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DETERMINANTS OF AUDIT QUALITY: EVIDENCE FROM NIGERIAN LISTED INSURANCE COMPANIES

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Abstract. The study examines the factors that determine audit quality among listed insurance companies in Nigeria. The study adopts Ex-post facto research design, and 15 companies are purposively selected, out of 25 listed insurance companies in Nigeria as of 2018. Panel data is extracted from the annual account and reports of the selected companies over a period of ten years (2009–2018). Pearson correlation analysis, Ordinary Least Square (OLS) and Regression are the statistical tools used for the analysis. The results of the study reveal a significant relationship between the audit firm size, audit tenure, audit fee, cash flow and audit quality ($p < 0.05$). However, there is no significant relationship between auditors independence, joint audit and audit quality ($p > 0.05$). The study concludes that audit fees, audit firm size, audit tenure and cash flow from operations are major determinants of audit quality as each of them has significantly contributed to audit quality of listed insurance companies in Nigeria. Therefore, the Nigerian listed insurance companies should place a high premium on audit firm size, audit fees, and short term audit tenure when engaging services of an audit firm.

Key words: quality audit, auditor's tenure, audit fee, auditor's independence, joint audit, cash flow from the operation.

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ДЕТЕРМИНАНТЫ КАЧЕСТВА АУДИТА НИГЕРИЙСКИХ ЛИСТИНГОВЫХ СТРАХОВЫХ КОМПАНИЙ

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Аннотация. В статье были проанализированы факторы, определяющие качество аудита страховых компаний в Нигерии. В исследовании был принят дизайн исследования Ex-post-facto и целенаправленно отобраны 15 компаний из 25 перечисленных страховых компаний в Нигерии по состоянию на 2018 год. Данные панели были взяты из годового отчета и отчетов отдельных компаний за период в десять лет (2009–2018 гг.). Статистическими инструментами для проведенного анализа послужили корреляционный анализ Пирсона, обыкновенная наименьшая площадь (OLS) и регрессия. В результате исследования была обнаружена существенная связь между размером аудиторской фирмы, аудиторским сроком полномочий, платой за аудит, денежным потоком и качеством аудита ($p < 0{,}05$). Тем не менее не было значимых отношений независимости аудиторов, совместного аудита и качества аудита ($p > 0{,}05$). В исследовании сделан вывод о том, что сборы за аудит, размер аудиторской фирмы, срок владения аудитом и движение денежных средств от операций являются основными определяющими факторами качества аудита, поскольку каждый из них внес существенный вклад в качество аудита перечисленных страховых компаний в Нигерии. Таким образом, страховые компании, зарегистрированные в Нигерии, должны уделять большое внимание размеру аудиторской фирмы, плате за аудит и краткому сроку аудиторской проверки при использовании услуг аудиторской фирмы.

Ключевые слова: аудит качества, срок пребывания аудитора, плата за аудит, независимость аудитора, совместный аудит, денежный поток от операции.

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Introduction

The auditor evaluates the financial statements prepared by the management and forms an independent opinion on the statements as to whether it shows true and fair view and properly prepared in line with auditing standards and other relevant regulations. Auditing brings about an independent review and examination of records to assess the adequacy of control in the accounting system, guarantee compliance with well-known guidelines and operating measures, and recommend required changes in controls, policies, and plans in auditing structure. Krishnan and Schauer [Krishnan et al., 2001] described audit quality as the conformity of financial statements to the audit standards during the audit assignment. The collapse of notable corporations has resulted in massive inventions in auditing, reporting, and corporate governance among users of financial statements, professionals and regulators as to various ways of improving the quality of audit. Auditing provides the required assurance to investors that wish to rely on audited financial statements for investment decisions. Apparently, auditing mitigates information asymmetry and the lingering loss arising from managers' unscrupulousness practices to manipulate financial statements [Adeyemi et al., 2010].

Audit services reduce agency costs through the examination of financial statements by an independent auditor from the economic perspective view. The examination process has to do with gathering and assessing evidence, which is the basis of forming an independent and unbiased opinion about the financial statements.The major emphasis in this study is 'quality report' which is the responsibility of auditors, and this is done through the firm observance of sound principles of high audit quality. High audit quality is done in line with Generally Accepted Auditing Standards (GAAS), which offer reasonable assurance that the audited financial statements and related disclosures are prepared in line with relevant auditing standards to ensure insignificant misstatement due to either errors or fraud. Corporate scandals like the collapse of Enron and Andersen testified to an obligatory requirement of high audit quality and significant attention to several features that affect audit quality [Abiahu et al., 2017]. All listed firms in Nigeria perform auditing of financial statements, but this study takes a cursory look at the insurance companies, and audit approach adopted by insurance companies in form of external audits, internal audits, and audit committee. The main objective of this is to provide more efficient risk management processes and an adequate generation of accounting information.

The audit quality and its determinants have been a topical issue among academics, regulators and practitioners with the incidence of the incessant collapse of notable corporations all over the world. Various literature on auditing such as International Auditing and Assurance Standards Board [IAASB, 2014]; Financial Reporting Council [Financial Reporting Council, 2008] and Institute of Chartered Accountants of England and Wales [ICAEW, 2002] have suggested audit firm size, audit tenure, audit fees, audit independence among others as determinants of audit quality. Other scholars such as Guil, Sun, and Judy [Guil et al., 2003] identified the firm size and audit fees as determinants of audit quality. In addition, Financial Reporting Council [FRC, 2008] distinguished five factors that determine audit quality including audit firm culture, skills and personnel qualities of audit partners and staff, the effectiveness of the audit process and the reliability and usefulness of audit reporting.

Generally, the concern of stakeholders in every business is the protection of assets and shareholders' interests through effective management of the affairs of business by the directors. Loss of control over managerial decisions in insurance companies has been attributed to the separation of ownership from control, hence the concern over the safety of investment [Amahalu, 2017]. Consequently, policy on accountability and high audit quality pays attention to safeguarding the assets and maximizing the wealth of shareholders among Nigerian insurance companies. Not with standing the interferences of regulatory authorities, the integrity of financial reporting and auditing is still doubtful among insurance companies. Hence, it becomes imperative to examine elements that affect audit quality to improve the significance of audit and assurance functions. There are considerable studies on audit quality and performance of manufacturing companies and deposit money banks in Nigeria. However, there are relatively few studies on determinants of audit quality among insurance companies in Nigeria.

The aim of this study is to empirically review prior studies relating to auditing in order to identify factors that determine audit quality in Nigerian insurance companies. The correct identification of determinants of audit quality provides a reference point for relevant agents to improve the audit quality and salvage insurance companies in Nigeria from being collapsed and thereby improve investors' confidence. The specific objectives involve:

– assessing the influence of audit firm size on audit quality of Nigerian listed insurance firms;

– determining the effect of auditors' tenure on audit quality of Nigerian listed insurance firms;

– investigating the relationship between audit fee and audit quality of Nigerian listed insurance firms;

– examining the effect of auditors' independence on audit quality of Nigerian listed insurance firms, and identifying the influence of joint audits on audit quality of Nigerian listed insurance firms.

Part one of the paper deals with the conceptual and empirical review. Part two enumerates the methodology employed. The third part presents the results of the study and the forth discusses the findings, while the last part includes conclusions and recommendations.

Literature Review

Conceptual Review

De-Fond and Zhang [DeFond et al., 2014] described audit quality as assurance that the financial statements faithfully show the firm's fundamental economics and distinctive qualities reflecting the true position of the business. Donovan, Frankel, Lee, Martin, and Seo [Donovan et al., 2014] affirmed that audit quality is determined by client preferences and audit firm's efficient provision of services for which they hold a competitive advantage. Schauer [Schauer, 2002] suggested that high audit quality increases the possibility to provide accuracy of the financial statements reflecting the financial position of the business and the results of operations of an entity. In other words, audit quality is part of the quality of accounting information disclosed [Clinch, 2010].

The audit firm size has been identified to be a factor that influences audit quality [Mahdi et al., 2009]. Large audit firms are believed to have a reputation and competence to provide independent quality audit service [Francis, 2004]. The following audit firms Akintola Williams Deloitte; Price water house & Coopers; Ernst and Young and KPMG are often referred to as Big 4 and they are believed to be the audit firms with better financial resources to perform quality audits compared to the smaller audit firms. The large size of clients' patronage empowers big firms to restrict pressure from management, whereas smaller firms provide more tailored services by submitting to management dictates [Mahdi et al., 2009]. It has been argued that better audit quality is done by bigger audit firms due to the ability to discover misstatements [Francis, 2004]. Bauwhede and Willekens [Bauwhede et al., 2004] submitted that small size audit can perform a high audit quality if audit standards conform to the requirements. However, professional competence of bigger audit firms provides high audit quality [Hussein et al., 2013].

Auditor tenure is the length of time of existing the auditor-client relationship [Vanstraelen, 2000]. A short auditor tenure is usually between two to three years when a particular auditor has audited a company; while it is long if an auditor has audited the financial statements of a company for nine or more years. Various studies have proven that the audit quality may be low if the auditor has a shorter auditor tenure [Mgbame et al., 2012]. Therefore, the longer is the audit tenure, the easier is discerning fraud by using technical competence. However, the long audit tenure with the client may reduce independence and probability of reporting fraud [Vanstraelen, 2000].

DeAngelo [DeAngelo, 1981]; Francis [Francis, 2004]; Hay & Davis [Hay et al., 2004] asserted that audit fee is used in several studies to explicitly examine audit quality. High audit fees are linked with better audit service, which informs the choice of skillful auditors [Hay et al., 2004]. Studies revealed that few companies consider the use of large audit firms despite a higher audit fee, because they are confident of receiving better audit service from bigger audit firms [Hay et al., 2004]. DeAngelo [DeAngelo, 1981] believed that larger audit fee enables larger audit firms to be more resourceful and competent in providing technical and educational services for their clients.

Auditor's independence is described by the IFAC code as a situation when an accountant has the ability to maintain an unbiased attitude throughout the audit assignment. It also implies a state of being objective and impartial and independence in appearance i.e. the result of others' interpretations of this independence. In this research work, audit independence is measured as the ratio of audit fees to the company's revenue.

A joint audit refers to a reviewing process where two independent auditors jointly take the obligation of undertaking an audit assignment on a single entity [Haapamaki et al., 2012]. A joint audit conducted on an entity is often used in the business world by large corporations. Multinational joint audits are used to collect an audit report on corporations that operate across borders. Some of the reasons for joint audits may be to split up the work of an audit across multiple firms, which reduces the overall time needed to complete the auditory process [Adeyemi et al., 2011]. In addition, it increases accuracy in reporting, since each participating auditor has the opportunity to review the work done by the other partner [Enofe et al., 2013]. Some experts suggested that a joint audit prevents fraud and embezzlement within the client's company by permitting an independent review of reports by another auditing firm.

Theoretical Review

Signalling theory deals with information asymmetry and voluntary choice of auditors [Morris, 1987]. The signalling theory proposes that information asymmetry should be reduced, if not eliminated, between the agent and the principal. The reduction or elimination happens when an agent is ready and willing to disclose and reveal information to the principal. The fundamental of signalling theory is about information asymmetry that comprised the appointment of external auditors as an arbiter to resolve the information asymmetry problem. The higher the perception of audit quality, the more clients' and corporations' readiness to pay more for auditing their financial statements. Due to this fact, companies and organizations are willing to pay more to Big Four audit firms, and audit fees are deemed a signalling factor for high audit quality.

Watts and Zimmerman [Watts et al., 1978] suggested that the auditor is appointed to serve as a watchdog and protect the interest of the principal. All categories of stakeholders such as creditors, supplies, customers, employees, and government make different contributions in one form or the other. It is noteworthy that all of them have one thing or the other to lose in case the business goes into liquidation, hence the need for an independent auditor to protect their interest. The role of an agent is to manage the business successfully to optimize various interests of every stakeholder in the business. However, in most cases, an agent sometimes tries to gain an undue advantage of the principal.

Fama and Jensen [Fama et al., 1983] suggested predetermined devices such as corporate governance be introduced into the business that moderates the activities of the manager as a result of the problem of separation of ownership from control. The agency view is that managers sometimes have self-interest, which is at variance with the principal motives. The agent will always strive to unscrupulously take advantage of the principal [Jensen et al., 1976]. Jensen & Meckling [Jensen et al., 1976] identified two ways to mitigate this practice, which include contractual mechanisms to bring into line the manager's goals with those of stakeholders; and technique adopted to minimize or eliminate information asymmetry that makes it possible for an agent to take undue advantage of the principal [Eisenhardt, 1989]. Cohen et al. [Cohen et al., 2002] and Hermanson et al. [Hermanson et al., 2012] suggested that independence and expertise of auditors are primary and central factors that determine audit quality.

Empirical Review

Zerni, Haapamaki, Rvinen, & Niemi [Zerni et al., 2012] examined whether the decision to voluntarily engage two audit firms to conduct a joint audit is related to audit quality in public and private companies in Sweden. The findings suggested that companies opting for joint audits have a higher degree of earnings conservatism, lower abnormal accruals, better credit ratings and lower perceived risk of becoming insolvent. The study found evidence that the choice of a joint audit is associated with substantial increases in the fees paid by the client firm, suggesting a higher perceived level of quality. Pham, Duong, Pham, and Ho [Pham et al., 2017] assessed the effects of audit firm characteristics, including audit reputation, audit fees, and audit firm size, on audit quality. A sample of 192 companies listed on Hanoi and Ho Chi Minh Stock Exchange for the period of 2006–2014 was selected. Multiple regressions were used for analysis. The study showed that Big 4 auditors in Vietnam provide high audit quality than non-Big four auditors. The results also shows that the higher the audit fees the auditors receive, the lower is the quality of audit services provided.

Amahalu and Ezechukwu [Amahalu et al., 2017b] investigated factors that influence audit quality in selected listed Deposit Money Banks over a period of 2010–2015. Secondary data were extracted from the annual account and reports of the selected banks. Correlation coefficient, Ordinary Least Square (OLS) and Granger causality test have become analytical tools adopted. The findings revealed a statistical and positive relationship between audit fees, audit tenure, audit firm size, and audit quality at a 5% level of significance. The study recommended short audit tenure of between 2–3 years to prevent undue familiarity between the client and audit firms.

Enofe, Mgbame, Aderin, and Ehi-Oshio [Enofe et al., 2013] examined the determinants of audit quality in Nigeria. The study proved positive and significant relationship of the audit firm size, board independence, and ownership structure with audit quality. Audit tenure has a negative and insignificant relationship with audit quality. The study recommended possible improvements on the non-executive board composition of the organizations.

Mgbame et al. [Mgbame et al., 2012] assessed the relationship between audit tenure and audit quality. The study adopted a Binary Logistic Model estimation technique to analyze the perceived relationship between the tenure of an auditor and the quality of the audit. The study showed a negative and insignificant relationship between auditor tenure and audit quality.

Methodology

This study adopted *the ex-post facto* research design. The design was adopted to identify causal relationships among the study variables. This research design was used to confirm already made conclusions on various researches. The study population was twenty-five (25) insurance listed Nigerian firms as of 2018. Non-probability sampling technique was used to select 15 listed insurance companies. The study extracted secondary data from the published accounts of the 15 selected listed companies in Nigeria over a period of 10 years (2009–2018) making 150 observations.

Model Specification

The general form of the panel data analysis for the regression models used to explain the determinants of audit quality in selected insurance firms is specified in equation 1:

$$ADQ = f\,(ADFS, ADT, ADF, AUDIN, JA), \quad (1)$$

where ADQ_{it} = audit quality; $ADFS_{it}$ = audit firm size; ADT_{it} = auditor tenure; ADF_{it} = audit fee; $AUDIN_{it}$ = auditor independence; JA_{it} = joint audit; CFO = cash flow (as a control variable); β_0 = intercept (constant); β_1–β_6 = coefficients of explanatory variables; ε_{it} = error term.

Hence, the specific model for the study is as presented in equation (2):

$$ADQ_{it} = \beta_0 + \beta_1(ADFS)_{it} + \beta_2(ADT)_{it} + \\ + \beta_3(ADF)_{it} + \beta_4(AUDIN)_{it} + \beta_5(JA)_{it} + \\ + \beta_6(CFO)_{it} + \varepsilon_{it}. \quad (2)$$

Audit quality (ADQ) was given as (Table 1):

$$\frac{TA_t}{A_{t-1}} = \beta_1\left(\frac{1}{A_{t-1}}\right) + \beta_2\left(\frac{\Delta REV - \Delta REC_t}{A_{t-1}}\right) + \\ + \beta_3\left(\frac{\Delta PPE_t}{A_{t-1}}\right) + \varepsilon, \quad (3)$$

where TA_t (total accruals) = accounting earnings – CFO; A_{t-1} = total assets in year t-1; $\Delta REV_{i,t}$ = the difference of operating revenue; $\Delta REC_{i,t}$ = the difference of account receivable; $\Delta PPE_{i,t}$ = the difference of gross property, plant and equipment.

Research Hypotheses

In line with the above research objective, the following null hypotheses guided the study:

H_{01}: There is no significant influence between audit firm size and audit quality of insurance firms in Nigeria.

H_{02}: There is no significant effect between auditor tenure and audit quality of insurance firms in Nigeria.

H_{03}: There is no significant relationship between audit fees and audit quality of insurance firms in Nigeria.

H_{04}: There is no significant effect between auditor independence and audit quality of insurance firms in Nigeria.

H_{05}: There is no influence between joint audit and audit quality of Nigerian listed insurance firms.

Table 1

Measurement and Description of Variables

S/N	Variable	Variable type	Measurements
1	Audit Quality (ADQ)	Dependent	Using a modified Jones model of discretionary accrual
2	Audit Firm Size (ADFS)	Independent	1 – if the company is audited by one of the Big 4 audit firms, and 0 – if otherwise
3	Auditor Tenure (ADT)	Independent	If the number of years spent to audit a client's company is greater than 3, we assign 1, otherwise 0
4	Audit Fees (ADF)	Independent	Audit fees paid to external auditors of the company using natural logarithms
5	Auditor Independence (AUDIN)	Independent	Measured as a ratio of audit fee to the company's revenue
6	Joint Audit (JA)	Independent	Dichotomous: if a company is involved in joint audit we assigned 1, and if otherwise – 0
7	Cash Flow from Operation (CFO)	Independent Control Variable	The ratio of net cash flow from operating profit to total assets

Note. Compiled by the authors.

Control variable

Cash flow from operation (CFO): It was measured as the ratio of net cash flow from operating profit to total assets.

Data Presentation

Data Presentation, Analysis, and Discussion

We begin the discussion of our results with the descriptive statistics reported in Table 2. Obviously, it is observed that the average values of the series are not large. This is expected since they are measured as a ratio to other aggregate indicators. For instance, Audit Quality (ADQ), Audit Independence (AUD) and Cash Flow from Operations (CFO) are measured in terms of total assets in the immediate past year, the company's revenue and total assets in the present year respectively. Hence, their mean values hover between 0 and 1 with the highest recorded for cash flow from operations (0.0702). In case of taking the natural logarithm of audit fee, however, its mean value stands at 16.1425.

The table further reveals that all the series are less volatile, judging by the small values of their individual standard deviation statistic. This is supported by their maximum and minimum values which are not too much far apart and are relatively close to the mean values. In further assessing the distribution of the data, the null hypothesis of the normal distribution of series is rejected by the Jarque-Bera statistic, thus indicating that all the series are not normally distributed.

Stationarity Test Results

Turning to the stochastic properties of the series, we employed two unit root tests for the sake of robustness. The tests are the Levin, Lin & and Chu (LLC) and PP-Fisher unit root tests. While LLC assumes a common unit root process for the series, PP-Fisher assumes an individual unit root process. The superiority of the LLC lies in its ability to capture any inherent heterogeneity among the cross-sections.

The results are presented in Table 3 under three model assumptions of no intercept and trend, individual intercept, and individual intercept and

Table 2

Statistical Properties of Data

Series	Mean	Maximum	Minimum	Std. Dev.	Jarque-Bera	Obs.
ADQ	0.0047	0.6792	-0.7810	0.1786	**90.0237**	150
ADF	16.1425	18.4190	13.7876	0.9175	**0.3496**	150
AUD	0.0031	0.0240	0.0004	0.0036	**689.7219**	150
CFO	0.0702	0.9750	-0.5563	0.1678	**462.3008**	150

Note. Jarque-Bera statistic values are in bold to indicate the rejection of the normal distribution hypothesis of the series.

Table 3

Stationarity Test Results

Series	**Levin, Lin & Chu**		
	None	**Intercept**	**Intercept & Trend**
ADQ	-3.4574[a,***]	-3.4680[a,***]	-4.0585[a,***]
ADF	-6.5851[b,***]	-4.3247[a,***]	-1.8093[a,**]
CFO	-11.0501[a,***]	-15.8194[a,***]	-14.7656[a,***]
AUD	-1.9645[a,**]	-3.4294[a,***]	-9.2312[a,***]
PP-Fisher			
Series	**None**	**Intercept**	**Intercept & Trend**
ADQ	73.9658[a,***]	55.9190[a,***]	62.2566[a,***]
ADF	119.7670[b,***]	42.7255[a,*]	45.8687[a,**]
CFO	92.7254[a,***]	69.6347[a,***]	54.2757[a,***]
AUD	49.5294[a,**]	41.8458[a,*]	53.7674[a,***]

Note. (a) and (b) respectively indicate stationarity at the level and first difference; (***), (**) and (*) represent significance at 1%, 5% and 10% respectively.

trend. In virtually all cases, both unit root tests suggested that all the series exhibited level-stationarity. The only exception to the stationarity at level relates to audit fee, which indicates nonstationarity for the model without intercept and trend until its first difference is taken. Thus, it can be concluded for all the series that they were stationary at level, and by implication, the conclusion gives credence and validity to our choice of estimation technique, which is the panel regression technique.

Regression Results

Table 4 presented the main regression results. Depending on the assumption made on the error component of the linear regression model, it is a conventional practice in the literature to estimate three linear regression for a study like this, including the pooled regression, fixed effect regression, and random effect regression. The most efficient of these models are consequently determined by other relevant tests. Step wisely, the pooled regression results were first compared with those of fixed-effect regression using the fixed effect redundant test that validated or invalidated the consideration of fixed effect in the model. The non-rejection of the null hypothesis implied that the pooled regression is the best, in which case there was no need for further comparison with the random effect. If, on the other hand, the fixed effect redundant test supports the fixed-effect model, we proceeded to estimate the random effect and made the necessary comparison based on the Hausman test. The statistical significance of the Hausman test showed that the fixed effect was the best. In lieu of this, we first estimated the pooled OLS and fixed-effect models. Determining the best model, the redundant fixed effect test in the lower panel of Table 3 suggested that the null hypothesis of redundancy of a fixed effect in the model could not be rejected. Therefore, the pooled OLS is favored for this study, and it was of no necessity to proceed to the random effect analysis.

The results showed that all the series, except auditor independence and joint audit, were significant determinants of audit quality in Nigerian insurance companies. In particular, while the audit fee imposed a positive impact on audit quality, the effect of audit firm size, auditor tenure and cash flow from operations were adverse. Higher audit fees raised the bar of audit quality such that the latter increased by about 3.33% following a 1% rise in the former. Furthermore, the size of the audit firm and auditor

Table 4

Regression Results

Series	Pooled OLS	Fixed Effect
Constant	-39.1720* (23.1317)	-14.3312 (27.3941)
ADF	3.3338** (0.0144)	1.6618 (0.0174)
AUD	-4.8709 (3.6317)	-2.5300 (3.9986)
ADFS	-4.6654* (2.5078)	-4.4860* (0.0254)
ADT	-7.3810** (3.6004)	-6.1680* (3.6925)
JA	1.5347 (5.8345)	3.4477 (6.0696)
CFO	-0.5838*** (0.0760)	-0.5571*** (0.0780)
Redundant Fixed Effect	–	0.8090 [0.6087]
Adj. R^2	0.3415	0.3335
F-stat.	13.8771 [0.0000]	5.9695 [0.0000]
Observation	150	150

Note. (***), (**) and (*) indicate significance at 1%, 5% and 10% critical levels respectively.

tenure reduced the quality of audit respectively by 4.67% and 7.38%. For cash flow from operations, audit quality responded negatively to a percent change in it to the tune of 0.58%.

Discussion of Findings

The results of the study showed that audit firm size, audit tenure, audit fee, and cash flow have statistically significant relationship with audit quality. However, auditor independence and joint audit have no significant relationship with audit quality. The implication of this result is that audit firm size, audit tenure, audit fee and cash flow are determinants of audit quality of insurance companies in Nigeria. Audit firm size, audit tenure, and audit fees are important factors of audit quality as revealed in previous studies. Specifically, several studies examined the link among audit fees, audit firm size, and audit quality. The results of the study are in line with studies of Zerni, Haapamaki, Rvinen, and Niemi, [Zerni et al., 2012]; Pham, Duong, Pham, and Ho [Pham et al., 2017]; Adeyemi and Okpala [Adeyemi et al., 2011]; Amahalu and Ezechuku [Amahalu et al., 2017a]. For example, Haapamaki, Rvinen, and Niemi, [Haapamaki et al., 2012] found that audit fee has a positive and a statistically significant relationship with audit quality. Hay and Davis [Hay et al., 2004] posited that greater audit fees are also associated with the choice of qualified auditors. In spite of higher audit fees, some clients are more comfortable using large audit firms. The reason is that clients are more confident that large audit firms with high audit fees are more resourceful and technically competent. It is also believed that large audit firms are able to hire better professionals in comparison with small size firms.

DeAngelo [DeAngelo, 1981] related the probability of fraud detection to auditor competence and independence. Due to larger client portfolios, big auditors can exert more pressure on management. Large international accounting firms have established brand reputation and had motives to maintain it by providing high-quality audits. Other prior studies showing that audit quality is passively affected by auditor independence included those of [Cohenet, 2008; Amahalu et al., 2017; Dunakhir 2016]. In a similar vein, the result of the study is in line with the study of Enofe, Mgbame, Aderm, Ehi-Oshio [Enofe et al., 2013] who found that joint audit has no significant effect on the value of the firms.

Conclusion and Recommendations

The results of the study indicated that there was a negative and significant relationship among audit firm size, audit firm tenure, and cash flow from operating activities with audit quality, while audit fee shows a statically significant and positive relationship with audit quality. This implies that the quality of a firm in terms of the remuneration they pay to auditors has a considerable influence on audit quality. The result also indicated that there was a negative and insignificant relationship between auditor independence with audit quality and that was a positive and insignificant relationship between joint audit and audit quality.

Contingent upon the findings of the study, it was recommended that a particular auditor tenure should not exceed 3 years in performing audit assignment for insurance companies, because, if more than 3 years, the auditor may possibly be unduly influenced by the management, resulting in a reduction of audit quality. The activities of audit firms should be put under close supervision, especially in the area of auditor remuneration, because this tends to maintain the quality of audit.

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