Factors Affecting Audit Quality in Nigeria

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Abstract

This research was carried out in order to investigate the factors affecting audit quality in Nigeria. The primary data were supplied by 430 respondents across several stakeholders in the fields of financial reporting and auditing. The secondary data were generated from the financial statements of forty annual reports of companies quoted on the Nigerian Stock Exchange. The test of hypotheses and other analysis of data were done using SPSS, version 17. The tests revealed that among others, multiple directorship is the most significant in affecting audit quality in Nigeria. In addition, it is found that provision of non-audit service would likely have a significant effect on the audit quality in Nigeria. However, the study did not find audit firm rotation to be a significant factor for enhancing audit quality in Nigeria. The study recommends efforts should be made to strengthen audit quality if the quality of financial reporting was to be improved. Also, regulatory authorities should ensure that the same firm do not render audit services and offer management advisory services in the same company simultaneously.

Keywords: audit quality; financial reporting quality; multiple directorship, Nigeria, audit committee.

1. Introduction

1.1 Background to the Study

Board of directors are responsible for accounting for the daily activities in organisations and rendering proper stewardship on how the financial resources of the shareholders were managed. Towards this end, shareholders, at Annual General Meetings, appoint an external auditor to provide assurance services that the financial statements prepared by Management represent the underlying financial transactions of the organization for the period covered. The reality facing stakeholders of financial reporting is that corporate financial reporting failures have been on the increase, especially in the past decade.

Window dressed accounts raised concerns in the USA with the collapse of the energy corporation ENRON in 2001. The company filed for bankruptcy after adjusting its accounts. WorldCom, Global Crossing and Rank Xerox are other companies in the USA with similar problem. In Italy, Parmalat failed in 2003 when it engaged in accounting scandals worth 8 billion Euros (Demaki, 2011; Norwani, *et al*., 2011)). In New Zealand, Allied Nationwide Finance failed in September 2010 while NZF Money became bankrupt in January, 2011 (Lianne, 2011). Nigeria has had its own share of financial reporting failures with the problems in Cadbury Nigeria Plc. in 2006; Afribank Nigeria Plc faced problem of financial reporting in 2009; Intercontinental Bank Plc. (2009).
Countries all around the world have set codes of best practice as guidelines to address governance and financial reporting anomalies: Cadbury Report was produced in United Kingdom, Sarbanes Oxley in United States,

The Dey Report in Canada, the Vienot Report in France, the Olivencia Report in Spain, the King's Report in South Africa, Principles and Guidelines on Corporate Governance in New Zealand and the Cromme Code in Germany. The goal of these regulations was to improve firms' corporate governance environments (Bhagat and Bolton, 2009).

In Nigeria, the Regulatory authorities have responded by compelling companies to comply with stringent corporate governance codes. Idornigie (2010) reports that Nigeria have multiplicity of codes of corporate governance with distinctive dissimilarities namely:

i. Security and Exchange Commission (SEC) code of corporate governance (2003) addressed to public companies listed in the Nigeria Stock Exchange (NSE). The code was reviewed in 2011;
ii. Central Bank of Nigeria (CBN) Code (2006) for banks established under the provision of the Bank and Other Financial Institutions Act (BOFIA);
iii. National Insurance Commission (NAICOM) Code (2009), directed at all insurance, reinsurance, broking and loss adjusting companies in Nigeria; and
iv. Pension Commission (PENCOM) Code (2008), for all licensed pension fund operators.

Despite the interventions of the regulatory authorities, the challenges of ensuring credibility in financial reporting and auditing are still prevalent. It therefore becomes pertinent to investigate the factors affecting audit quality in order to enhance the relevance of audit and assurance functions. Nigeria is currently experiencing a paucity of research in this direction. This study is expected to broaden extant literature and provide essential findings to assist stakeholders of financial reporting and auditing in the country in formulating and administering relevant and pragmatic policies to enhance corporate financial reporting.

1.2 Problem Analysis

Theoretically, the auditor is expected to be independent of the management staff of the company being audited. However, a number of factors like familiarity, threat of replacement of an auditor and the provision of management advisory services appear to impair auditor's independence. Concerns have been expressed about the conflict of interest between the statutory role of the auditor and the other services it may undertake for a client (UK House of Common Treasury Committee, 2008). The spate of audit failures in the world has brought a great deal of disappointment to investors and other corporate financial reporting stakeholders. Longevity of audit firm tenure has also been linked with fraudulent financial reporting. If empirical studies are not carried out with respect to specific environmental factors the problem of poor audit quality may be exacerbated with likely grave consequences for the nascent Nigerian Capital Market.

1.3 Research Questions

(i) To what extent has auditors' engagement in management advisory services (non-audit services) influenced the quality of financial reporting in Nigeria?
(ii) Does the length of auditors' tenure enhance audit quality in Nigeria?
(iii) To what extent does multiple directorship of audit committee members influence the quality of financial reporting?
(iv) Does financial literacy of audit committee members influence the quality of corporate reporting?
(v) Is there any relationship between independence of audit committee and quality of audit observed in Nigeria?
(vi) Which factor is the most significant in encouraging audit quality in Nigeria?

1.4 Hypotheses

(i) H_{01}: Non-audit services will not have a significant effect on the quality of financial reporting in Nigeria.
(ii) H_{02}: There is a significant negative relationship between the length of audit tenure and audit quality in Nigeria.
(iii) H_{03}: There is no significant relationship between multiple directorships of audit committee members and the quality of corporate financial reporting in Nigeria.
(iv) H_{04}: There is no significant relationship between the financial literacy of audit committee members and the audit quality in Nigeria.
(v) H_{05}: The quality of audit does not depend on the independence of the audit committee.

1.5 Layout of the study

Following Section one (the introduction) is Section two that deals with the literature review covering various concepts relating to the factors affecting audit quality. Methodology, which includes the characteristics of the sampled companies and respondents and basic elements of the study were examined in Section three. Data presentation, analysis and interpretation were covered in Section four while the concluding part of the research work was captured in Section five where the discussion of findings is presented. Recommendations are proffered in Section six which concludes the paper.

2.0 Literature Review

The International Audit and Assurance Standard Board (IAASB), a sub-committee of the International Federation of Accountants (IFAC) defined an audit as an independent examination of, and expression of opinion on the financial statements of a business enterprise by an appointed auditor in accordance with his terms of appointment and in compliance with the relevant statutory and performance requirements. The audit report is the end product of every audit assignment that the auditor issues to the members of a client company expressing his opinion on the truth and fairness view regarding an enterprise's financial statements. In Nigeria, this statutory duty is provided for in Section 359(1) of the *Companies and Allied Matters Act (CAMA), 1990*. The auditor has a statutory responsibility by virtue of Section 359(3) of the *Company and Allied Matter Act (CAMA), 1990*, to issue a report to the members of the audit committee which must be statutorily set up by such a client.

2.1 Factors Affecting Audit Quality

The quality of financial reporting has to be maintained in order to ensure some measure of credibility on the information contained in it. Some of the factors affecting audit quality include financial literacy of audit committee members; frequency of audit committee meetings; multiple directorship of audit committee members; independence of audit committee members; external auditors' quality; and interaction between independence of audit committee and external audit.

2.1.1 Financial Literacy of Audit Committee Members: According to Song and Windram (2000), a high degree of financial literacy is necessary for an audit committee to effectively oversee a company's financial control and reporting. The role of an audit committee in overseeing accountability of the management covers a wide scope to include the overall process of corporate reporting. This requires the audit committee to have accounting knowledge in order to acquire an in-depth understanding of financial reporting and improve compliance with regulatory requirements. The need to comprehend the overall financial and non-financial contents of corporate reports is greater considering that listed companies are operating as conglomerates with some having complex group structures and therefore, presenting technically advanced financial reporting contents. Financial literacy reduced fraud in corporate financial reporting. A formal recognition of this requirement was recently made in the U.S. with the passing of the Sarbanes-Oxley Act (2002) which requires each public listed company to disclose whether or not it has a financial expert in the audit committee.

2.1.2 Frequency of Audit Committee Meetings: The effectiveness of audit committee depends on the extent the Committee is able to resolve issues and problems faced by the company and to improve their monitoring function of company activities (Abbott, Park and Parker 2000). A more active audit committee is expected to provide an effective monitoring mechanism. The more frequent the audit committee meets, the more opportunity it has to discuss current issues faced by the company. Since the level of audit committee activity reflects good governance, it should enhance the exercise of oversight function and hence, audit quality. The Code of Corporate Governance states that the provision of an institutionalised forum encourages the external auditor to raise potentially troublesome issues at a relatively early stage. As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the company's operation's operations. At least three or four meetings should be held in addition to other meetings held in response to circumstances that arise during the financial year (Finance Committee on Corporate Governance, 2001). Although the number of meetings may not provide an effective monitoring mechanism, it is noted that an audit committee without any meeting or with small number of meetings is less likely to be a good monitor (Menon and Williams, 1994).

2.1.3 Multiple Directorship of Audit Committee Members: This refers to the number of director positions held by audit committee members (Shivdasani, 1993)). Song and Windram (2000) argue that multiple directorship may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who held directors' posts of too many companies may have limited time fulfilling their responsibilities.

In Malaysia, the importance of experience of audit committee members gained through director positions in other companies is evident in the Ruzaidah and Takiah (2004) study. They argued that multiple directorships of audit committee members was found to have significant positive relationship with corporate social reporting practices and corporate performance. This suggests that audit committee with multiple directorships provides an effective monitoring mechanism.

2.1.4 Independence of audit committee: It is an essential factor for an audit committee to ensure that management is held accountable to shareholders (Blue Committee 1999, Cadbury Committee 1992 and Treadway Commission 1987). The Code of Corporate Governance states that the majority of audit committee members must be independent and the chairman should be an independent non-executive director. It enhances the effectiveness of monitoring functions. It serves as a reinforcing agent to the independence of internal and external auditors. It is posited that the more independent the audit committee, the higher the degree of oversight and the more likely that members act objectively in evaluating the propensity of the company accounting, internal control and reporting practices. This indicates that an independent audit committee is able to help companies sustain the continuity of business although when they are faced with financial difficulties, they are expected to propose certain action plans to mitigate the problem.

2.1.5 Interactions between independence of audit committee and external audit: External auditors, through their interactions with audit committees are able to influence the company's internal control strength as well as reporting quality (Goodwin and Seow (2000)). The audit committee is expected to deal with the appointment and dismissal of external auditors. The Code of Corporate Governance (2001) spells out that it is the responsibility of the audit committee to discuss with the external auditors the nature and scope of audit before the audit starts and to review the findings of the audit subsequently. Such linkage is expected to produce an interaction effect between the external auditors and audit committees. The negative relationship between independence of board of directors and discretionary accruals is being weakened by the audit of non-Big 5 firms. (Klein, 2002). The finding suggests that negative relationships between discretionary accruals and independence of board of directors and the board financial literacy respectively are stronger for the companies audited by Big 5. This is because the control by independent board of directors and financially literate audit committees becomes more important when the companies do not get quality audit.

2.1.6 Audit-Firm Tenure: For effective and quality financial reporting, the audit-firm tenure is also considered because it is of great influence. Audit-firm tenure is the length of the audit-firm-client relationship as of the fiscal year-end covered by the audited financial statements. Following prior research (e.g., St. Pierre and Anderson 1984; Stice 1991), audit tenure is defined as short when the same auditor has audited the financial statements of a company for two or three years. Audit tenure is defined as long when the same auditor has audited the financial statements of a company for nine or more years. On the basis of definition of short and long term tenure, we define audit tenure as medium when the same auditor has audited the financial statements for four to eight years.

3. Methodology

This research was designed to capture the factors influencing audit quality in Nigeria. A combination of archival method and survey research methods was used. Survey research method was used to gather information from respondents concerning their opinions on certain aspects of audit quality in Nigeria. This research strategy was considered appropriate because it facilitates a comprehensive and detailed view of the major questions raised in the study. According to Saunders, *et al.* (2007), survey research design can be used to suggest possible reasons for particular relationships between variables. It permits control over the research process (Descombe, 2003).

A sample consisting of respondents in Lagos was considered a good representative of the respondent groups for this study, since the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent (Emory and Cooper, 2003). A random sample of four hundred and thirty was targeted for the respondent groups. These were made up as follows:

Group	No. sampled
Auditors	100
Shareholders	100
Brokers	40
Analysts	40
Regulators	40
Management	40
Academics	40
Others	30
	430

The choice of this sample size was guided by literature on the maximum and minimum practical sample sizes for statistical testing. Descombe (2003) suggested a sample size of not less than thirty (30) subjects per group category for any statistical test. Therefore, respondents cut cross all listed companies on the floor of the Nigerian Stock Exchange, the firms of auditors that reside in Lagos State, Nigeria and shareholders who are the recipient of the benefits and deficiencies of financial reporting and audit outcomes. This approach of randomized data gathering could, to some extent, give basis for generalization of the outcome of this study.

3.1 Data Types and Data Collection Instrument

In this study both primary and secondary data were used. The primary data for analysis were generated through the administration of questionnaire. To ensure content validity of the instrument used for the study, a first draft of the questionnaire based on the suggested recommendations, revisions were made. The revised copy was given to a doctorate student in accounting and two other professional colleagues in accounting. Their useful recommendations were incorporated into the final draft of the questionnaire. The various recommendations actually helped in reducing the length of the survey instrument. The secondary data were extracted from the 2009 annual reports of selected public limited companies sampled. Some of the research questions and hypotheses were answered by estimating a logistic regression model which describes the relationship between a dichotomous response variable and a set of explanatory variables. The logistic regression equation is based on the following model.

$$\mathbf{AudQual} = \alpha + \beta_1\mathbf{FinLit} + \beta_2\mathbf{FreqMtg} + \beta_3\mathbf{MulDir} + \beta_4\mathbf{AudInd} + \beta_5\mathbf{AudTenure} + \varepsilon \qquad \mathbf{(1)}$$

where

AudQual	=	Audit Quality
FinLit	=	Financial Literacy of audit committee members
FreqMtg	=	Frequency of audit committee
MulDir	=	Multiple Directorship of audit meeting committee members
AudTenure	=	Length of Audit Tenure
α	=	constant of the regression
ε	=	Residual (error) term

3.2 Measurement of Variables

3.2.1 Dependent variables: Audit quality is the dependent variable in this study. The study used the Nigerian Stock Exchange (NSE) President's Merit award for best reporting in annual reports as the proxy for audit quality. Winners of the award were selected on the basis of a set of criteria made available to all quoted companies and other interest groups including the financial press. These criteria included, satisfaction of statutory requirements, compliance with listing and post listing requirements, readability of annual reports and accounts, comprehensiveness/innovativeness of annual report and accounts financial performance/ return on investment and conduct of annual general meeting. The award winners were selected from a list of all financial and non-financial public listed companies with equities traded on the floor of the Nigerian Stock Exchange. Over the years, the NSE President's Merit Award ceremony has conveyed as a distinguished forum for interaction among stakeholders in the Nigerian Capital Market.

Table 1: Descriptions of Independent Variables and the Expected Effect on Quality of Corporate Reporting

Variable Name	Expected Sign	Descriptive
Financial literacy	+ve	Ratio of audit committee members who possess a degree or equivalent in accounting, finance, economics or business administration, insurance or actuarial science and/or professional qualification in business related areas to the total number of member who do not possess the business related qualifications.
Frequency of meeting	+ve	Actual number of audit committee held in a year as stated in the corporate annual reports.
Multiple Directorships	-ve	Number of director positions held by audit committee members in other companies either as executive or non-executive directors.
Independence of Audit Committee	+ve	Ratio of non executive directors to the totals of audit committee members.
Quality of Audit	+ve	Size of Audit firms. A nominal scale of '1' is assigned for companies audited by any of the Big 5 and '0' for those audited by the non-Big5. In Nigeria the members of the Big 5 used at the time of this study were: KPMG, PWC, Akintola Williams Delloitte, Ernst and Young, and Pernell Kerr Foster.
Audit tenure	-ve	Length of audit tenure measured in years

Source: Designed for the Study

4. Analysis of Data to Answer the Research Questions

4.1 Research Question 1: Non Audit Services and Audit Quality

Items 6 and 18 of the administered questionnaire proxied audit quality in Nigeria. Similarly, items 12, 13, 14, 15 and 16 of the administered questionnaire were used to collect data on non-audit services. Among the five items designed to measure response to non-audit services, rendering of expert services to management has the highest mean score of 4.08. This is followed by rendering of investment services to clients (3.5257). Rendition of human resources services to management recorded the least mean score of 3.2314 (Table 2). Auditors also render valuation services and design financial information systems for clients.

Table 2: Descriptive Statistics (Components of Non-Audit Services)

	N	Minimum	Maximum	Mean	Std. Deviation
In many public companies the auditor designs the financial information system	350	1.00	5.00	3.5029	1.02616
Auditors in my country render valuation services to my management	350	1.00	5.00	3.3086	1.12369
Auditors in Nigeria render investment services to their client companies	350	1.00	5.00	3.5257	1.02304
Auditors provide human resources or management functions to their client companies	350	1.00	5.00	3.2314	1.14087
Auditors usually render expert services to management	350	1.00	5.00	4.0829	.91250

Source: Field Study, 2012

The descriptive statistics for composite measures for Quality of Audit and Non-Audit Services are presented in Table 2. The two measures tally in the minimum and maximum score of 1 and 5 respectively. Audit quality has a mean score of 3.4171 while Non-Audit Services returned a mean score of 3.5371. These mean scores were used in testing Hypothesis i.

4.1.1 Hypothesis i:

The paired sample t-test shows a p-value of 0.021 as shown in Table 4. Since the result is less than 0.05, the hypothesis could not be retained. It is therefore concluded that provision of non-audit service would likely have a significant effect on the audit quality in Nigeria.

Table 3: Descriptive Statistics (Audit Quality Vs. Non-Audit Services)

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Quality	350	1.00	5.00	3.4171	.82770
Non-Audit Services	350	1.50	5.00	3.5371	.78537
Valid N (listwise)	350				

4.1.2 Test of Hypothesis i

Non-Audit Services will not have a significant effect on the audit quality in Nigeria

Table 4: Hypothesis I Table Paired Samples t-Test

	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
		Lower	Upper			
Audit Quality - Non-Audit Services	.05166	-.22160	-.01840	-2.323	349	.021

Source: Administered Questionnaire Analysed

4.2 Research Question II

Does the length of auditors' tenure enhance audit quality in Nigeria?
This research question was answered by testing Hypothesis II: There is a significant negative relationship between the length of audit tenure and audit quality in Nigeria.

The result is presented in Table 5.

Table 5: Test of Hypothesis II (Paired Samples t-Test)

	Paired Differences			t	df	Sig. (2-tailed)
	Std. Error Mean	95% Confidence Interval				
		Lower	Upper			
Audit Quality - Audit Tenure	.09378	-.34160	.02731	-1.676	349	.095

Source: Administered questionnaire analysed

From Table 5, the p-value > 0.05, therefore the hypothesis could not be supported. It is therefore concluded that the length of audit tenure does not necessarily enhance audit quality in Nigeria. This could be due to the unity of professional attitude among auditors and similarity in cultural bias and orientation. The secondary data collected were analysed using descriptive and inferential statistics. The Secondary data extracted from the annual reports of 40 companies quoted on the Nigerian Stock Exchange were used to answer research questions 3-6, using logistic regression. The descriptive statistics of the sampled companies are contained in Tables 6 and 7.

Table 6: Sector of Companies Sampled

SECTOR	Frequency	Percent	Valid Percent	Cumulative Percent
Non-Financial sector	26	6.7	6.7	96.4
Financial sector	14	3.6	3.6	100.0
Total	40	100.0	100.0	

Source: Administered Questionnaire Analysed

From Table 6, 14 companies in the financial sector (mainly banks and insurance companies) and 26 companies in the non-financial sector (manufacturing and trading) were sampled. Appendix I contains the names and classified sectors of the organizations.

Table 7: Descriptive Statistics of Audit Committee Members for Good and Poor Reporting Companies

		Good Reporting Companies		Poor Reporting Companies	
		No.	**%**	**No.**	**%**
Financial Literacy	<0.25	4	20	3	15
	0.25-0.55	8	40	10	50
	>0.55	8	40	7	35
	Total	20	100	20	100
	Mean	0.4461		0.4250	
Frequency of Meeting	≤2	13	65	15	75
	3-4	7	35	4	20
	5	0	0	1	5
	Total	20	100	20	100
	Mean	2.25		2.4	
Multiple Directorship	≤6	10	50	3	15
	7-8	8	40	10	50
	>8	2	10	7	35
	Total	20	100	20	100
	Mean	6.7		8.1	
Independence	<0.4	3	15	1	5
	0.4-0.6	10	50	9	45
	>0.6	7	35	10	50
	Total	20	100	20	100
	Mean	.5622		.6336	
Quality of Audit	Big 5	3	15	4	20
	Non-Big5	17	85	16	80
	Total	20	100	20	100
	Mean	0.85		0.80	

Source: Analysis from secondary date (Corporate Annual Reports)

4.3 Tests of Data

Regression analysis requires an assumption that the data is normally distributed with no multicollinearity problems among variables (Garson, 2006). A test of normality assumption was performed by using both kurtosis and skewness of data. Results of the tests show that the values range between 0.266 to 3.10 for kurtosis and between -1.778 and 1.484 for skewness. Values of both kurtosis and skewness are low which suggests that the data is fairly normally distributed and allows the regression test to be carried out (Cooper and Schindler, 2001). The skewness and kurtosis tests show that the data is fairly normally distributed. Test of correlation (Table 8) is used to test the degree of relationships between variables under study. The objective of the test is to see whether there are many multicollinearity problems among variables. The problem exists if independent variables are highly correlated among each other with correlation values exceeding 0.90 (Tabachnick and Fidell, 2001). High correlation among independent variables reduces the explanatory power of the variables on the dependent variable (Sharma, 1996). Results of the test are presented in Table 9 which shows that the correlation values among independent variables range between 0.001 and 0.353. Hence, multicollinearity problems do not exist in this study.

Table 8: Correlation Matrix

Variable	Financial literacy of audit committee members	Frequency of audit committee meeting	multiple directorship of audit committee members	independence of audit committee	audit quality	length of audit tenure
Financial literacy of audit committee members	1					
Frequency of audit committee meeting	.349*	1				
multiple directorship of audit committee members	-.154	.129	1			
independence of audit committee	-.087	.310	.084	1		
audit quality	.001	.299	-.093	.353*	1	
audit tenure	-.316	-.084	-.097	.038	-.098	1

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

4.4 Tests of Hypotheses

This study uses the logistic regression analysis to test the model. Hypotheses 3-5 were tested accordingly. This analysis is chosen because it is more suitable when the dependent variable is measured on a nominal scale (Hosmer and Lemeshow, 2000; Sharma, 1996). Results of the analysis are summarized in Tables 9 and 10.

Table 10 shows that the value of Nagelkerke R^2 is 0.339, that is 33.9% of quality of reporting of companies can be explained by the variables under study. Results show only one independent variable, that is multiple directorships, has a significant positive relationship with quality of corporate reporting at $p = 0.036$. This result did not support hypothesis iii. The result shows that the higher the number of director positions held by audit committee members, the higher is the effectiveness of audit committee in fulfilling their responsibilities. This finding is in line with previous studies which argue that the higher the number of multiple directorships of audit committee members, the more effective are their controlling and monitoring roles (e.g. Boo and Sharma 2008; Kiel and Nicholson, 2003; Ruzaidah and Takiah, 2004). As shown in Table 7, a higher percentage of the good reporting companies hold more directorship positions in other companies (i.e., 50% with less than or equal to 6 positions; 40% with 7-8 positions) than that of the poor reporting companies (i.e., 15% with less than or equals to 6 positions; and 50% with 7-8 positions).

Table 9: Variables in the Equation

Variables	Coefficient	Standard Error	Sig. (p-value)
Financial literacy of audit committee members	-1.413	4.201	.737
Frequency of audit committee meeting	.323	.667	.628
independence of audit committee	-4.972	2.924	.089
multiple directorship of audit committee members	-.653	.312	.036
Audit tenure	-.039	.786	.960
Constant	5.228	3.475	.132

Table 10: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	41.475(a)	.249	.339

a Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

4.5 Research Question III

Research question iii and hypothesis iii are related. Hypothesis iii states that there is no significant relationship between multiple directorship of audit committee members and the quality of financial reporting in Nigeria. The result in Table 9 shows that this relationship is significant and that multiple directorship of audit committee members is a significant factor in explaining audit quality in Nigeria. This might be due to the appointment of experienced directors as audit committee members. The directors might have gained a significant knowledge in understanding both the financial and non financial information contained in the annual reports and accounts of companies such that there were little or no difficulties in understanding and making intelligent interpretations of the accounts and the extent to which they fairly represent the underlying financial transactions from which they were prepared, thereby translating to a reasonable level of oversight function on the auditors.

4.6 Research Question IV

Does financial literacy of audit committee members influence audit quality in Nigeria? Table 9 shows that financial literacy is not a significant factor in explaining audit quality in Nigeria. Hypothesis iv states that there is no significant relationship between the financial literacy of audit committee members and the quality of corporate reporting in Nigeria $p > 0.05$ ($p = 0.737$). $p > 0.05$ ($p = 0.737$). This shows that the hypotheses cannot be rejected. Other variables in the study are not found to be significant predictors of the quality of financial reporting in this study.

4.7 Research Question V

Research Question V and Hypothesis V seek to determine if independence of audit committee members is a significant predictor of quality of audit observed in Nigeria. The result of the secondary data analysis in Table 9 shows that although Hypothesis V cannot be rejected at 95 per cent confidence level, it is significant at $p < 0.1$. Consequently, it can be concluded that there is a subsisting significant relationship between audit committee members' independence and audit quality in Nigeria.

4.8 Research Question VI

Which factor is the most significant in determining audit quality in Nigeria? From the regression results in Table 9, the most significant determinant of audit quality in Nigeria is multiple directorship of audit committee members with $p < 0.05$ ($p = 0.036$).

5. Discussion of Findings

The aim of this research was to ascertain the factors affecting audit quality in Nigeria. Reliable information is necessary if managers, analysts, brokers, regulators, shareholders and academics are to make informed decisions about resource allocation. Auditing plays an important role in this process by providing objective and independent reports on the reliability of financial and nonfinancial information contained in the financial statements reported to corporate stakeholders. It is apparent, that as auditors take decisions that are capable of influencing the business owners, the decisions can also directly or indirectly influence the operations of the business. To reduce the incidents of wrong decisions being taken and ensure correct reporting of states of affairs of a business the audit function becomes a necessity, especially for publicly quoted companies.

In conducting this research work, a cross-sectional survey was conducted to capture the opinion of auditors, shareholders, brokers, analysts, regulators, management, academics and other respondents regarding factors affecting audit quality in Nigeria. A total number of 430 respondents were sampled and 350 usable returned copies of the questionnaire were used in the conduct of the research in the category of primary data analysis. In the secondary data analysis 40 companies quoted on the Nigerian Stock Exchange were examined of which there were 26 companies in the non-financial sector (manufacturing and trading) and 14 companies in the financial sector. The data gathered were used to test the research hypotheses and to answer some of the research questions. The tests of hypotheses and other analysis of data were done using SPSS (Statistical Package for Social Science) version 17.0. The outcome of the tests revealed that, among other factors capable of determining audit quality in Nigeria, the most significant is multiple directorship with a $p < 0.05$. This finding agreed substantially with the conclusion reached in Ismail, *et al*. (2008) and Ruzaidah and Takiah (2004), whose research designs were similar to the current study.

6. Recommendations

The study has shown that multiple directorship is the most important factor influencing the quality of financial reporting in Nigeria. It would be recommended that companies should have more than one director position as it enhances audit committee contribution to the companies' financial reporting quality.

It is recommended that the frequency of meetings held by the audit committee in companies should improve. To the extent that this statement is true, it should be expected that the frequency of meetings of the audit committee should be positively related to audit quality.

The study also reveals provision of non-audit services would likely have a significant effect on the audit quality in Nigeria. Consequently, there is a need to strengthen the capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. This will enable the regulators to effectively deal with accounting, auditing and financial reporting practices of the regulated entities properly. Finally, it is recommended that the independence of the board of audit committee should be encouraged in companies as it would improve audit quality and enhance the credibility level of financial reporting in Nigeria.

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Appendix I

Names of Companies Sampled

	Name	Sector
1	Access Bank Plc	Financial
2	Aboseldehyde Labs. Plc	Non Financial
3	African Petroleum Plc	Non Financial
4	Ashaka Cement Plc	Non Financial
5	Big Threat Plc	Non Financial
6	R.T. Briscoe Plc	Non Financial
7	Cadbury Nigeria Plc	Non Financial
8	Cutix Plc	Non Financial
9	Dangote Flour Mills	Non Financial
10	Diamond Bank Plc	Financial
11	Eco Bank Nigeria Plc	Financial
12	Evans Medical Plc	Non Financial
13	Fidelty Bank Plc	Financial
14	Flour Mills Nigeria Plc	Non Financial
15	Glaxo Smith Kline Cons. Plc	Non Financial
16	Guaranty Trust Bank Plc	Financial
17	Guinness Nigeria Plc	Non Financial
18	Intercontinental Bank Plc	Financial
19	First Bank of Nigeria Plc	Financial
20	Japaul Oil& Maritime Plc	Non Financial
21	Lafarge WAPCO Service Plc	Non Financial
22	May&Baker Nigeria Plc	Non Financial
23	Mobil Oil Nigeria Plc	Non Financial
24	Morison Industries Plc	Non Financial
25	Nigerian Aviation Handling Co. Plc	Non Financial
26	Nestle Nigeria Plc	Non Financial
27	Nigerian Bottling Co. Plc	Non Financial
28	Nigerian Breweries Plc	Non Financial
29	Niger Insurance Co. Plc	Non Financial
30	Oando Plc	Non Financial
31	Skye Bank Plc	Financial
32	Stanbic IBTC Bank Plc	Financial
33	Sterling Bank Plc	Financial
34	UAC of Nigeria Plc	Non Financial
35	United Bank for Africa Plc	Financial
36	Unilever Nigeria Plc	Non Financial
37	Union Bank of Nigeria Plc	Financial
38	UACN Property Development Co. Plc	Non Financial
39	Wema Bank Plc	Financial
40	Zenith Bank Plc	Financial
	Total = 40	

Source: Nigerian Corporate Annual Reports 2009