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EFFECT OF AUDIT QUALITY ON THE FINANCIAL PERFORMANCE OF LISTED AGRICULTURAL FIRMS IN NIGERIA

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Abstract

This study is based on an appraisal of the effect of audit quality on their financial performance in Nigeria. Audited financial statements of five of the agricultural firms who are listed on the stock exchange, were obtained from three periods of panel data to undertake the ex post facto research design using FMOLS method of analysis. Results find expertise and familiarity more strongly associated with both better financial performance and stronger relationships between expertise, familiarity and strength, all statistically significant at larger audit firms and greater audit tenure. By contrast, high non audit fees are associated with negative impact on performance as they might compromise independence. According to this, if financial reporting made objective and reliable, financial outcomes will benefit too while the auditor independence contributes to the area of actual positive effect for financial outcomes itself. Based on the findings, the study recommends policies that encourage the use of reputable audit firms that protect the firm's independence of the auditor, and establish clear limits on non-audit services (to maximize audit quality). This study also advances existing literature by considering some of the peculiar challenges of the Nigeria's agricultural sector and proffered suggestions that can be useful to stakeholders that wish to improve agricultural firm's financial performance through strong audit culture.

Keywords: Agricultural Firms; Audit Quality; Auditor Independence; Audit Tenure; Financial Performance.

1. Introduction

Audit's quality has an impact on the financial health and stability of firms, especially those in sectors of vital importance to Nigeria's economy such as agriculture which remains imperative to Nigeria's economy and employment (CBN, 2020). This sector is important to mobilise investment and facilitate sustainable growth which is why transparent and accountable financial accounting is imperative (Francis, 2011). High audit quality helps reinforce corporate governance as it contributes to the more accurate financial reporting that will result in better measurement of key financial performance (DeFond & Zhang, 2014). Audit quality is based on the determinants of audit firm size, audit tenure, non-audit fee, and auditor independence that affect credibility of financial statement and also leads to

investor confidence and corporate performance (Okolie & Izedommi, 2014).

Audit quality is also made up of a main component that is auditor independence, which helps auditors to state the financial statements impartially and also in adding credibility to financial disclosures (Beattie, Fearnley & Brandt, 2019). Further strengthened by size and duration of the audit firm; as they oversee the audit function, minimize the impact of their own management bias to financial transparency and any complaints that may tarnish the process of financial transparency (Alzeban & Sawan 2015). The more fees signify the degree to which the audit is involved, and the more fees the more comprehensive the audit process, and thereby the better financial report, and hence better financial results (Ettredge et al., 2014). The

effects of the two elements are, thus, studied on the financial performance of agricultural firms operating in Nigeria focusing on audit firm size, audit tenure, non-audit fee and auditor independence.

Given the recent crises in finance and management of corporations characterized by corporate collapses that have highlighted the uniqueness of operational and regulatory problems in the agriculture sector (Olaoye, & Akinteye, 2019), the global critical need for enhanced audit quality in Nigeria including agriculture sector (Olaoye & Akinteye, 2019). Inadequate audit quality and the lack of trust in the financial reporting induce the following examples of big corporate scandals: The companies on the list are Enron, Cadbury and African Petroleum. In failing to attract sustainable foreign investments, Nigeria has decreased the capacity to attract active foreign investment, and reduced investor confidence in embarking on robust processes of audit to mitigate sector specific risk escalation, and strengthen confidence in the access of foreign investment (Okafor & Otalor 2013).

Prior studies have attempted to find out the impact of audit quality as a determinant of performance on a number of other sectorial fronts: Who are listed deposit money banks in Nigeria? Who are manufacturers companies in Nigeria?, and Who are parastatals in Nigeria and companies in Kenya and Tehran, some School have not looked at the agricultural sector in Nigeria? For example, the relationship between audit quality as measured, for instance, by Eneisik and Micah (2022) and Abdullahi et al (2020), and market value, financial reporting quality and broad financial performance for non-agricultural firms has not been established; however, the latter have not examined the relationship between such measures of audit quality and the financial performance of agricultural firms.

However, research gap on this kind of sector specific research is crucial since the agricultural sector is confronted with its own specific challenges and its own regulatory framework that might or might not affect the role and praxis of audit quality. Thus, this study fills in the gap by investigating the effects of audit quality, as measured by audit firm size, audit tenure, non-audit fee

and auditor independence on the financial performance of listed agricultural firms in Nigeria and providing sector particular insights which cannot be found in the literatures.

This study's objective is to determine how audit quality affects the financial performance of Nigerian agribusiness companies that are publicly traded. The study's specific goals are to:

- i. Assess the extent to which listed agricultural companies' financial performances in Nigeria are impacted by the Audit Firm Size (AUDFS).
- ii. Ascertain how the financial performance of Nigerian listed agricultural companies relates to Audit Tenure (AUDTN).
- iii. Determine the degree to which Nigerian listed agricultural companies' financial performance is impacted by Non-Audit Fees (NAUDF) will be assessed.
- iv. Analyze how Nigerian listed agricultural companies' financial performance is impacted by Auditor's Independence (AUDIND).

The importance of this study can be summarized in a number of ways, particularly in the way it establishes an understanding of audit quality on the financial performance of Nigeria's agricultural sector; a prime economic sector. This study also adds to the existing literature in Nigerian agricultural firms by positively testing the development of a relatively under-researched area. On this basis, agriculture firms could Employ to enhance its auditing practices, for better financial returns and for over ambitious corporate governance changes in the field. The findings of the study might afford policymakers the knowledge that would enhance the formulation of better rule that would enhance enhancement of audit quality, possibly, beneficial to investors' confidence in Nigeria's agricultural sector and therefore, steady growth in this sub-sector.

2. Literature Review

2.1 Conceptual Definitions

2.1.1 Concept of Audit Quality

The term 'audit' refers to a systematic study of an organization's financial records or accounts by an independent person, called an Auditor, to furnish his opinion on the correctness and fairness of the information furnished in the financial statement of an organization for a particular accounting period. Under the Code (2018), the company is supposed to appoint an external auditor who is in a position to give a separating opinion to other stakeholders on the true and fair picture of the company's financial statements to enhance stakeholder trust and confidence in the financial statements.

2.1.2 Audit Firm Size

Audit firm size encompass the scale and resources of an auditing firm which have been measured by number of clients handled, client's revenue, or the global presence of an auditing firm, as well as by categorization of an auditing firm in 'Big Four' or other smaller, regional firms and so on (Adeyemi & Fagbemi, 2010). Large audit firm generally have more resources, familiarity with specialized knowledge and a proven track record and thus they may ultimately improve audit quality and reduce the risk of audit failures. According to studies audit firm size can affect perceived credibility and reliability of financial statement as larger firms are believed to maintain independence and abide by strict regulatory standards because they are a well-established brand (DeAngelo 1981; Knechel 2016). Due to this, audit firm size is of paramount importance in creating investor confidence and high-quality financial reporting.

2.1.3 Audit Tenure

Audit tenure is defined as the length of the strategic relationships between the audit firm and its client, either by counting the number of continuous audit years a current audit firm/auditor audits for a client (Okolie et al., 2020). The length of audit tenure has no debate on the audit quality. While longer tenure may increase familiarity, and thereby give the auditor greater knowledge of the client's operations and their risks, thus increasing audit quality (Chen, 2021), it may also

diminish auditor independence and objectivity over the years (Chen, 2021). To avoid tenure bias, regulatory bodies have suggested rotation of auditor through mandatory auditor rotation (Dey & Ghosh, 2022). These policies are effective, however, there is mixed evidence for the effect of extended audit tenure on audit quality.

2.1.4 Non-Audit Fee

Payments by an entity to audit firms for services provided outside the 'traditional' audit scope such as, consulting, tax advisory, and financial planning, and are called 'non-audit fees' (Brown & Knechel, 2000) It is possible that these services give clients useful expertise and generally improve overall business efficiency but these services worry about auditor independence and objectivity because hefty non-audit charges can make clients reliant on the auditor, resulting in the following of matters audit quality (DeFond et al., 2021). Starting from the 2000s, regulators have exerted more pressure on non-audit services to reduce conflicts of interest and clients' perception of auditors' objectivity, encouraging internal regulation limits (Basuony et al., 2022). Therefore, the possibility of a lack of audit integrity or the lack of general public trust in financial reporting has turned into the importance of non-audit fees in the discussions.

2.1.5 Auditor's Independence

By writing, Enofe, Mgbame, Okunrobo and Izon (2012) describe auditor's independence as a mental state of objectivity and lack of bias. The principle of auditor's independence refers to auditor must be objective and impartial in audit process; free from influence or conflicts of interest with the auditor, and it provides support for the authenticity and reliability of financial statements (Choi et al., 2020). Both a mindset and a practice, independence involves auditors avoiding personal or professional relationships that may result in financial or personal bias that might taint someone's judgment (Kang et al., 2021). Independence is the highest priority for audit quality, according to regulatory bodies such as the International Federation of Accountants (IFAC) and guidelines are enforced to ensure both appearance and fact independence. Audit

quality is generally improved where higher independence helps reduce risk of misstatement, increase public trust and strengthen reporting integrity (Alzoubi (2022)).

2.1.6 Concept of Financial Performance

As a financial performance on the capital market, the capital market is important and as well as a platform for attracting capital and reducing the cost of capital, capital market. In reality, a corporation with a very high financial performance will actually come to be regarded by investors as the best company. Student should learn about a financial performance metric which is defined as a ratio on net income to total asset. This measure shows the profitability and the operational efficiency of the firm with the figure of the earnings produced per unit of asset (Ross, Westerfield, & Jaffe, 2013). Companies that achieve high values for financial performance are operating in a manner that optimizes use of its resources while lower values may be indicative of exploitation inequities or resource mismanagement (Brigham & Houston, 2018). Investors and analysts commonly use financial performance to compare and hence assess the performance of companies in the same industry so that their potential returns on their investments (Pandey, 2020) are high enough to stimulate them to invest money in that company.

2.2 Theoretical Framework

In this study we rely on the Agency Theory (Jensen & Meckling, 1976). The aim of the audits is to serve as a basic purpose in creating confidence and in effecting trust in the financial data by the users and general public. This paper explains the principal – agent relationship and attempt to describe the role of an auditor in the development of the report for the business which is high quality. The reason is that principals do trust agents to act in the interest of the principals, but results of information asymmetries between principals and agents are subject to different motives. If principals are not trusted by agents, then they should put some measures or mechanisms to reinforce the trust such as the audit. Audit quality was developed in response to

the development of an agency theory that is a useful economic theory of accountability.

It provides a robust framework for how high audit quality is able to offset agency problems and realign the mutual interests of principals (shareholders) and agents (managers) in listed agricultural firms in Nigeria. On account of its dependence on external financing, operational complexity, and seasonal risks, the agricultural sector is especially vulnerable to agency conflicts and consequently prone to information asymmetry and moral hazard. By producing reliable and credible financial reporting, audits of high quality reduce the risk of opportunistic behaviours by agents and improve investor and other stakeholder decision making confidence. Audit quality, therefore, plays a central role in agency theory structure in assisting transparency, accountability and better financial performance in the agricultural sector.

2.3 Empirical Review

The study of Bello and Adebayo (2024), considers the role of corporate governance mechanisms (audit committees in particular) on the financial performance of quoted agricultural firms in Nigeria. This study used correlational research design to determinate relationship between corporate governance attributes and financial performance indicators. As of 2024, the population included all agricultural firms listed on the Nigerian Stock Exchange. Monthly financial reports have been collected from 2018–2023 for the ten listed agricultural firms purposively selected as they are known to have been listed consistently during this period. For the study period, firms were selected for the study through purposive sampling from those with complete and reliable financial and corporate governance data. Audited financial statements of the selected firms were used as source of secondary data. The relationship between audit committee attributes and financial performance, measured by net profit margins and return on assets (ROA), is established by regression analysis. It was found that audit committees who have a larger proportion of independent members positively and significantly influence financial performance. Frequent audit committee meetings also

increase firm performance and increase firm oversight because they enhance function. The role of audit committee independence and activity in protecting the financial performance of agricultural firms in Nigeria is important. Auditor's role in governance is limited, however, leading the study to recommend that agricultural firms should strengthen the audit functions of their committees by among other things, constituting more independent members and meeting often.

In an effort to understand how sound audit quality relates to earnings management praxis of consumer goods firms in Nigeria and also influence financial reporting accuracy and performance, Musa and Ibrahim (2023) examined the impact of various audit quality dimensions on earnings management practices. Trends in earnings management and audit quality were analysed over time through a longitudinal research design. The sample of this research was a population of all consumer goods listed firms on Nigerian Stock Exchange from 2013 to 2022. A total of fifteen consumer goods firms were randomly selected for the study. In order to represent all listed firms, simple random sampling was used. Annual financial reports and audit committee reports of the selected firms were taken as secondary data. Earnings management was examined using panel data regression techniques to determine the effects of audit quality measures (auditor independence, auditor-client importance, and audit reporting lag) on earnings management. We demonstrate that auditor independence and three elements of financial reporting lag reduce earnings management significantly and enhance earnings manipulation significantly. We find that audit quality attributes have mixed effects on earnings management, but the results lead us to conclude that stronger regulatory oversight for financial reporting integrity is warranted. The study recommended that regulatory bodies should enforce stronger audit quality standards to curtail earnings management and transparency.

The effects of audit committee characteristics on audit quality and financial performance of oil and gas companies in Nigeria was investigated by Eze and Okeke (2022). Explanatory research design was used by researchers to relate variables in the study. The

population consisted of all Oil and Gas Companies listed on the Nigerian Stock Exchange from 2016 to 2022. We selected eight oil and gas companies based on market capitalization and that consistently report data during the study period. Judgmental sampling was used to select companies large in terms of operational activities and availability of audit committee data. The data were collected from audited financial statements and corporate governance disclosure of the selected firms. We use structural equation modeling (SEM) to examine how audit committee attributes, audit quality and financial performance (measured by earnings per share (EPS)) are related to each other. The results show that audit quality improved due to the financial expertise and independence of audit committee, which, in turn, resulted in greater financial performance. However, as tenure in the audit committee increased performance went down. Independent, as well as financially knowledgeable, audit committee members lead to better audit quality and firm performance. To ensure effectiveness of companies' audit committees, it is critical that companies choose independent and financially literate members who appoint members to the committee, and regularly change the membership of the committee.

Using Audit fees and Audit tenure and Audit firm size as proxies to Audit quality and Tobins Q as market price per share, Eneisik and Micah (2022) studied Audit Quality Indicators and Market price per share of Listed Deposit Money Banks in Nigeria. Data were analyzed using the panel least squares regression and the fixed effect model based on secondary data from annual reports of 12 sampled deposit money banks in Nigeria between 2006 and 2019. The results show that Audit firm size has positive and significant impact on Tobins Q, Audit fees had negative and insignificant impact on Tobins Q and Audit tenure had negative and significant impact on Tobins Q. Other conclusions that the study makes are that such banks management should opt for audit quality determinant which improves market price per shares using fee on audit, audit tenure and audit firm size. To ensure sound audit quality, banks management should have robust accountability mechanism. The internal culture of banks should be very strong about

quality audit and professional skepticism and banks management should ensure this.

Data with regards to 84 companies listed on the Nigerian Exchange between the time period of 2008 and 2017 were used to examine the effect of audit quality on the financial performance of companies listed on the Nigerian Exchange (Abdullahi et al, 2020). Multiple regression results reveal that Audit fees relates positively but significantly with Return on Asset – ROA (proxy for financial performance). Additionally, auditor's independence was positively and statistically significantly related to Return on Asset (ROA).

In similar vein, Emmanuel and Emem (2020) tested the impact of audit firm attributes on the financial reporting quality of a sample of twenty two (22) listed manufacturing Firms in Nigeria. Ex post facto research design was used and multiple regression tested the stated hypotheses using secondary data collected from audited annual accounts and accounts of 2011 to 2015. Our empirical findings show auditor fees significantly affect the quality of financial reporting, whereas audit firm size and audit delay have no impact on financial reporting quality.

In Nigeria, Ola and Oto (2019) investigated the effect of audit reputation and independence on the market value of firms using samples of 47 listed non-financial companies on the Nigeria Exchange from 2004 to 2015. Market value was proxies by Market price per share, Audit reputation was explained by Audit Opinion and Audit Firm size and audit independence by Audit Firm size. The result of the data obtained using Ordinary Least Squares Methods to analyzed was that Audit Opinion and Audit Firm Size had significant positive effect on market value of listed non-financial firms in Nigeria. In view of this, the study advises that regulatory bodies should strive to do their supervisory work well by requiring audit reports/opinions to reflect the really state of the economic statements, particularly when the Big-4 auditors audit it in order to justify their reputation.

In support, Aggreh (2019) empirically tests the effect of audit market concentration and auditor's attributes on audit quality using a sample of 52 listed manufacturing

firms in the Nigerian Stock Exchange for the period of 2001 to 2015. The study employs ex post facto research design using secondary data collected through simple random sampling technique on annual reports of sampled firms and use pooled Ordinary Least Squares ((OLS) and Panel Estimated Generalized Least Squares (EGLS) for analyzing the data. The empirical result shows there is a significant positive effect on audit quality of audit attributes, auditors' tenure and audit fee; and a significantly negative effect of audit year-end, but an insignificant negative effect for audit firm size.

Audit quality effect on the financial performance of listed Parastatals in Nairobi securities exchange was investigated by Eshitemi and Omwenga (2016). More specifically, the study focused on the auditor's independence, audit firm size, attributes of the audit team and experience to audit team and financial performance of listed parastatals on the Nairobi Stock Exchange. The data used in this study are primary and secondary data for a five years (5) years period, 2009 to 2013. The technique for this study was the multiple regression analysis. The study findings showed that audit quality affects financial performance positively and significantly and the higher the level of auditor independence; the higher the chance of a firm with large net profit margin. The coefficients of Return on Equity (ROE), Return on Assets (ROA) and other dependent variables are found to be positive and of significant order of magnitude.

This study of Babatolu, Aigienohuwa and Uniamikogbo (2016) on auditor's independence and audit quality, is a study of selected deposit money banks in Nigeria. The information for the study was collected via the secondary source of data. The population of the study were twenty (20) listed deposit money banks in Nigeria. Sample size of seven (7) banks was selected using purposive sampling technique. For this data analysis, adopted data analysis techniques included descriptive statistics, correlation and ordinary least squares regression. The result of the study indicated the positive relationship between audit fee, audit firm rotation and audit quality. Our result shows that audit firm tenure has a negative relationship with audit quality.

The case of companies listed on the Tehran stock exchange (TSE) was studied by Smii (2016) to measure the impact of the audit quality to the quality of the accounting profits. For this study ordinary least squares (OLS) technique and multiple regressions were used. The results of the study show that the accounting profits are significantly proxied by the audit quality.

Audit quality and financial performance of companies within Nairobi Securities Exchange were investigated by Matoke and Omwenga (2016). The data used were primary and secondary source of data. However, secondary data was collected from published annual statements on select State Corporations while the collection of the primary data was done using the use of the semi structured questionnaire. Multiple regression was used to analyse the collected data. Results indicates that financial performance is positively and significantly influenced by audit quality.

Harrison (2015) studied the effect of internal audit independence on financial performance of small and medium enterprises in the construction industry in Mombasa-county of Kenya. The aim in particular was to find out how four components of internal audit independence i.e., records accessibility, reporting structure, the qualification of internal auditors and internal audit roles affect the financial performance of small and medium enterprises in the construction industry in Mombasa County. Data was collected using the primary source of data (questionnaire). The questionnaire was a structure as well as unstructured.

Table 1: Listed Agricultural Companies on NGX

Company	Ticker	Sector	Date Listed	Date Incorporated
Ellah Lakes Plc.	Ellahlakes	Agriculture	-	July 2, 1980
FTN Cocoa Processors Plc	Ftncocoa	Agriculture	-	August 26, 1991
Livestock Feeds Plc.	Livestock	Agriculture	April 1, 1978	March 20, 1963
Okomu Oil Palm Plc.	Okomuoil	Agriculture	September 9, 1997	December 3, 1979
PrescoPlc	Presco	Agriculture	October 10, 2002	September 24, 1991

Source: NGX Website (<https://ngxgroup.com/exchange/trade/equities/listed-companies/>)

The study analyzed pool panel data produced over a ten-year period using the Ordinary Least Square (OLS)

$$Fp_{it} = \alpha + \beta_1 AUDFS_{it} + \beta_2 AUDTN_{it} + \beta_3 NAUDF_{it} + \beta_4 AUDIND_{it} + \epsilon_{it} \quad (1)$$

Where:

The sample size was thirty-two (32) in class NCA 8 construction companies, specifically included in the construction industry of audit professionals. The study found that financial performance of small and medium enterprises in the construction industry of Mombasa-county of Kenya is significantly affected by internal audit independent.

3. Methodology

Research design used in the study was ex-post facto. It is based in Nigeria focusing on the selected agricultural firms that are listed on the Nigerian Exchange Group (NGX). The data in this study were therefore collected from the annual reports and accounts of 2014 to 2023 of the listed agricultural firms in Nigeria. This is because a census sampling technique suits for this study; and inclusion of all the five agricultural firms proved on the Nigerian Exchange Group (NGX) which includes Ellah Lakes Plc., FTN Cocoa Processors Plc., Livestock Feeds Plc., Okomu Oil Palm Plc and Presco Plc. The study's analysis of each firm is able to give a complete picture of the effects of audit quality on the entire agricultural sector in NGX.

The population of the study was all the listed agricultural firms on Nigeria Exchange Group (NGX). The total agricultural firms were five (5) which include Ellah Lakes Plc., FTN Cocoa Processors Plc. Livestock Feeds Plc., Okomu Oil Palm Plc. And PrescoPlc as presented below:

technique of estimation. The study used the models listed below:

Fp_{it} = Financial performance of firm at time t

AUDFS_{it} = Audit firm size of firm at time t

AUDTN = Audit Tenure of firm at time t

NAUDF = Non-Audit Fee of firm at time t

AUDIND = Auditor's Independence of firm at time t

α_1 = Constant term

β_1 = Coefficient of audit firm size

β_2 = Coefficient of audit tenure

β_3 = Coefficient of non-audit fee

β_4 = Coefficient of auditor independence

α = Constant term

$\beta_1, \beta_2, \beta_3$ and β_4 are the coefficients of AUDFS, AUDTN, NAUDF, and AUDIND, respectively.

ϵ_{it} = Error term

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive statistics for the variables under study provide an overview of their central tendencies, dispersion, and variability. Table 2 summarizes the mean, standard deviation, minimum, and maximum values of the key variables:

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Financial Performance (FP)	12.45	3.21	8.10	17.95
Audit Firm Size (AUDFS)	5.32	1.04	3.00	7.20
Audit Tenure (AUDTN)	4.78	0.89	2.50	6.50
Non-Audit Fee (NAUDF)	1.23	0.45	0.60	2.10
Audit Independence (AUDIND)	0.72	0.18	0.40	1.10

The moderate variability in performance across firms was measured as the mean FP of 12.45 and a standard deviation of 3.21. AUDFS and AUDTN are relatively stable distributions with means of 5.32 and 4.78, respectively, suggesting that most firms hire reputable audit firms for long periods. Yet, the Non Audit Fee (NAUDF) mean (i.e. lower than unity implying low occurrence) and standard deviation (i.e. close to unity indicating limited spend on non-audit services) are low, suggesting that companies restrict their expenditure on non-audit services. The Audit Independence (AUDIND) with a mean of 0.72 a relatively narrow AUDIND range

of (0.40–1.10) indicates varying but usually moderate independence of the auditor. These statistics imply that audit-related factors do play a major role in affecting financial performance and that variation in audit independence and non-audit services can also affect the reliability and quality of financial reporting.

4.2 Correlation Analysis

The correlation analysis highlights the relationships among the key variables (Table 3)

Table 3: Correlation Matrix

Variable	FP	AUDFS	AUDTN	NAUDF	AUDIND
FP	1.00	0.65**	0.48**	-0.34*	-0.50**
AUDFS	0.65**	1.00	0.28	-0.22	-0.40**
AUDTN	0.48**	0.28	1.00	-0.15	-0.30*
NAUDF	-0.34*	-0.22	-0.15	1.00	-0.12
AUDIND	-0.50**	-0.40**	-0.30*	-0.12	1.00

Audit Firm Size (AUDFS) (0.65, $p < 0.01$) and Audit Tenure (AUDTN) (0.48, $p < 0.01$) are not correlated with Financial Performance (FP), meaning larger audit firms and longer auditor-client relationships actually improve financial performance. On the other hand, the Non-Audit Fee (NAUDF) (-0.34, $p < 0.05$) and Audit Independence (AUDIND) (-0.50, $p < 0.01$) have negative correlations with FP, which means that higher non audit fees and reduced auditor independence may hinder financial performance. Downward correlation was also found between AUDFS and AUDIND (-0.40, $p < 0.01$) suggesting that greater audit firm size is associated with independence issues. The importance of this balance

between the audit quality, independence and financial outcomes is emphasized by these findings and the need for policies that support auditor objectivity and the use of whether the firms who already have the expertise in audit.

4.3 Hypothesis Testing

To align with the supervisor's recommendation, a single Panel Fully Modified Least Squares (FMOLS) model was constructed for all hypotheses. The results are presented in Table 4:

Table 4: Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
AUDFS	0.276	0.058	4.759	0.000
AUDTN	0.432	0.123	3.512	0.001
NAUDF	-0.045	0.016	-2.812	0.005
AUDIND	-0.318	0.089	-3.574	0.001

The regression analysis results show that Size of Audit Firm (AUDFS) ($\beta = 0.276$, $p = 0.000$) and Audit Tenure (AUDTN) ($\beta = 0.423$, $p = 0.001$) are significant positive determinants of firm profitability, thus larger audit firms and long auditor – client relationships seek to boost firm profitability. Non-Audit Fee (NAUDF) ($\beta = -0.045$, $p = 0.005$) and Audit Independence (AUDIND) ($\beta = -0.318$, $p = 0.001$) have significant negative impact as non-audit fees and auditor independence are increased, leading to decreased financial performance. These findings emphasize the necessity of maintaining auditor independence as well as regulating non-audit services while harnessing the due process of established audit firms in the attempt to increase financial performance.

4.4 Discussion of Findings

Indeed, the study reveals that financial performance is positively and significantly determined by audit firm size (AUDFS). This is consistent with Eneisik and Micah (2022) finding a strong positive association between audit firm size and Tobin's Q, implying that

audit firms of larger size contribute to better firm value. Same as Ola and Oto (2019) and Abdullahi et al. (2020) also administer that there exists a positive relationship between audit firm size and financial performance. And these studies indicate that well known, established audit firms enhance financial stability and investor confidence.

Findings from the study indicate a strong positive association between audit tenure (AUDTN) and financial performance indicating that longer auditor client relationship improves financial performance. Although, this is contrary to Eze and Okeke (2022) and Eneisik and Micah (2022) who discovered that audit tenure has a negative influence on performance since of the auditor complacency. On the contrary, Aggreh (2019) found that audit tenure is positively related to audit quality, which will indirectly influence financial performance. Thus, we infer that longer audit relationships lead to greater understanding and efficiency, but that too much tenure undermines audit independence and oversight effectiveness.

The study examines conflicts of interest by showing that NaUDF negatively affect financial performance, having reached the same conclusion. This agrees with Musa and Ibrahim (2023) who concluded that the raised Non Audit Fees can compromise the financial reporting integrity. In a similar light, Babatolu et al. (2016) pointed to the risks entailed by excessive non audit services. Nevertheless, contrary to our hypothesis, audit fees are positively related with financial performance (Abdullahi et al, 2020); therefore, the relationship might reflect differently with the nature and degree of providing non audit services across industries.

Audit independence (AUDIND) study established a strong negative relationship with financial performance that suggests reduced independence leads to less financial outcomes. This agrees with Musa and Ibrahim (2023) who emphasized the need to avoid earnings management through auditor independence. Similarly, independent audit committees improve financial performance, according to Bello and Adebayo (2024). Nonetheless, Abdullahi et al. (2020) discovered a positive correlation between ROA and auditor independence, indicating that maintaining independence is essential to enhancing financial outcomes rather than having a detrimental impact on them.

5. Conclusion and Recommendations

The findings of this study lead to the conclusion that financial performance is every influenced by audit firm characteristics, but with both positive and negative dynamics. The results indicate that audit firm size is positively associated with financial performance indicating that the bigger the audit firm the more credible it is and contributes to stability of financial performance. A similar effect to the one reported for audit engagement tenure is also evident in the impact of audit tenure: long auditor–client relationships are associated with better financial outcomes.

By contrast, non-audit fees deleteriously impair financial performance, and may thus undermine audit objectivity, and the credibility of financial reporting. Audit independence further has a negative correlation with financial performance and also captures risk of compromised auditor autonomy. The results emphasize how strong regulatory frameworks play a critical role in preventing an excessive tenure, non-audit services or declining independence from undermining audit quality.

Finally, the study endorses the crucial role of audit quality impacting on financial performance. It suggested that firms implement policies which increase auditor independence and draw from the skill of well-known audit firms. In addition, regulatory bodies should augment oversight mechanisms so as not to impede on integrity of the financial reporting through the provision of non-audit services.

Consequent upon the findings and conclusion of the study, the following recommendations were postulated:

- i. To increase financial performance and credibility, businesses should give top priority to working with bigger, more respected audit companies that have a history of producing high-quality audits.
- ii. To prevent long-term auditor-client ties from compromising objectivity, regulatory agencies should set up ideal auditor tenure regulations that strike a balance between familiarity and independence.
- iii. To reduce conflicts of interest and maintain the integrity of financial reporting, firms should restrict the number of non-audit services they hire auditors for.
- iv. To improve audit quality and financial transparency, authorities should impose strict audit independence standards and conduct routine compliance checks.

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