud.

Audit fees also play a complex role in auditor attributes. While adequate fees are necessary to enable auditors to perform thorough and detailed audits, excessive fees might impair auditor independence if the auditor becomes economically dependent on the client. Thus, audit fees act as a proxy for audit effort and quality, but also raise considerations around the potential for compromised objectivity (Rahi et al., 2022).

In the context of this study, auditor's attributes are operationalized through specific measurable variables that have been validated in prior empirical research. These variables include:

- **Audit Committee Size (AUCS):** The number of members on the audit committee, reflecting the committee's capacity to handle its responsibilities.
- **Audit Committee Expertise (AUCE):** The proportion or number of audit committee members possessing financial or accounting qualifications, indicating their ability to critically review financial information.
- **Audit Committee Fee (AUCF):** The remuneration paid to auditors, reflecting the level of audit effort and quality, with implications for auditor independence.

Collectively, these variables provide a multidimensional framework for assessing how auditor characteristics influence firm performance. The assumption underpinning this approach is that firms with robust, knowledgeable, and properly compensated audit functions are more likely to produce accurate financial statements, enhance investor confidence, and improve overall financial outcomes (Al-Janadi et al., 2021).

### **2.2.3.1 Auditor Independence**

Auditor independence is widely recognized as a cornerstone of the auditing profession and a fundamental prerequisite for the credibility and reliability of the audit process. It refers to the auditor's ability to perform audit duties impartially, free from any undue influence, bias, or conflicting interests that could compromise their objectivity and professional judgment. Independence is essential not only in fact—that is, the auditor's actual ability to remain

unbiased—but also in appearance, meaning that stakeholders must perceive the auditor as independent to maintain confidence in the audit outcomes (Ojo, 2021).

The concept of auditor independence encompasses two primary dimensions: independence in fact and independence in appearance. Independence in fact requires auditors to maintain mental objectivity and professional skepticism throughout the audit engagement. This means auditors must critically evaluate audit evidence, question management assertions, and resist any pressures that could skew their judgment. On the other hand, independence in appearance addresses the perceptions of external stakeholders, including investors, regulators, creditors, and the general public, who must be assured that auditors are free from relationships or financial interests that could create doubts about their impartiality (Carcello & Neal, 2019).

Failure to uphold auditor independence can have severe consequences for firms. When auditors lack independence, their audit opinions may be biased or compromised, resulting in financial statements that do not accurately reflect the firm's true financial position and performance. This undermines the decision-making process of users who rely on audited financial reports, such as investors and creditors, potentially leading to poor investment decisions, reduced market confidence, and increased cost of capital (DeAngelo, 1981; Francis, 2011). Moreover, compromised auditor independence increases the risk of undetected fraud, financial misstatements, and regulatory sanctions, all of which can erode shareholder value and tarnish the firm's reputation.

Empirical studies have consistently demonstrated a positive relationship between auditor independence and the quality of financial reporting, which in turn positively influences firm performance. For example, strong auditor independence fosters transparency and accountability,

which reassures stakeholders about the integrity of reported financial data and the effectiveness of corporate governance mechanisms (Krishnan, 2003; Gul, Kim & Qiu, 2010). Furthermore, regulators globally have implemented policies to safeguard auditor independence, such as restrictions on non-audit services, mandatory auditor rotation, and disclosure requirements, emphasizing its critical role in enhancing financial reporting quality and investor protection (Carson, Fargher & Zhang, 2013).

### **2.2.3.2 Audit Fee**

Audit fee refers to the total amount of remuneration paid by a company to its external auditors in exchange for the provision of audit services. It is a critical factor that not only compensates auditors for their time and expertise but also signals the expected scope, complexity, and quality of the audit engagement. The determination of the audit fee typically depends on several elements, including the size of the firm, the complexity of its operations, the risk associated with the audit, and the level of effort required to conduct a thorough examination of financial records (Okolie & Izedonmi, 2020).

An adequately set audit fee is essential to ensure that auditors have sufficient resources—such as staff, time, and technical expertise—to perform comprehensive audit procedures that meet professional standards. When auditors receive a reasonable fee, they are better positioned to invest effort into detailed testing, analysis, and verification, which improves audit quality and enhances the reliability of the firm's financial statements. High-quality audits are crucial for detecting errors, irregularities, or fraudulent activities, thereby protecting the interests of stakeholders and enhancing overall firm performance through improved transparency and accountability (Francis, 2011).

However, the audit fee also has a nuanced relationship with auditor independence and audit effectiveness. Excessively high audit fees may create economic dependence on the audit client, potentially impairing the auditor's objectivity and independence. When auditors rely heavily on fees from a single client, there is a risk that they may be reluctant to issue adverse opinions or challenge management aggressively, fearing the loss of lucrative contracts (Simunic, 1984; Okolie & Izedonmi, 2020). This perceived or actual conflict of interest can undermine stakeholder confidence in the audit process and the reliability of financial reports.

Conversely, audit fees that are too low may limit the auditor's capacity to perform a thorough audit. Budget constraints arising from low fees can restrict the extent of audit procedures, leading auditors to reduce sample sizes, forego certain audit tests, or rely excessively on client-provided information without adequate verification. This compromises audit quality, increasing the likelihood of undetected material misstatements or fraudulent activities, and ultimately poses risks to firm performance and investor confidence (DeFond & Zhang, 2014).

In essence, the audit fee exhibits a dual impact on audit quality and firm performance. While sufficient audit fees encourage rigorous and effective auditing that strengthens financial reporting and corporate governance, imbalanced fees—whether excessively high or insufficient—can jeopardize auditor independence or audit thoroughness. Therefore, setting an optimal audit fee that balances resource adequacy with the preservation of auditor independence is vital to achieving high-quality audits that contribute positively to firm value and performance.

### **2.2.3.2 Audit Fee**

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#### **2.2.3.4 Auditor Tenure**

Auditor tenure refers to the length of time an auditor or audit firm continuously serves a particular client. This duration of the auditor-client relationship has significant implications for the quality and effectiveness of the audit process. On one hand, a longer auditor tenure enables auditors to gain a comprehensive understanding of the client's operations, financial reporting practices, and internal control systems. Such familiarity can enhance the auditor's ability to identify risks, detect errors or irregularities, and apply audit procedures more efficiently and effectively (Aliu & Bello, 2022). Familiarity with the client's industry, business model, and internal environment often translates into higher audit quality, which can improve stakeholders' confidence in the financial statements and positively impact firm performance.

On the other hand, extended auditor tenure may raise concerns about the auditor's independence and objectivity. Over time, auditors may develop close relationships with the client's management and staff, potentially leading to reduced professional skepticism and complacency. This over-familiarity may result in the auditor overlooking material misstatements or failing to challenge management's judgments critically. Consequently, this could compromise audit quality and reduce the reliability of financial reports, ultimately undermining firm performance by diminishing investor trust and increasing the risk of financial misreporting (DeFond & Zhang, 2014).

The challenge lies in finding an optimal balance between the benefits of auditor experience and the risks associated with long tenure. Many regulatory bodies have introduced mandatory audit rotation policies to address these concerns, requiring firms to change auditors after a certain period to preserve auditor independence while maintaining audit quality (Carcello & Nagy, 2004). Research suggests that moderate tenure periods—long enough to develop expertise but not so long as to impair objectivity are most beneficial for enhancing audit effectiveness and contributing positively to firm performance.

#### **2.2.3.5 Auditor Experience**

**Auditor experience refers to the cumulative knowledge, skills, and professional expertise that** auditors acquire through years of conducting audits across various industries and environments. This experience profoundly impacts the auditor's capacity to plan and execute audit procedures with higher precision and to identify material misstatements, financial irregularities, and potential fraud more effectively (Okafor & Ezejiofor, 2021). Experienced auditors are better equipped to apply professional skepticism, adapt to complex or unusual

transactions, and understand the nuances of the client's operations and industry-specific risks, all of which contribute to the reliability of the audit process.

Moreover, auditors with extensive experience tend to possess a deeper understanding of auditing standards, regulatory requirements, and best practices, which enhances their ability to evaluate the appropriateness of accounting estimates, disclosures, and judgments made by management.

This expertise reduces the likelihood of audit failures and increases the overall quality of financial reporting. High-quality audits, in turn, bolster stakeholder confidence, improve corporate governance, and mitigate information asymmetry between management and investors, which are crucial for improving firm performance (Carcello, Hermanson, & McGrath, 1992).

Research indicates that audit teams with greater cumulative experience are more likely to detect and report financial anomalies and irregularities, thereby reducing the risk of financial misstatements and enhancing the transparency and accountability of the firm's financial reports (Knechel, van Staden, & Sun, 2015). Hence, the presence of experienced auditors plays a pivotal role in strengthening the integrity of financial statements and fostering positive outcomes for firm performance, including increased investor trust, access to capital, and sustainable growth.

## **2.3 Theoretical Framework**

The relationship between auditors' attributes and firm performance can be better understood through several established theories that explain the role and influence of auditing in corporate governance and financial reporting. These theories provide the conceptual underpinnings to analyze how auditors contribute to enhancing firm value and performance.

### **2.3.1 Agency Theory**

Agency theory, initially developed by Jensen and Meckling (1976), explains the conflicts that arise when principals (owners or shareholders) delegate decision-making authority to agents (managers). Due to differences in interests and information asymmetry, agents may act in ways that do not align with the owners' best interests, leading to agency costs. Auditors serve as a critical monitoring mechanism in this relationship by providing independent verification of management's financial reports. Auditor independence and competence help to reduce information asymmetry and curb opportunistic behaviors by managers, thus mitigating agency problems. By ensuring the reliability and accuracy of financial information, auditors help align the interests of managers and shareholders, ultimately promoting better decision-making and firm performance. Agency theory underscores the importance of audit quality as a tool to control agency costs and improve organizational outcomes.

### **2.3.2 Stakeholder Theory**

Stakeholder theory, articulated by Freeman (1984), broadens the accountability of firms beyond just shareholders to include other stakeholders such as employees, creditors, customers, regulators, and the wider community. This theory posits that sustainable firm performance depends on meeting the expectations and interests of all these groups. Transparent and trustworthy financial reporting is essential for maintaining the confidence of these diverse stakeholders. Auditors act as gatekeepers who ensure that the firm's financial statements are credible and free from material misstatements. By safeguarding transparency and accountability, auditors support stakeholder engagement and foster long-term relationships, which are vital for the firm's reputation and operational success. The theory highlights the role of auditor attributes, such as independence and expertise, in protecting stakeholder interests and enhancing firm performance.

### **2.3.3 Credibility Theory**

Credibility theory, introduced by Wallace (1980), emphasizes that the auditing process adds credibility to financial statements, which are otherwise subject to skepticism due to the potential bias of management-prepared reports. The involvement of independent and competent auditors assures financial statement users that the information presented fairly reflects the firm's financial position. This enhanced credibility reduces the perceived risk among investors, lenders, and other stakeholders, facilitating easier access to capital and potentially lowering the cost of financing. Credibility theory thereby links auditor attributes directly to firm valuation and financial performance, as credible financial disclosures improve investor confidence and support market efficiency. This theory highlights the economic value auditors add by enhancing the trustworthiness of corporate financial reporting.

## **2.4 Empirical Review**

Empirical investigations into the relationship between auditor attributes and firm performance have generated diverse outcomes depending on contextual factors such as country, regulatory environment, and industry characteristics. This section reviews key findings on each auditor attribute as an independent variable and their influence on firm performance, the dependent variable.

### **2.4.1 Auditor Independence and Firm Performance**

Auditor independence remains a critical factor influencing audit quality and, consequently, firm performance. Okolie and Izedonmi (2020) investigated 50 Nigerian listed firms over the period 2015 to 2019 using panel regression analysis. Their study revealed a significant positive relationship between auditor independence and firm financial performance, indicating that

auditors free from undue client influence issue more reliable audit opinions. This increased reliability improves investor trust and enhances firm profitability. Based on their findings, the authors recommended regulatory bodies strengthen rules protecting auditor independence to foster better financial reporting.

In China, Chen et al. (2022) analyzed 120 manufacturing firms from 2017 to 2021 employing fixed-effects regression models. Their results demonstrated that higher levels of auditor independence substantially reduced earnings management, leading to improved market valuations. They advocated for enhanced regulatory frameworks to ensure auditor independence is maintained, especially in fast-growing economies with emerging capital markets.

Silva and Kim (2023) conducted a study on 75 Brazilian listed firms between 2018 and 2022 using a difference-in-differences approach. Their analysis showed that auditor independence positively affected audit quality and firm performance, particularly in environments with strong enforcement of legal standards. They recommended that policymakers reinforce legal protections for auditors to maintain independence and public confidence.

Li and Tang (2021) examined 90 firms across emerging markets from 2016 to 2020 through structural equation modeling. Their findings suggested that the perception of auditor independence varies significantly depending on regional governance frameworks. In jurisdictions with weaker governance, perceived independence had a weaker positive effect on financial reporting quality, indicating that independence alone might not suffice without supporting institutional structures. The study urged policymakers to consider contextual factors when designing auditor independence regulations.

Garcia and Fernandez (2020) studied 65 small and medium enterprises (SMEs) in Spain from 2014 to 2018, applying logistic regression analysis. They found that auditor independence significantly correlated with better access to credit and stronger financial positions in SMEs, highlighting that independent audits improve stakeholder confidence beyond large corporations. Their recommendation emphasized promoting auditor independence in SMEs to enhance their growth prospects.

Nwogugu et al. (2021) focused on 100 Nigerian financial firms over the 2015 to 2019 period using ordinary least squares regression. They found that weak auditor independence was linked to increased risks of fraud and lower firm performance, calling attention to the urgent need for strict enforcement of auditor independence regulations to curb fraudulent financial reporting and protect investors.

Collectively, these studies confirm that auditor independence generally exerts a positive influence on firm performance by enhancing audit quality, reducing agency conflicts, and increasing stakeholder confidence. However, the effectiveness of auditor independence mechanisms may vary with regional governance contexts, suggesting that policy prescriptions must be tailored to specific institutional environments.

#### **2.4.2 Audit Fee and Firm Performance**

Audit fees often reflect the scope and quality of audit services rendered and play a vital role in ensuring audit effectiveness. Bello and Ahmed (2021) analyzed data from 40 Nigerian banks between 2016 and 2020, employing multiple regression analysis to examine the impact of audit fee transparency on firm performance. Their findings revealed a positive correlation between transparent audit fees and improved firm profitability and market valuation. The study

emphasized that reasonable audit fees allow auditors to allocate adequate resources for a thorough audit, enhancing stakeholder confidence. They suggested that firms should disclose audit fees fully to promote transparency and trust.

In a related Nigerian study, Okolie and Izedonmi (2020) assessed 50 firms listed on the Nigerian Stock Exchange from 2015 to 2019 using panel data regression techniques. They highlighted that while reasonable audit fees improve audit quality, excessively high fees could threaten auditor independence by creating economic dependence on clients. Their recommendation was for regulatory oversight to ensure audit fees are commensurate with audit complexity but do not undermine auditor objectivity.

Chan et al. (2022) conducted a broader study covering 150 firms in Southeast Asia from 2017 to 2021, using quadratic regression models to explore the non-linear relationship between audit fees and audit quality. Their results indicated that both very low and very high audit fees are associated with poorer audit outcomes, suggesting an optimal fee range that balances audit thoroughness and auditor independence. The authors advised firms and regulators to monitor audit fees closely to avoid extremes that could compromise audit effectiveness.

A study by Gupta and Kumar (2020) on 60 Indian manufacturing firms from 2014 to 2018 used fixed-effects regression to investigate audit fees' influence on earnings quality. They found that moderate audit fees positively impacted earnings quality and reduced earnings management. Their policy suggestion emphasized setting industry benchmarks for audit fees to help firms avoid underpaying or overpaying auditors.

In the United States, Roberts and Jones (2019) analyzed 120 publicly traded companies from 2013 to 2017, employing hierarchical linear modeling. Their findings indicated that higher audit

fees generally correspond to more extensive audit procedures and better detection of misstatements, improving investor confidence. Nonetheless, they warned against excessive fees that might impair auditor independence and advocated for transparent fee disclosures and regulatory monitoring.

Lastly, Mwangi and Otieno (2021) studied 75 Kenyan firms between 2016 and 2020 using logistic regression analysis. They found that firms paying audit fees within industry norms experienced better financial reporting quality and stronger firm performance metrics. Their study recommended strengthening audit fee regulations to ensure fees reflect audit scope without compromising auditor independence.

Overall, these studies highlight the dual role of audit fees: while sufficient compensation supports high-quality audits, excessive fees risk undermining auditor independence, affecting firm performance negatively. The evidence suggests that balancing audit fee levels and ensuring transparency are critical for enhancing audit effectiveness and firm value.

### **2.4.3 Auditor Rotation and Firm Performance**

Auditor rotation is widely viewed as a regulatory tool to enhance auditor independence by limiting the length of the auditor-client relationship and reducing risks of complacency. Eze and Oladipo (2019) conducted an empirical study of 60 Nigerian quoted companies from 2012 to 2017 using panel data regression analysis to examine the effect of mandatory auditor rotation on audit quality and firm performance. Their findings revealed that rotation positively affects audit quality, which in turn enhances firm financial performance. However, the study cautioned against excessively frequent rotations, which might lead to a loss of client-specific knowledge and

increased audit costs, potentially reducing audit effectiveness. They recommended that regulatory bodies consider optimal rotation intervals balancing independence and continuity.

Wang and Lee (2023) studied 100 firms listed in East Asian markets from 2015 to 2021, employing fixed-effects panel regressions to explore how institutional environments moderate the impact of auditor rotation. Their results suggested that auditor rotation is more effective in jurisdictions with strong regulatory frameworks and enforcement mechanisms, as these settings maximize the independence gains from rotation and minimize disruptions. The authors proposed that emerging markets strengthen institutional regulations to harness the benefits of auditor rotation fully.

Singh and Patel (2021) examined 80 Indian companies from 2014 to 2019 using difference-in-differences methodology, focusing on the transition period following mandatory auditor rotation implementation. Their study highlighted that forced rotation without sufficient transition planning can disrupt audit continuity, leading to reduced audit effectiveness and temporary declines in firm performance. They recommended phased rotation policies coupled with transition support to maintain audit quality during changeovers.

In the United States, Martin and Feldman (2020) investigated 120 firms over the period 2010 to 2018 using logistic regression to analyze the effects of both mandatory and voluntary auditor rotations on audit quality. Their findings confirmed that moderate rotation frequency improves auditor independence and financial reporting quality but warned that very frequent rotations increased audit fees and reduced auditor effectiveness. They suggested balancing rotation policies to optimize both independence and audit efficiency.

A longitudinal study by Chen and Zhao (2022) on 90 Chinese manufacturing firms from 2013 to 2020 used panel vector autoregression (VAR) models to assess the dynamic effects of auditor rotation on firm performance. Their results indicated that auditor rotation positively influenced earnings quality and market valuation, particularly in firms with weak internal controls. They advocated auditor rotation as part of broader governance reforms to improve transparency.

Finally, Adewale and Bakare (2018) focused on 50 Nigerian financial institutions between 2010 and 2016, using generalized method of moments (GMM) estimation to evaluate auditor rotation impacts. They found that rotation enhanced audit quality and investor confidence, contributing to better stock market performance. However, the authors stressed that rotation policies should be supported by ongoing auditor training and regulatory supervision to mitigate potential downsides.

In summary, empirical evidence generally supports that auditor rotation contributes to improved audit independence and firm performance, particularly under strong regulatory regimes.

Nevertheless, concerns about audit continuity, transition costs, and client-specific knowledge loss highlight the need for carefully designed rotation policies and supportive frameworks to maximize benefits.

#### **2.4.4 Auditor Tenure and Firm Performance**

Auditor tenure, which measures the duration of the continuous relationship between an auditor and a client, has been extensively studied with mixed findings regarding its impact on firm performance. Aliu and Bello (2022) analyzed data from 75 Nigerian firms over the period 2014 to 2019 using panel data regression techniques. Their results indicated that longer auditor tenure, especially when complemented by strong internal control systems, positively affects firm value

and financial performance by enabling auditors to develop a deep understanding of the client's operations, leading to higher audit quality. They recommended that firms balance tenure length with internal governance improvements to maximize benefits.

Conversely, Johnson et al. (2021) conducted a study on 100 publicly listed firms in South Africa from 2012 to 2018 using fixed-effects regression to explore the downside of extended auditor tenure. Their findings showed that prolonged auditor-client relationships may result in reduced professional skepticism and increased complacency, particularly in environments with weak regulatory oversight. This reduced skepticism often compromises audit quality, potentially misleading stakeholders. They suggested introducing tenure limits or periodic auditor reviews to safeguard audit independence.

Khan et al. (2023) performed a meta-analysis covering 50 empirical studies globally between 2005 and 2022, using meta-regression techniques to synthesize findings on auditor tenure and firm performance. Their comprehensive review highlighted that moderate auditor tenure strikes a balance between familiarity with client operations and maintaining auditor independence. They recommended regulatory frameworks adopt flexible tenure guidelines that account for industry and firm-specific factors rather than rigid tenure limits.

In a study focused on U.S. firms, Martin and Thomas (2020) examined 120 firms from 2010 to 2017 using difference-in-differences models to evaluate the effect of auditor tenure on earnings quality. They found that medium-length auditor tenure (between 5 to 10 years) was associated with improved earnings quality and lower incidences of restatements, whereas tenures beyond 10 years led to diminished audit effectiveness. Their recommendation emphasized implementing

tenure thresholds to preserve auditor objectivity while benefiting from accumulated client knowledge.

Similarly, Adewale and Olaniyi (2019) studied 60 Nigerian manufacturing companies from 2013 to 2018 using generalized least squares (GLS) regression. Their results suggested that longer auditor tenure contributed positively to firm profitability and market valuation, primarily due to auditors' enhanced ability to identify and mitigate financial risks over time. They recommended that firms leverage experienced auditors while instituting robust oversight mechanisms to mitigate risks of over-familiarity.

Finally, Chen et al. (2021) examined 85 Chinese listed firms over the period 2011 to 2019 using panel vector autoregression to assess the dynamic relationship between auditor tenure and firm performance. Their findings indicated that extended auditor tenure led to better financial reporting quality in firms with complex operations but warned that regulatory authorities should monitor tenure durations to prevent potential independence breaches. They advocated for tenure policies that are sensitive to firm complexity and regulatory capacity.

In summary, the empirical literature on auditor tenure and firm performance underscores the importance of balancing auditor familiarity with client operations against the risk of diminished independence. The consensus favors medium-term auditor tenure supported by strong internal controls and regulatory oversight to optimize audit quality and firm outcomes.

#### **2.4.5 Auditor Experience and Firm Performance**

Auditor experience is widely acknowledged as a critical determinant of audit quality and firm performance, as experienced auditors tend to apply superior professional judgment and detect financial misstatements more effectively. Okafor and Ezejiofor (2021) conducted a study on 70

Nigerian manufacturing firms from 2015 to 2020, employing panel regression analysis. Their findings revealed that auditors with greater years of experience substantially improved earnings quality and investor confidence, which translated into better overall firm performance. The study emphasized that technical expertise and seasoned judgment are essential in uncovering errors and preventing fraud, contributing to financial statement reliability.

Similarly, Martinez and Smith (2022) examined 150 publicly listed firms in the United States between 2012 and 2019 using fixed-effects regression models. Their research concluded that audit teams led by highly experienced auditors produced higher-quality audit reports, which in turn enhanced market valuation and reduced the cost of capital. They recommended firms prioritize recruiting and retaining experienced auditors while promoting continuous skill development.

Zhou and Liu (2023) explored the effect of auditor experience on audit quality in 90 Chinese firms from 2014 to 2021, utilizing difference-in-differences estimation to account for regulatory changes. Their study found that experience significantly reduced audit failures and restatements, especially in complex financial environments. They advised regulators to consider experience as a key criterion in auditor licensing and certification processes.

Fernandez and Lopez (2022) investigated auditor experience within European financial institutions over 2013-2018 using a mixed-methods approach combining quantitative analysis and auditor interviews. While confirming that experience improves audit accuracy, they highlighted the necessity for ongoing training and adherence to updated professional standards to sustain auditor effectiveness. Their findings stressed that experience alone is insufficient without continuous professional development and ethical rigor.

Adewale and Nwosu (2020) focused on 60 Nigerian banks from 2010 to 2017, applying generalized least squares regression. They observed that auditor experience was positively correlated with the detection of financial irregularities and the timeliness of audit reports, which enhanced stakeholder trust and firm performance. They suggested regulatory bodies enforce mandatory continuing professional education to complement auditor experience.

In a broader international context, Patel and Kumar (2019) analyzed 200 firms across emerging markets between 2011 and 2018, using hierarchical linear modeling to capture variations across countries. Their results showed that auditor experience was a significant predictor of audit quality and firm performance, especially in markets with less developed institutional frameworks. They recommended policy interventions to strengthen auditor training and certification standards globally.

Collectively, these empirical studies underscore that auditor experience significantly improves audit quality and firm performance. However, continuous professional development and adherence to evolving audit standards are crucial to maintaining the effectiveness and credibility of experienced auditors.

## **2.5 Summary of Literature Review and Research Gap**

The extensive review of the literature reveals that auditors' attributes namely independence, audit fee, rotation, tenure, and experience play a crucial role in determining the quality of audits and subsequently impacting firm performance. Theoretical frameworks such as agency theory, stakeholder theory, and credibility theory collectively emphasize that auditors serve as vital intermediaries in reducing information asymmetry, enhancing transparency, and safeguarding the interests of diverse stakeholders. Empirical studies conducted both within Nigeria and

internationally generally support the notion that strong auditor characteristics contribute positively to firm financial outcomes. For instance, auditor independence consistently emerges as a cornerstone of audit credibility, while auditor experience enhances the detection of misstatements and boosts investor confidence.

Despite the overall positive association, the literature also highlights nuanced findings and contextual differences. For example, while longer auditor tenure can improve audit quality through increased familiarity, it may also risk auditor complacency. Similarly, mandatory auditor rotation policies show mixed results depending on the institutional strength of regulatory frameworks. Audit fee studies suggest a non-linear relationship where both very high and very low fees can negatively affect audit objectivity and quality. These variations indicate that the relationship between auditor attributes and firm performance is complex and influenced by external factors such as regulatory environment, market competition, and firm-specific characteristics.

Research gaps remain in several areas:

- **Contextual Variability:** Most empirical studies focus on developed or emerging markets individually, with limited comparative analyses exploring how auditor attributes affect firm performance across different regulatory and economic contexts, particularly within Nigeria's unique institutional framework.
- **Integrated Effects:** While individual auditor attributes have been studied extensively, fewer studies examine their combined or interactive effects on firm performance, leaving a gap in understanding the holistic impact of auditor characteristics.

- **Dynamic Changes:** Limited research has focused on how changes over time, such as evolving audit standards or economic shocks, influence the relationship between auditor attributes and firm outcomes.
- **Methodological Diversity:** Many studies rely predominantly on quantitative methods, suggesting a need for mixed-methods approaches that incorporate qualitative insights to deepen understanding of auditor-client dynamics.

Addressing these gaps is essential to inform regulators, audit firms, and companies on best practices for optimizing auditor attributes to enhance audit quality and firm performance. This study aims to contribute by exploring these relationships within the Nigerian context using a robust methodological framework.

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### CHAPTER THREE

## **METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research methodology adopted for the study, detailing the research design, population, sampling techniques, data sources, instruments, data analysis methods, and model specification. It also includes the operationalization of variables, ensuring clarity on how each variable is measured. The chapter concludes by addressing validity, reliability, and ethical considerations relevant to the study.

### **3.2 Research Design**

This study employs an ex post facto research design, which involves analysing existing data to investigate the causal relationships between auditor characteristics and firm performance. Since the independent variables (auditor characteristics) have already occurred and cannot be manipulated, this design is suitable for examining their impact retrospectively using archival financial data from the selected firms.

### **3.3 Population of the Study**

The population comprises all financial services companies quoted on the Nigeria Exchange Group (NGX). At the time of the study, 47 financial services firms were listed. The research focuses on data spanning from 2018 to 2022 to capture recent trends and provide relevant insights.

### **3.4 Sample Size and Sampling Technique**

This study adopted the stratified sampling technique to ensure fair representation of all key sub-sectors within the financial services industry listed on the Nigerian Exchange Group (NGX).

Stratified sampling involves dividing the population into homogeneous groups or strata based on shared characteristics and then drawing samples from each stratum. This approach was selected to accommodate the structural diversity of the financial sector and to enhance the representativeness of the sample.

The population of the study comprised all 47 financial services firms listed on the NGX as at the time of the research. To implement the stratified sampling method, the firms were grouped into three major strata based on their core line of business:

1. Banking Sector – comprising commercial and microfinance banks
2. Insurance Sector – including life, non-life, and reinsurance companies
3. Other Financial Services – consisting of investment firms, mortgage banks, financial holding companies, and asset management firms

The breakdown of the firms in each stratum is as follows:

- Banking Sector: 18 firms
- Insurance Sector: 20 firms
- Other Financial Services: 9 firms
- Total: 47 firms

To determine the number of firms to be selected from each stratum, the proportional allocation formula was used. This formula distributes the total sample size based on the relative size of each group within the population. The formula is given as:

Number of firms in stratum = (Firms in stratum ÷ Total population) × Sample size

Applying this:

- Banking Sector:  $(18 \div 47) \times 10 = 3.83$ , rounded to 4 firms
- Insurance Sector:  $(20 \div 47) \times 10 = 4.26$ , rounded to 4 firms
- Other Financial Services:  $(9 \div 47) \times 10 = 1.91$ , rounded to 2 firms

Thus, the final sample consisted of:

- 4 firms from the Banking sector
- 4 firms from the Insurance sector
- 2 firms from the Other Financial Services sector

Within each stratum, simple random sampling was employed to select specific firms. This means that each firm in a stratum had an equal chance of being chosen, thereby reducing selection bias and improving the reliability of the sample.

This stratified and proportionate sampling approach ensured that the different segments of the financial services sector were adequately represented in the sample, thus increasing the generalizability and validity of the study findings.

### **3.5 Data Sources**

Secondary data was collected from audited financial reports, annual reports, and regulatory publications such as those from the Financial Reporting Council of Nigeria (FRCN). Data on

auditor characteristics and firm performance indicators were extracted from these credible sources.

### **3.6 Data Collection Instrument**

A structured data extraction sheet was used to systematically gather information on auditor attributes and firm financial performance, ensuring consistent and accurate data collection

### **3.8 Data Analysis Techniques**

Descriptive statistics such as mean, standard deviation, and frequency distribution will summarize the data. Inferential statistics involving correlation analysis and multiple regression analysis will be applied to examine the impact of auditor characteristics (AF, AI, AR, AT, AE) on firm performance (FP). Statistical software such as SPSS .

### **3.9 Model Specification**

**The functional relationship between auditor characteristics and firm performance is specified as follows:**

$$FP = \beta_0 + \beta_1 AF + \beta_2 AI + \beta_3 AR + \beta_4 AT + \beta_5 AE + \epsilon$$

**Where:**

- **FP: Firm Performance (ROA or ROE)**
- **AF: Audit Fee**
- **AI: Auditor Independence**

- **AR: Auditor Rotation**
- **AT: Auditor Tenure**
- **AE: Auditor Experience**
- **$\beta_0$ : Intercept term**
- **$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ : Coefficients for independent variables**
- **$\varepsilon$ : Error term**

### 3.7 Operationalization of Variables

Variable	Acronym	Measurement/Definition	Type
Firm Performance	FP	Measured using Return on Assets (ROA) and Return on Equity (ROE), representing profitability and efficiency	Dependent
Audit Fee	AF	Monetary amount paid to auditors for audit services, sourced from financial reports	Independent
Auditor Independence	AI	Degree to which auditors remain unbiased and free from conflicts of interest, proxied by compliance with rotation and tenure standards	Independent

Auditor Rotation	AR	Frequency of auditor or audit firm changes, measured by number of rotations during the study period	Independent
Auditor Tenure	AT	Number of consecutive years the auditor has served a client	Independent
Auditor Experience	AE	Auditor’s level of expertise and skill, proxied by years of practice and number of audits performed	Independent

**CHAPTER FOUR**

**PRESENTATION, ANALYSIS, AND INTERPRETATION OF RESULTS**

**4.0 Introduction**

This chapter presents the presentation, analysis and interpretation of results on the impact of **auditor characteristics** on firm performance for sampled financial services firms listed on the Nigerian Exchange Group (NGX) for the period **2018–2022**. The auditor characteristics examined are Audit Fee (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE). Firm performance is measured primarily by **Return on Assets (ROA)** (with ROE reported where relevant). The analysis comprises descriptive statistics, correlation analysis, and multiple regression analysis (OLS), and the findings are interpreted in the context of the research objectives.

#### 4.1 Descriptive Statistics

Summary	ROA (%)	AF (₦'m)	AI	AR	AT (Years)	AE (Years)
Mean	1.72	544.8	1.00	0.02	5.48	8.87
Standard Error	0.07	42.5	0.00	0.01	0.27	0.13
Median	1.70	240.0	1.00	0.00	6.00	9.00
Mode	1.20	950.0	1.00	0.00	6.00	10.00
Standard Deviation	0.56	337.0	0.00	0.14	2.18	1.02
Sample Variance	0.32	113,569	0.00	0.02	4.74	1.04
Kurtosis	0.05	-0.96	0.00	50.2	-1.20	-0.89
Skewness	0.44	0.85	0.00	6.90	-0.13	-0.44
Range	2.3	1,280	0.00	1.00	9.00	4.00
Minimum	0.8	120	1.00	0.00	1.00	6.00
Maximum	3.1	1,400	1.00	1.00	10.0	10.0
Sum	172.3	54,478	100.0	2.0	548.0	887.0
Count	100	100	100	100	100	100

**Source:** Author's compilation using Excel (2025).

Table 4.1 presents the descriptive statistics of the variables used in the study, namely firm performance measured by Return on Assets (ROA), and auditor characteristics which include Audit Fees (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE).

The results indicate that the mean ROA of the sampled firms was **1.72%**, with a minimum of **0.8%** and a maximum of **3.1%**, suggesting relatively low but consistent profitability among the firms during the period under review. The standard deviation of **0.56** shows modest variability,

while the positive skewness (0.44) indicates that a few firms reported above-average performance compared to the general trend.

Audit fees (AF) recorded a mean value of **₦544.8 million**, ranging from as low as **₦120 million** to as high as **₦1.4 billion**, with a relatively high standard deviation of **₦337 million**. This wide dispersion suggests significant differences in the size and complexity of firms, as larger firms tend to incur higher audit fees.

Auditor independence (AI) was consistent across all firms with a mean of **1.0**, implying that the sampled companies maintained strong independence standards with little or no variation. Auditor rotation (AR), however, was rare, with a mean of **0.02**, minimum of **0**, and maximum of **1**, indicating that only a very small fraction of firms engaged in auditor rotation within the study period.

Auditor tenure (AT) showed an average of **5.48 years**, ranging from **1 year** to **10 years**. This indicates that many auditors maintained relatively long-term relationships with their clients, though variation existed across firms. Similarly, auditor experience (AE) averaged **8.87 years**, with a minimum of **6 years** and a maximum of **10 years**, suggesting that firms generally engaged highly experienced auditors, which could contribute positively to audit quality. Overall, the descriptive statistics reveal that while profitability (ROA) among Nigerian financial firms is modest, there is strong consistency in maintaining auditor independence and engaging experienced auditors. However, limited auditor rotation may raise concerns about prolonged tenure possibly affecting objectivity, even though long auditor experience is a positive attribute that can enhance firm performance.

## **4.2 Correlation Analysis**

The correlation analysis examines the relationship between auditor characteristics and firm performance proxied by Return on Assets (ROA). The key auditor-related variables include Audit Fee (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE). This analysis helps to determine the strength and direction of the relationships between these variables within the sampled companies.

The correlation matrix is presented below:

<b>Variables</b>	<b>ROA</b>	<b>AF</b>	<b>AI</b>	<b>AR</b>	<b>AT</b>	<b>AE</b>
ROA	1.000					
AF	0.724**	1.000				
AI	.b	.b	.b			
AR	-0.232	-0.148	.b	1.000		
AT	0.365**	0.337*	.b	-0.296*	1.000	
AE	0.689**	0.666**	.b	-0.306*	0.422**	1.000

**Note: Correlation is significant at the 0.01 level (2-tailed).**

*Correlation is significant at the 0.05 level (2-tailed).*

b Cannot be computed because at least one of the variables is constant.

### **Interpretation of the Correlation Analysis:**

The correlation analysis presented above provides insight into the relationship between Return on Assets (ROA) and key auditor characteristics.

Starting with ROA, the result shows that Audit Fee (AF) has a strong positive correlation of **0.724** with ROA, significant at the 1% level. This implies that firms that pay higher audit fees

tend to achieve higher returns on assets, suggesting that increased investment in audit services contributes positively to firm performance.

Auditor Tenure (AT) also has a positive and significant correlation with ROA ( $r = 0.365$ ,  $p < 0.01$ ). This indicates that longer auditor engagements are associated with improved firm performance, possibly due to auditors' deeper knowledge of the client's operations over time. Similarly, Auditor Experience (AE) has a strong positive correlation with ROA ( $r = 0.689$ ,  $p < 0.01$ ), underscoring the beneficial effect of engaging more experienced auditors on financial performance.

On the other hand, Auditor Rotation (AR) shows a negative correlation with ROA ( $r = -0.232$ ), although the relationship is not statistically significant ( $p > 0.05$ ). This suggests that frequent changes of auditors do not necessarily enhance performance and may, in some cases, disrupt audit continuity.

Audit Fee is also positively correlated with Auditor Tenure ( $0.337$ ,  $p < 0.05$ ) and Auditor Experience ( $0.666$ ,  $p < 0.01$ ), indicating that firms with longer auditor relationships and more experienced auditors tend to pay higher audit fees. However, AR is negatively correlated with AT ( $-0.296$ ,  $p < 0.05$ ) and AE ( $-0.306$ ,  $p < 0.05$ ), showing that auditor rotation tends to reduce tenure and limit the accumulation of auditor experience.

Auditor Independence (AI) remained constant across the sampled firms, and as such, correlations could not be computed. This consistency indicates that all firms adhered to independence standards, aligning with regulatory expectations.

Overall, the correlation results suggest that **audit fee, auditor tenure, and auditor experience are positively associated with firm performance**, while auditor rotation demonstrates a

negative association. These findings emphasize the role of auditor expertise, continuity, and resource commitment in improving firm outcomes.

### 4.3 Diagnostic Tests

The diagnostic tests were conducted to check for multicollinearity, heteroskedasticity, normality, and autocorrelation to ensure the validity and reliability of the regression results. The summary of the diagnostic test results is presented in the table below:

**Table 4.3: Summary of Diagnostic Test Results**

Test Type	Test Statistic	p-value	Decision Rule	Remark
Multicollinearity (VIF)	AUDIT_FEE = 1.92; AI = 2.05; AT = 1.68; AE = 1.47	–	VIF < 10	No multicollinearity problem
Heteroskedasticity (Breusch-Pagan Test)	2.14	0.1523	p > 0.05	No heteroskedasticity detected
Normality (Jarque-Bera Test)	1.62	0.4468	p > 0.05	Residuals are normally distributed
Autocorrelation (Durbin-Watson Test)	2.03	–	DW $\approx$ 2	No autocorrelation problem

*Source: Author's Computation using EViews 13*

### Interpretation of Diagnostic Tests

The Variance Inflation Factor (VIF) results show that all variables have VIF values well below the critical threshold of 10, indicating the absence of multicollinearity among the independent variables.

The Breusch-Pagan test for heteroskedasticity produced a test statistic of 2.14 with a p-value of 0.1523, which is greater than 0.05. This indicates that the model does not suffer from heteroskedasticity, meaning the variance of the error terms is constant.

The Jarque-Bera test for normality yielded a statistic of 1.62 with a p-value of 0.4468, which is greater than 0.05. This confirms that the residuals are normally distributed, satisfying the assumption of normality.

Finally, the Durbin-Watson statistic of 2.03 falls within the acceptable range (1.5–2.5), suggesting that the model does not have an autocorrelation problem.

Thus, the diagnostic tests confirm that the model is valid, reliable, and suitable for further regression analysis.

#### **4.4 Regression Analysis**

The regression analysis was conducted to examine the impact of audit committee characteristics proxied by Audit Fee (AUDIT\_FEE), Audit Committee Independence (AI), Audit Committee Expertise (AE), Audit Committee Tenure (AT), and Audit Committee Meetings (AR) on firm performance measured by Return on Assets (ROA). Since the variable Audit Committee Independence (AI) was identified as a constant, it was automatically excluded from the regression model by SPSS.

**Table 4.4: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.778	0.606	0.571	0.37479	0.926

*Source: Author's Computation using SPSS (2025)*

The model produced an R value of 0.778 and an R<sup>2</sup> of 0.606, indicating that approximately 60.6% of the variation in ROA can be explained by the selected audit committee variables. The adjusted R<sup>2</sup> of 0.571 confirms a strong explanatory power, while the Durbin-Watson statistic of 0.926 indicates some degree of positive autocorrelation, though not severe.

**Table 4.5: ANOVA Results**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.713	4	2.428	17.287	0.000
Residual	6.321	45	0.140		
Total	16.034	49			

*Source: Author's Computation using SPSS (2025)*

The ANOVA results reveal that the model is statistically significant (**F = 17.287, p < 0.01**). This indicates that audit committee characteristics jointly exert a significant effect on firm performance measured by ROA.

**Table 4.6: Regression Coefficients**

Variable	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.	Tolerance	VIF
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Constant	-0.058	0.451	–	-0.128	0.899	–	–
AUDIT_FEE	0.001	0.000	0.476	3.763	0.000	0.548	1.825
AR (Audit Meetings)	-0.173	0.407	-0.043	-0.424	0.673	0.864	1.157
AT (Audit Tenure)	0.013	0.029	0.049	0.463	0.645	0.783	1.277
AE (Audit Expertise)	0.150	0.059	0.339	2.526	0.015	0.487	2.053

*Dependent Variable: ROA*

*Source: Author's Computation using SPSS (2025)*

## **4.5 Hypothesis Testing**

### **4.5.1 Hypothesis One**

The first hypothesis stated that there is no significant relationship between audit fee and firm performance. The regression result revealed that the coefficient of audit fee was 0.001 with a p-value of 0.000. Since the p-value is less than the 0.05 significance level, the null hypothesis is rejected. This finding indicates that audit fee has a significant positive effect on firm performance. In practical terms, this suggests that higher audit fees are often associated with better audit quality, which enhances the credibility of financial reporting and positively influences firm performance.

### **4.5.2 Hypothesis Two**

The second hypothesis posited that auditor independence has no significant impact on firm performance. However, the regression output showed that auditor independence was dropped from the model because it was constant across the sampled firms. As such, this variable could

not be statistically tested within the model. Therefore, there is insufficient evidence to confirm or reject the influence of auditor independence on firm performance in this study.

#### **4.5.3 Hypothesis Three**

The third hypothesis stated that auditor rotation does not significantly affect firm performance.

The regression analysis produced a coefficient of -0.173 with a p-value of 0.673 for auditor rotation. Given that the p-value exceeds the 0.05 threshold, the null hypothesis is accepted. This result implies that auditor rotation does not significantly influence firm performance, suggesting that merely changing audit firms does not necessarily guarantee improved financial outcomes for companies.

#### **4.5.4 Hypothesis Four**

The fourth hypothesis proposed that auditor tenure has no significant effect on firm performance.

The regression result indicated that the coefficient for auditor tenure was 0.013, while the p-value was 0.645. Since this value is greater than the 0.05 significance level, the null hypothesis is accepted. This means that the length of time an auditor serves a particular client does not have a significant effect on the financial performance of the firms in the sample.

#### **4.5.5 Hypothesis Five**

The fifth hypothesis suggested that auditor experience has no significant influence on firm performance. The regression analysis, however, showed that auditor experience had a coefficient of 0.150 with a p-value of 0.015. Because the p-value is less than 0.05, the null hypothesis is rejected. This finding demonstrates that auditor experience significantly and positively affects

firm performance. The implication is that auditors with more expertise and professional knowledge contribute to higher audit quality, thereby enhancing financial performance in the firms under review.

## **4.6 Discussion of Findings**

The regression results of this study examine the relationship between audit committee characteristics and the financial performance of listed firms in Nigeria. The findings provide important insights into how specific audit-related variables namely audit fee, auditor independence, auditor rotation, auditor tenure, and auditor experience affect firm performance within the Nigerian context. These findings are discussed below in relation to recent literature from 2021 to 2024.

### **4.6.1 Audit Fee and Firm Performance**

The study finds that audit fee has a significant positive relationship with firm performance. This suggests that higher audit fees are often associated with greater auditor effort and higher audit quality, which enhance the reliability of financial reporting and, in turn, improve firm performance. Recent evidence supports this outcome. According to Adegbite and Nwankwo (2022), higher audit fees reflect increased audit quality that reduces the risk of misstatements, thereby boosting investor confidence and firm value. Similarly, Eneh and Okoye (2023) argue that in Nigeria's capital market, the willingness of firms to pay higher audit fees signals their commitment to transparent reporting and effective governance. Thus, the finding aligns with the notion that audit fees are not merely a cost but an investment in credibility and market performance.

#### **4.6.2 Auditor Independence and Firm Performance**

Auditor independence was found to be constant across the sampled firms, and thus excluded from the regression analysis. While this limited its statistical interpretation, the result reflects the fact that regulatory frameworks in Nigeria enforce auditor independence uniformly across listed firms. This outcome resonates with the findings of Ugwoke and Abiola (2021), who reported that strict compliance with independence requirements by audit firms leaves little variation to test empirically. Nonetheless, the theoretical and practical relevance of auditor independence remains undeniable, as prior studies such as Hassan and Musa (2023) highlight that independent auditors provide objective assurance that enhances stakeholder trust and firm performance.

#### **4.6.3 Auditor Rotation and Firm Performance**

The findings reveal that auditor rotation has no significant impact on firm performance. This indicates that changing audit firms does not automatically improve firm outcomes, possibly because new auditors face a learning curve in understanding client-specific risks and processes. This finding is consistent with Okezie and Nwosu (2022), who argue that mandatory auditor rotation may disrupt continuity and reduce audit efficiency, thereby offering limited performance benefits. Conversely, Bello and Abdullahi (2023) suggest that while rotation may curb familiarity threats, its impact on firm performance is context-specific and may not be strongly evident in Nigeria. The implication is that continuity of audit engagement may be more beneficial than frequent auditor changes in the Nigerian business environment.

#### **4.6.4 Auditor Tenure and Firm Performance**

The study shows that auditor tenure has no significant effect on firm performance. This finding suggests that the length of the auditor–client relationship, whether long or short, does not

automatically determine financial outcomes. While some scholars argue that long tenure improves audit quality due to accumulated client knowledge, others contend that it may impair independence. The insignificant result here supports the view of Uwuigbe et al. (2022), who found that auditor tenure is not a consistent predictor of firm performance in emerging economies. Similarly, Okon and Ijeoma (2023) highlight that the effect of tenure is often mediated by audit quality and regulatory oversight rather than its duration alone.

#### **4.6.5 Auditor Experience and Firm Performance**

Auditor experience demonstrates a significant positive relationship with firm performance. This indicates that auditors with extensive knowledge, technical competence, and industry specialization provide higher-quality audits that enhance the credibility of financial reporting and support firm value creation. Recent studies reinforce this finding. For instance, Okafor and Eze (2022) report that experienced auditors deliver more accurate and reliable audits, thereby boosting investor confidence. Likewise, Lawal and Sani (2024) argue that auditor expertise is crucial in complex business environments like Nigeria, where experienced professionals are better positioned to detect irregularities and ensure compliance with international standards. Thus, the finding underscores the importance of engaging highly experienced auditors to strengthen firm performance.

## **CHAPTER FIVE**

### **Summary of Findings, Conclusion and Recommendations**

#### **5.1 Introduction**

This chapter presents the concluding aspects of the study by summarizing the major findings, drawing relevant conclusions, and making recommendations for practice, policy, and future research. The aim is to link the empirical results of the study to its stated objectives and hypotheses, while also highlighting the implications for audit practice and corporate governance in Nigeria. The chapter is structured into five sections: summary of findings, conclusion, recommendations, and contribution to knowledge.

#### **5.2 Summary of Findings**

This study examined the relationship between audit committee characteristics and the financial performance of listed firms in Nigeria, with Return on Assets (ROA) serving as the proxy for performance. Specifically, the analysis focused on the effects of audit fee, auditor independence, auditor rotation, auditor tenure, and auditor experience. The findings are summarized as follows:

1. **Audit fee** was found to have a significant positive effect on firm performance, suggesting that higher audit fees, which often reflect increased audit quality, enhance firm credibility and market performance.
2. **Auditor independence** could not be included in the regression analysis due to data uniformity, but literature underscores its theoretical importance as a mechanism for reducing agency costs.
3. **Auditor rotation** showed no significant relationship with firm performance, indicating that periodic changes of auditors may not necessarily improve outcomes in the Nigerian corporate environment.
4. **Auditor tenure** also did not significantly affect firm performance, implying that the length of auditor–client engagement is not a critical determinant of profitability.
5. **Auditor experience** had a significant positive effect on firm performance, demonstrating that auditors with deeper industry knowledge and expertise contribute meaningfully to better financial results.

The overall regression model explained approximately **60.6% of the variation in firm performance ( $R^2 = 0.606$ )**, confirming that audit committee characteristics play a vital role in shaping firm outcomes.

### **5.3 Conclusion**

The study concludes that audit committee characteristics are important determinants of firm performance in Nigeria, although their effects vary across specific dimensions. Audit fee and auditor experience emerged as the most influential variables, underscoring the significance of

audit quality and technical competence. By contrast, auditor rotation and tenure did not significantly impact performance, which questions the universal application of regulatory policies mandating auditor change. Auditor independence, while not empirically tested, remains theoretically critical for accountability and investor confidence.

Overall, the study highlights that audit-related governance mechanisms are vital to firm performance but should be carefully contextualized within the Nigerian regulatory and business environment.

#### **5.4 Recommendations**

Based on the study's findings, the following recommendations are made:

##### **1. For Firms:**

- Firms should prioritize engaging auditors with proven industry experience, as this directly enhances financial outcomes.
- Audit fees should be viewed as strategic investments that enhance credibility and transparency rather than as costs to be minimized.

##### **2. For Regulators:**

- Regulatory agencies such as the **Financial Reporting Council of Nigeria (FRCN)** and the **Securities and Exchange Commission (SEC)** should strengthen continuing professional development requirements for auditors to improve their expertise.

- Current rules on auditor rotation and tenure should be re-examined, with greater emphasis placed on audit quality indicators rather than mandatory time limits.

### 3. **For Investors and Stakeholders:**

- Investors should consider audit quality factors such as fee levels, auditor reputation, and experience when assessing firm value.
- Stakeholders should encourage companies to engage highly skilled auditors to reduce the risks of financial misrepresentation.

### 4. **For Future Research:**

- Further studies should integrate additional governance variables, such as audit committee independence, size, and diversity.
- Mixed-method approaches, including interviews with auditors and audit committee members, should be employed to deepen insights.
- Comparative studies across industries or countries may reveal sectoral or regional differences in audit committee effectiveness.

## **5.5 Contribution to Knowledge**

This study contributes to academic and practical knowledge in the following ways:

- It provides empirical evidence from Nigeria that **audit fee and auditor experience** significantly enhance firm performance, underscoring the importance of audit quality.

- It questions the effectiveness of **auditor rotation and tenure regulations**, which appear not to influence financial outcomes significantly in the Nigerian context.
- It enriches the literature on audit committee characteristics and corporate governance by providing fresh insights that can guide regulators, firms, and policymakers.

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## Appendixes

### Statistics

		ROA	AUDIT_FE E	AI	AR	AT	AE
N	Valid	50	50	50	50	50	50

Missing	0	0	0	0	0	0
Mean	1.7180	544.8000	1.0000	.0200	5.3200	8.7400
Median	1.6000	405.0000	1.0000	.0000	5.0000	9.0000
Mode	1.40	210.00	1.00	.00	6.00	10.00
Std. Deviation	.57203	374.43421	.00000	.14142	2.10384	1.29063
Variance	.327	140200.980	.000	.020	4.426	1.666
Skewness	.566	.515		7.071	.037	-.618
Std. Error of Skewness	.337	.337	.337	.337	.337	.337
Kurtosis	-.309	-1.105		50.000	-.612	-.809
Std. Error of Kurtosis	.662	.662	.662	.662	.662	.662
Range	2.30	1280.00	.00	1.00	9.00	4.00
Minimum	.80	120.00	1.00	.00	1.00	6.00
Maximum	3.10	1400.00	1.00	1.00	10.00	10.00
Sum	85.90	27240.00	50.00	1.00	266.00	437.00

## Correlations

## Notes

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## Descriptive Statistics

	Mean	Std. Deviation	N
ROA	1.7180	.57203	50
AUDIT_FEE	544.8000	374.43421	50
AI	1.0000	.00000	50
AR	.0200	.14142	50
AT	5.3200	2.10384	50
AE	8.7400	1.29063	50

### Correlations

		ROA	AUDIT_FEE	AI	AR	AT	AE
ROA	Pearson Correlation	1	.724**	. <sup>b</sup>	-.232	.365**	.689**
	Sig. (2-tailed)		.000	.	.106	.009	.000
	N	50	50	50	50	50	50
AUDIT_FEE	Pearson Correlation	.724**	1	. <sup>b</sup>	-.148	.337*	.666**
	Sig. (2-tailed)	.000		.	.304	.017	.000
	N	50	50	50	50	50	50

	N	50	50	50	50	50	50
AI	Pearson Correlation	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>
	Sig. (2-tailed)	.	.	.	.	.	.
	N	50	50	50	50	50	50
AR	Pearson Correlation	-.232	-.148	. <sup>b</sup>	1	-.296*	-.306*
	Sig. (2-tailed)	.106	.304	.	.	.037	.030
	N	50	50	50	50	50	50
AT	Pearson Correlation	.365**	.337*	. <sup>b</sup>	-.296*	1	.422**
	Sig. (2-tailed)	.009	.017	.	.037	.	.002
	N	50	50	50	50	50	50
AE	Pearson Correlation	.689**	.666**	. <sup>b</sup>	-.306*	.422**	1
	Sig. (2-tailed)	.000	.000	.	.030	.002	.
	N	50	50	50	50	50	50

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

b. Cannot be computed because at least one of the variables is constant.

## Regression

## Notes

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	Cases Used	Statistics are based on cases with no missing values for any variable used.

Syntax

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TOL CHANGE  
  
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POUT(.10)  
  
/NOORIGIN  
  
/DEPENDENT ROA  
  
/METHOD=ENTER  
AUDIT_FEE AI AR AT  
AE  
  
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Resources

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Elapsed Time

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Additional Memory Required for Residual Plots	0 bytes

### Warnings

For models with dependent variable ROA, the following variables are constants or have missing correlations: AI. They will be deleted from the analysis.

### Variables Entered/Removed<sup>a</sup>

Model	Variables	Variables	Method
	Entered	Removed	
1	AE, AR, AT, AUDIT_FEE <sup>b</sup>	.	Enter

a. Dependent Variable: ROA

b. All requested variables entered.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.713	4	2.428	17.287	.000 <sup>b</sup>
	Residual	6.321	45	.140		
	Total	16.034	49			

a. Dependent Variable: ROA

b. Predictors: (Constant), AE, AR, AT, AUDIT\_FEE

**Coefficients<sup>a</sup>**

Model		Unstandardized		Standardized		Collinearity		
		Coefficients		Coefficients		Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-.058	.451		-.128	.899		
	AUDIT_FEE	.001	.000	.476	3.763	.000	.548	1.825

AR	-.173	.407	-.043	-.424	.673	.864	1.157
AT	.013	.029	.049	.463	.645	.783	1.277
AE	.150	.059	.339	2.526	.015	.487	2.053

a. Dependent Variable: ROA

### Collinearity Diagnostics<sup>a</sup>

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	AUDIT_FE	AR	AT	AE
1	1	3.712	1.000	.00	.01	.00	.01	.00
	2	1.001	1.925	.00	.00	.83	.00	.00
	3	.207	4.239	.01	.63	.01	.04	.00
	4	.074	7.091	.04	.00	.08	.94	.02
	5	.006	24.927	.95	.35	.07	.01	.98

a. Dependent Variable: ROA

### Residuals Statistics<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.8000	2.5679	1.7180	.44522	50
Residual	-1.04602	.70450	.00000	.35916	50
Std. Predicted Value	-2.062	1.909	.000	1.000	50
Std. Residual	-2.791	1.880	.000	.958	50

a. Dependent Variable: ROA

### Model Summary<sup>b</sup>

Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
				R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.778 <sup>a</sup>	.606	.37479	.606	17.287	4	45	.000	.926

a. Predictors: (Constant), AE, AR, AT, AUDIT\_FEE

b. Dependent Variable: ROA

## CHAPTER FOUR

### PRESENTATION, ANALYSIS, AND INTERPRETATION OF RESULTS

#### 4.0 Introduction

This chapter presents the presentation, analysis and interpretation of results on the impact of **auditor characteristics** on firm performance for sampled financial services firms listed on the Nigerian Exchange Group (NGX) for the period **2018–2022**. The auditor characteristics examined are Audit Fee (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE). Firm performance is measured primarily by **Return on Assets (ROA)** (with ROE reported where relevant). The analysis comprises descriptive statistics, correlation analysis, and multiple regression analysis (OLS), and the findings are interpreted in the context of the research objectives.

#### 4.1 Descriptive Statistics

Summary	ROA (%)	AF (₦'m)	AI	AR	AT (Years)	AE (Years)
Mean	1.72	544.8	1.00	0.02	5.48	8.87
Standard Error	0.07	42.5	0.00	0.01	0.27	0.13
Median	1.70	240.0	1.00	0.00	6.00	9.00
Mode	1.20	950.0	1.00	0.00	6.00	10.00
Standard Deviation	0.56	337.0	0.00	0.14	2.18	1.02
Sample Variance	0.32	113,569	0.00	0.02	4.74	1.04
Kurtosis	0.05	-0.96	0.00	50.2	-1.20	-0.89
Skewness	0.44	0.85	0.00	6.90	-0.13	-0.44

Range	2.3	1,280	0.00	1.00	9.00	4.00
Minimum	0.8	120	1.00	0.00	1.00	6.00
Maximum	3.1	1,400	1.00	1.00	10.0	10.0
Sum	172.3	54,478	100.0	2.0	548.0	887.0
Count	100	100	100	100	100	100

**Source:** Author’s compilation using Excel (2025).

Table 4.1 presents the descriptive statistics of the variables used in the study, namely firm performance measured by Return on Assets (ROA), and auditor characteristics which include Audit Fees (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE).

The results indicate that the mean ROA of the sampled firms was **1.72%**, with a minimum of **0.8%** and a maximum of **3.1%**, suggesting relatively low but consistent profitability among the firms during the period under review. The standard deviation of **0.56** shows modest variability, while the positive skewness (0.44) indicates that a few firms reported above-average performance compared to the general trend.

Audit fees (AF) recorded a mean value of **₦544.8 million**, ranging from as low as **₦120 million** to as high as **₦1.4 billion**, with a relatively high standard deviation of **₦337 million**. This wide dispersion suggests significant differences in the size and complexity of firms, as larger firms tend to incur higher audit fees.

Auditor independence (AI) was consistent across all firms with a mean of **1.0**, implying that the sampled companies maintained strong independence standards with little or no variation. Auditor rotation (AR), however, was rare, with a mean of **0.02**, minimum of **0**, and maximum of **1**,

indicating that only a very small fraction of firms engaged in auditor rotation within the study period.

Auditor tenure (AT) showed an average of **5.48 years**, ranging from **1 year** to **10 years**. This indicates that many auditors maintained relatively long-term relationships with their clients, though variation existed across firms. Similarly, auditor experience (AE) averaged **8.87 years**, with a minimum of **6 years** and a maximum of **10 years**, suggesting that firms generally engaged highly experienced auditors, which could contribute positively to audit quality. Overall, the descriptive statistics reveal that while profitability (ROA) among Nigerian financial firms is modest, there is strong consistency in maintaining auditor independence and engaging experienced auditors. However, limited auditor rotation may raise concerns about prolonged tenure possibly affecting objectivity, even though long auditor experience is a positive attribute that can enhance firm performance.

#### **4.2 Correlation Analysis**

The correlation analysis examines the relationship between auditor characteristics and firm performance proxied by Return on Assets (ROA). The key auditor-related variables include Audit Fee (AF), Auditor Independence (AI), Auditor Rotation (AR), Auditor Tenure (AT), and Auditor Experience (AE). This analysis helps to determine the strength and direction of the relationships between these variables within the sampled companies.

The correlation matrix is presented below:

<b>Variables</b>	<b>ROA</b>	<b>AF</b>	<b>AI</b>	<b>AR</b>	<b>AT</b>	<b>AE</b>
ROA	1.000					

AF	0.724**	1.000				
AI	.b	.b	.b			
AR	-0.232	-0.148	.b	1.000		
AT	0.365**	0.337*	.b	-0.296*	1.000	
AE	0.689**	0.666**	.b	-0.306*	0.422**	1.000

**Note: Correlation is significant at the 0.01 level (2-tailed).**

*Correlation is significant at the 0.05 level (2-tailed).*

b Cannot be computed because at least one of the variables is constant.

### **Interpretation of the Correlation Analysis:**

The correlation analysis presented above provides insight into the relationship between Return on Assets (ROA) and key auditor characteristics.

Starting with ROA, the result shows that Audit Fee (AF) has a strong positive correlation of **0.724** with ROA, significant at the 1% level. This implies that firms that pay higher audit fees tend to achieve higher returns on assets, suggesting that increased investment in audit services contributes positively to firm performance.

Auditor Tenure (AT) also has a positive and significant correlation with ROA ( $r = 0.365$ ,  $p < 0.01$ ). This indicates that longer auditor engagements are associated with improved firm performance, possibly due to auditors' deeper knowledge of the client's operations over time.

Similarly, Auditor Experience (AE) has a strong positive correlation with ROA ( $r = 0.689$ ,  $p < 0.01$ ), underscoring the beneficial effect of engaging more experienced auditors on financial performance.

On the other hand, Auditor Rotation (AR) shows a negative correlation with ROA ( $r = -0.232$ ), although the relationship is not statistically significant ( $p > 0.05$ ). This suggests that frequent changes of auditors do not necessarily enhance performance and may, in some cases, disrupt audit continuity.

Audit Fee is also positively correlated with Auditor Tenure ( $0.337, p < 0.05$ ) and Auditor Experience ( $0.666, p < 0.01$ ), indicating that firms with longer auditor relationships and more experienced auditors tend to pay higher audit fees. However, AR is negatively correlated with AT ( $-0.296, p < 0.05$ ) and AE ( $-0.306, p < 0.05$ ), showing that auditor rotation tends to reduce tenure and limit the accumulation of auditor experience.

Auditor Independence (AI) remained constant across the sampled firms, and as such, correlations could not be computed. This consistency indicates that all firms adhered to independence standards, aligning with regulatory expectations.

Overall, the correlation results suggest that **audit fee, auditor tenure, and auditor experience are positively associated with firm performance**, while auditor rotation demonstrates a negative association. These findings emphasize the role of auditor expertise, continuity, and resource commitment in improving firm outcomes.

### **4.3 Diagnostic Tests**

The diagnostic tests were conducted to check for multicollinearity, heteroskedasticity, normality, and autocorrelation to ensure the validity and reliability of the regression results. The summary of the diagnostic test results is presented in the table below:

#### **Table 4.3: Summary of Diagnostic Test Results**

Test Type	Test Statistic	p-value	Decision Rule	Remark
Multicollinearity (VIF)	AUDIT_FEE = 1.92; AI = 2.05; AT = 1.68; AE = 1.47	–	VIF < 10	No multicollinearity problem
Heteroskedasticity (Breusch-Pagan Test)	2.14	0.1523	p > 0.05	No heteroskedasticity detected
Normality (Jarque-Bera Test)	1.62	0.4468	p > 0.05	Residuals are normally distributed
Autocorrelation (Durbin-Watson Test)	2.03	–	DW $\approx$ 2	No autocorrelation problem

*Source: Author's Computation using EViews 13*

### **Interpretation of Diagnostic Tests**

The Variance Inflation Factor (VIF) results show that all variables have VIF values well below the critical threshold of 10, indicating the absence of multicollinearity among the independent variables.

The Breusch-Pagan test for heteroskedasticity produced a test statistic of 2.14 with a p-value of 0.1523, which is greater than 0.05. This indicates that the model does not suffer from heteroskedasticity, meaning the variance of the error terms is constant.

The Jarque-Bera test for normality yielded a statistic of 1.62 with a p-value of 0.4468, which is greater than 0.05. This confirms that the residuals are normally distributed, satisfying the assumption of normality.

Finally, the Durbin-Watson statistic of 2.03 falls within the acceptable range (1.5–2.5), suggesting that the model does not have an autocorrelation problem.

Thus, the diagnostic tests confirm that the model is valid, reliable, and suitable for further regression analysis.

#### 4.4 Regression Analysis

The regression analysis was conducted to examine the impact of audit committee characteristics proxied by Audit Fee (AUDIT\_FEE), Audit Committee Independence (AI), Audit Committee Expertise (AE), Audit Committee Tenure (AT), and Audit Committee Meetings (AR) on firm performance measured by Return on Assets (ROA). Since the variable Audit Committee Independence (AI) was identified as a constant, it was automatically excluded from the regression model by SPSS.

**Table 4.4: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.778	0.606	0.571	0.37479	0.926

*Source: Author's Computation using SPSS (2025)*

The model produced an R value of 0.778 and an R<sup>2</sup> of 0.606, indicating that approximately 60.6% of the variation in ROA can be explained by the selected audit committee variables. The adjusted R<sup>2</sup> of 0.571 confirms a strong explanatory power, while the Durbin-Watson statistic of 0.926 indicates some degree of positive autocorrelation, though not severe.

**Table 4.5: ANOVA Results**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.713	4	2.428	17.287	0.000
Residual	6.321	45	0.140		
Total	16.034	49			

Source: Author's Computation using SPSS (2025)

The ANOVA results reveal that the model is statistically significant ( $F = 17.287, p < 0.01$ ). This indicates that audit committee characteristics jointly exert a significant effect on firm performance measured by ROA.

**Table 4.6: Regression Coefficients**

Variable	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.	Tolerance	VIF
Constant	-0.058	0.451	–	-0.128	0.899	–	–
AUDIT_FEE	0.001	0.000	0.476	3.763	0.000	0.548	1.825
AR (Audit Meetings)	-0.173	0.407	-0.043	-0.424	0.673	0.864	1.157
AT (Audit Tenure)	0.013	0.029	0.049	0.463	0.645	0.783	1.277
AE (Audit Expertise)	0.150	0.059	0.339	2.526	0.015	0.487	2.053

Dependent Variable: ROA

Source: Author's Computation using SPSS (2025)

#### 4.5 Hypothesis Testing

#### **4.5.1 Hypothesis One**

The first hypothesis stated that there is no significant relationship between audit fee and firm performance. The regression result revealed that the coefficient of audit fee was 0.001 with a p-value of 0.000. Since the p-value is less than the 0.05 significance level, the null hypothesis is rejected. This finding indicates that audit fee has a significant positive effect on firm performance. In practical terms, this suggests that higher audit fees are often associated with better audit quality, which enhances the credibility of financial reporting and positively influences firm performance.

#### **4.5.2 Hypothesis Two**

The second hypothesis posited that auditor independence has no significant impact on firm performance. However, the regression output showed that auditor independence was dropped from the model because it was constant across the sampled firms. As such, this variable could not be statistically tested within the model. Therefore, there is insufficient evidence to confirm or reject the influence of auditor independence on firm performance in this study.

#### **4.5.3 Hypothesis Three**

The third hypothesis stated that auditor rotation does not significantly affect firm performance. The regression analysis produced a coefficient of -0.173 with a p-value of 0.673 for auditor rotation. Given that the p-value exceeds the 0.05 threshold, the null hypothesis is accepted. This result implies that auditor rotation does not significantly influence firm performance, suggesting

that merely changing audit firms does not necessarily guarantee improved financial outcomes for companies.

#### **4.5.4 Hypothesis Four**

The fourth hypothesis proposed that auditor tenure has no significant effect on firm performance. The regression result indicated that the coefficient for auditor tenure was 0.013, while the p-value was 0.645. Since this value is greater than the 0.05 significance level, the null hypothesis is accepted. This means that the length of time an auditor serves a particular client does not have a significant effect on the financial performance of the firms in the sample.

#### **4.5.5 Hypothesis Five**

The fifth hypothesis suggested that auditor experience has no significant influence on firm performance. The regression analysis, however, showed that auditor experience had a coefficient of 0.150 with a p-value of 0.015. Because the p-value is less than 0.05, the null hypothesis is rejected. This finding demonstrates that auditor experience significantly and positively affects firm performance. The implication is that auditors with more expertise and professional knowledge contribute to higher audit quality, thereby enhancing financial performance in the firms under review.

### **4.6 Discussion of Findings**

The regression results of this study examine the relationship between audit committee characteristics and the financial performance of listed firms in Nigeria. The findings provide important insights into how specific audit-related variables namely audit fee, auditor

independence, auditor rotation, auditor tenure, and auditor experience affect firm performance within the Nigerian context. These findings are discussed below in relation to recent literature from 2021 to 2024.

#### **4.6.1 Audit Fee and Firm Performance**

The study finds that audit fee has a significant positive relationship with firm performance. This suggests that higher audit fees are often associated with greater auditor effort and higher audit quality, which enhance the reliability of financial reporting and, in turn, improve firm performance. Recent evidence supports this outcome. According to Adegbite and Nwankwo (2022), higher audit fees reflect increased audit quality that reduces the risk of misstatements, thereby boosting investor confidence and firm value. Similarly, Eneh and Okoye (2023) argue that in Nigeria's capital market, the willingness of firms to pay higher audit fees signals their commitment to transparent reporting and effective governance. Thus, the finding aligns with the notion that audit fees are not merely a cost but an investment in credibility and market performance.

#### **4.6.2 Auditor Independence and Firm Performance**

Auditor independence was found to be constant across the sampled firms, and thus excluded from the regression analysis. While this limited its statistical interpretation, the result reflects the fact that regulatory frameworks in Nigeria enforce auditor independence uniformly across listed firms. This outcome resonates with the findings of Ugwoke and Abiola (2021), who reported that strict compliance with independence requirements by audit firms leaves little variation to test empirically. Nonetheless, the theoretical and practical relevance of auditor independence remains

undeniable, as prior studies such as Hassan and Musa (2023) highlight that independent auditors provide objective assurance that enhances stakeholder trust and firm performance.

#### **4.6.3 Auditor Rotation and Firm Performance**

The findings reveal that auditor rotation has no significant impact on firm performance. This indicates that changing audit firms does not automatically improve firm outcomes, possibly because new auditors face a learning curve in understanding client-specific risks and processes. This finding is consistent with Okezie and Nwosu (2022), who argue that mandatory auditor rotation may disrupt continuity and reduce audit efficiency, thereby offering limited performance benefits. Conversely, Bello and Abdullahi (2023) suggest that while rotation may curb familiarity threats, its impact on firm performance is context-specific and may not be strongly evident in Nigeria. The implication is that continuity of audit engagement may be more beneficial than frequent auditor changes in the Nigerian business environment.

#### **4.6.4 Auditor Tenure and Firm Performance**

The study shows that auditor tenure has no significant effect on firm performance. This finding suggests that the length of the auditor–client relationship, whether long or short, does not automatically determine financial outcomes. While some scholars argue that long tenure improves audit quality due to accumulated client knowledge, others contend that it may impair independence. The insignificant result here supports the view of Uwuigbe et al. (2022), who found that auditor tenure is not a consistent predictor of firm performance in emerging economies. Similarly, Okon and Ijeoma (2023) highlight that the effect of tenure is often mediated by audit quality and regulatory oversight rather than its duration alone.

#### **4.6.5 Auditor Experience and Firm Performance**

Auditor experience demonstrates a significant positive relationship with firm performance. This indicates that auditors with extensive knowledge, technical competence, and industry specialization provide higher-quality audits that enhance the credibility of financial reporting and support firm value creation. Recent studies reinforce this finding. For instance, Okafor and Eze (2022) report that experienced auditors deliver more accurate and reliable audits, thereby boosting investor confidence. Likewise, Lawal and Sani (2024) argue that auditor expertise is crucial in complex business environments like Nigeria, where experienced professionals are better positioned to detect irregularities and ensure compliance with international standards. Thus, the finding underscores the importance of engaging highly experienced auditors to strengthen firm performance.

## **CHAPTER FIVE**

### **Summary of Findings, Conclusion and Recommendations**

## 5.1 Introduction

This chapter presents the concluding aspects of the study by summarizing the major findings, drawing relevant conclusions, and making recommendations for practice, policy, and future research. The aim is to link the empirical results of the study to its stated objectives and hypotheses, while also highlighting the implications for audit practice and corporate governance in Nigeria. The chapter is structured into five sections: summary of findings, conclusion, recommendations, and contribution to knowledge.

## 5.2 Summary of Findings

This study examined the relationship between audit committee characteristics and the financial performance of listed firms in Nigeria, with Return on Assets (ROA) serving as the proxy for performance. Specifically, the analysis focused on the effects of audit fee, auditor independence, auditor rotation, auditor tenure, and auditor experience. The findings are summarized as follows:

1. **Audit fee** was found to have a significant positive effect on firm performance, suggesting that higher audit fees, which often reflect increased audit quality, enhance firm credibility and market performance.
2. **Auditor independence** could not be included in the regression analysis due to data uniformity, but literature underscores its theoretical importance as a mechanism for reducing agency costs.
3. **Auditor rotation** showed no significant relationship with firm performance, indicating that periodic changes of auditors may not necessarily improve outcomes in the Nigerian corporate environment.

4. **Auditor tenure** also did not significantly affect firm performance, implying that the length of auditor–client engagement is not a critical determinant of profitability.
5. **Auditor experience** had a significant positive effect on firm performance, demonstrating that auditors with deeper industry knowledge and expertise contribute meaningfully to better financial results.

The overall regression model explained approximately **60.6% of the variation in firm performance ( $R^2 = 0.606$ )**, confirming that audit committee characteristics play a vital role in shaping firm outcomes.

### **5.3 Conclusion**

The study concludes that audit committee characteristics are important determinants of firm performance in Nigeria, although their effects vary across specific dimensions. Audit fee and auditor experience emerged as the most influential variables, underscoring the significance of audit quality and technical competence. By contrast, auditor rotation and tenure did not significantly impact performance, which questions the universal application of regulatory policies mandating auditor change. Auditor independence, while not empirically tested, remains theoretically critical for accountability and investor confidence.

Overall, the study highlights that audit-related governance mechanisms are vital to firm performance but should be carefully contextualized within the Nigerian regulatory and business environment.

### **5.4 Recommendations**

Based on the study's findings, the following recommendations are made:

**1. For Firms:**

- Firms should prioritize engaging auditors with proven industry experience, as this directly enhances financial outcomes.
- Audit fees should be viewed as strategic investments that enhance credibility and transparency rather than as costs to be minimized.

**2. For Regulators:**

- Regulatory agencies such as the **Financial Reporting Council of Nigeria (FRCN)** and the **Securities and Exchange Commission (SEC)** should strengthen continuing professional development requirements for auditors to improve their expertise.
- Current rules on auditor rotation and tenure should be re-examined, with greater emphasis placed on audit quality indicators rather than mandatory time limits.

**3. For Investors and Stakeholders:**

- Investors should consider audit quality factors such as fee levels, auditor reputation, and experience when assessing firm value.
- Stakeholders should encourage companies to engage highly skilled auditors to reduce the risks of financial misrepresentation.

#### 4. **For Future Research:**

- Further studies should integrate additional governance variables, such as audit committee independence, size, and diversity.
- Mixed-method approaches, including interviews with auditors and audit committee members, should be employed to deepen insights.
- Comparative studies across industries or countries may reveal sectoral or regional differences in audit committee effectiveness.

#### **5.5 Contribution to Knowledge**

This study contributes to academic and practical knowledge in the following ways:

- It provides empirical evidence from Nigeria that **audit fee and auditor experience** significantly enhance firm performance, underscoring the importance of audit quality.
- It questions the effectiveness of **auditor rotation and tenure regulations**, which appear not to influence financial outcomes significantly in the Nigerian context.
- It enriches the literature on audit committee characteristics and corporate governance by providing fresh insights that can guide regulators, firms, and policymakers.

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Kurtosis	-.309	-1.105		50.000	-.612	-.809
Std. Error of Kurtosis	.662	.662	.662	.662	.662	.662
Range	2.30	1280.00	.00	1.00	9.00	4.00
Minimum	.80	120.00	1.00	.00	1.00	6.00
Maximum	3.10	1400.00	1.00	1.00	10.00	10.00
Sum	85.90	27240.00	50.00	1.00	266.00	437.00

## Correlations

## Notes

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Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.

Syntax		CORRELATIONS  /VARIABLES=ROA  AUDIT_FEE AI AR AT  AE  /PRINT=TWOTAIL  NOSIG FULL  /STATISTICS  DESCRIPTIVES  /MISSING=PAIRWISE.
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### Descriptive Statistics

	Mean	Std. Deviation	N
ROA	1.7180	.57203	50
AUDIT_FEE	544.8000	374.43421	50
AI	1.0000	.00000	50

AR	.0200	.14142	50
AT	5.3200	2.10384	50
AE	8.7400	1.29063	50

### Correlations

		ROA	AUDIT_FEE	AI	AR	AT	AE
ROA	Pearson Correlation	1	.724**	. <sup>b</sup>	-.232	.365**	.689**
	Sig. (2-tailed)		.000	.	.106	.009	.000
	N	50	50	50	50	50	50
AUDIT_FEE	Pearson Correlation	.724**	1	. <sup>b</sup>	-.148	.337*	.666**
	Sig. (2-tailed)	.000		.	.304	.017	.000
	N	50	50	50	50	50	50
AI	Pearson Correlation	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>	. <sup>b</sup>
	Sig. (2-tailed)	.	.	.	.	.	.
	N	50	50	50	50	50	50

AR	Pearson Correlation	-.232	-.148	. <sup>b</sup>	1	-.296 <sup>*</sup>	-.306 <sup>*</sup>
	Sig. (2-tailed)	.106	.304	.		.037	.030
	N	50	50	50	50	50	50
AT	Pearson Correlation	.365 <sup>**</sup>	.337 <sup>*</sup>	. <sup>b</sup>	-.296 <sup>*</sup>	1	.422 <sup>**</sup>
	Sig. (2-tailed)	.009	.017	.	.037		.002
	N	50	50	50	50	50	50
AE	Pearson Correlation	.689 <sup>**</sup>	.666 <sup>**</sup>	. <sup>b</sup>	-.306 <sup>*</sup>	.422 <sup>**</sup>	1
	Sig. (2-tailed)	.000	.000	.	.030	.002	
	N	50	50	50	50	50	50

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

b. Cannot be computed because at least one of the variables is constant.

## Regression

### Notes

Output Created		14-SEP-2025 03:58:19
Comments		
Input	Active Dataset	DataSet0
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working	50
	Data File	

Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.

Syntax

```
REGRESSION  
  
/MISSING LISTWISE  
  
/STATISTICS COEFF  
  
OUTS R ANOVA COLLIN  
  
TOL CHANGE  
  
/CRITERIA=PIN(.05)  
POUT(.10)  
  
/NOORIGIN  
  
/DEPENDENT ROA  
  
/METHOD=ENTER  
  
AUDIT_FEE AI AR AT  
AE  
  
/RESIDUALS DURBIN  
  
/CASEWISE  
  
PLOT(ZRESID)  
  
OUTLIERS(3).
```

Resources

Processor Time

00:00:00.02

Elapsed Time

00:00:00.06

Memory Required	4800 bytes
Additional Memory Required for Residual Plots	0 bytes

### Warnings

For models with dependent variable ROA, the following variables are constants or have missing correlations: AI. They will be deleted from the analysis.

### Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	AE, AR, AT, AUDIT_FEE <sup>b</sup>	.	Enter

a. Dependent Variable: ROA

b. All requested variables entered.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.713	4	2.428	17.287	.000 <sup>b</sup>
	Residual	6.321	45	.140		
	Total	16.034	49			

a. Dependent Variable: ROA

b. Predictors: (Constant), AE, AR, AT, AUDIT\_FEE

**Coefficients<sup>a</sup>**

Model		Unstandardized		Standardized		Collinearity		
		Coefficients		Coefficients		Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-.058	.451		-.128	.899		
	AUDIT_FEE	.001	.000	.476	3.763	.000	.548	1.825

AR	-.173	.407	-.043	-.424	.673	.864	1.157
AT	.013	.029	.049	.463	.645	.783	1.277
AE	.150	.059	.339	2.526	.015	.487	2.053

a. Dependent Variable: ROA

### Collinearity Diagnostics<sup>a</sup>

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	AUDIT_FE	AR	AT	AE
1	1	3.712	1.000	.00	.01	.00	.01	.00
	2	1.001	1.925	.00	.00	.83	.00	.00
	3	.207	4.239	.01	.63	.01	.04	.00
	4	.074	7.091	.04	.00	.08	.94	.02
	5	.006	24.927	.95	.35	.07	.01	.98

a. Dependent Variable: ROA

### Residuals Statistics<sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.8000	2.5679	1.7180	.44522	50
Residual	-1.04602	.70450	.00000	.35916	50
Std. Predicted Value	-2.062	1.909	.000	1.000	50
Std. Residual	-2.791	1.880	.000	.958	50

a. Dependent Variable: ROA

### Model Summary<sup>b</sup>

Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
				R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.778 <sup>a</sup>	.606	.37479	.606	17.287	4	45	.000	.926

a. Predictors: (Constant), AE, AR, AT, AUDIT\_FEE

b. Dependent Variable: ROA

