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**POLAC MANAGEMENT REVIEW (PMR)
DEPARTMENT OF MANAGEMENT SCIENCE
NIGERIA POLICE ACADEMY, WUDIL-KANO**



AUDIT QUALITY AS DETERMINANT OF INVESTOR BEHAVIOR IN OIL MARKETING FIRMS IN NIGERIA

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Abstract

The study investigates the influence of audit quality on investor behavior in Nigeria's oil marketing companies, a key industry within an emerging economy characterized by regulatory challenges and capital intensity. Quantitative approach was used, secondary data were collected from the financial statements of five oil marketing companies listed on the Nigerian Exchange Group (NGX) from 2018 to 2022. Multiple regression analysis was employed to test the impact of audit quality on investment decisions, measured by total investment. The findings reveal that auditor type has a significant and positive effect on investment decisions, indicating that investors place greater trust in the credibility of audits conducted by reputable firms. In contrast, audit report lag and firm size exhibited negative but statistically insignificant effects on investment decisions. The study contributes to the limited empirical literature on audit investor dynamics within emerging markets and offers practical implications for corporate governance, regulatory policy, and investment strategy. Strengthening audit quality standards and encouraging the engagement of reputable audit firms may serve as effective tools in improving investor perceptions and capital allocation efficiency in Nigeria's oil and gas marketing industry

Keywords: Audit Quality, Audit Type, Auditor Report Lag and Investment Decision

1. Introduction

In today's complex and increasingly globalized financial markets, the credibility of financial reporting is more crucial than ever for informed investment decision-making. Investors, whether institutional or individual, depend on accurate and reliable financial information to assess not only the performance of firms but also their risk profiles (Sousa et al., 2021). Consequently, audit quality plays a pivotal role in enhancing the credibility of financial statements, reducing information

asymmetry, and building investor confidence. High quality audits act as a safeguard against financial misstatements and corporate malfeasance, positioning themselves as a critical determinant of investor behavior (Lin & Yen 2022).

In emerging economies such as Nigeria, where market inefficiencies and regulatory gaps persist, the assurance provided by credible external audits becomes increasingly vital. The oil marketing sector, being a significant contributor to Nigeria's economy and heavily

reliant on investor capital, offers a particularly pertinent context for evaluating the role of audit quality in shaping investment decisions Bariweni (2024). Given the capital-intensive nature of the industry, investors are especially sensitive to the integrity of financial disclosures and the competence of audit practices. The evolving landscape of globalization introduces further layers of complexity, requiring firms to maintain high standards of financial reporting and auditing to align with international investors' expectations Law & Shen (2024).

Despite a growing body of literature on audit quality and investor confidence in developed economies, there remains a notable scarcity of empirical studies focusing on this dynamic within the context of African markets, particularly in sector-specific settings like that of Nigeria's oil marketing industry Odera et al., (2020). This study is designed to fill this critical gap by examining how various facets of audit quality influence investor behavior in listed oil marketing companies in Nigeria. The research will investigate whether audit characteristics such as auditor independence, firm size, tenure, and audit report lag significantly impact the decisions made by investors in this vital sector.

The Nigerian National Petroleum Corporation (NNPC) is charged with the responsibility of coordinating the activities of both sectors and ensuring that the finished petroleum product reaches the final consumers. The oil marketing companies, which are the case of the study, procure and transport refined petroleum products from NNPC depots or other marketers and sell such products through a network of stations, peddling trucks and vessels (Samaila, 2014). Oil marketing companies are also involved in the marketing of locally made and imported lubricants, insecticides, bitumen, and other related petroleum products.

Moreover, this inquiry into Nigeria's oil marketing industry is not merely an academic endeavor; it bears practical implications for various stakeholders. Policymakers and regulators may use the findings to refine existing financial reporting frameworks and bolster the efficacy of audit regulations, thereby enhancing the overall reliability of financial statements. For corporate stakeholders, understanding the determinants of investor confidence can shape strategies

for improving audit practices and, by extension, market perceptions Abdurashheed & Aminu (2024).

By providing empirical insights into the audit-investor nexus within Nigeria's oil marketing sector, this study contributes to the broader discourse on corporate governance, financial transparency, and investment behavior in emerging markets. It emphasizes the necessity of auditing standards that are robust enough to withstand the scrutiny of both domestic and foreign investors, facilitating a more attractive investment environment. Ultimately, the findings will inform strategies to strengthen the relationship between audit quality and investor confidence in Nigeria, fostering a more resilient economy poised to engage effectively in global financial markets Ibenre et al., (2020).

Despite the strategic importance of audit quality in promoting financial transparency and investor confidence, limited empirical evidence exists on how audit quality specifically influences investor behavior in the Nigerian context Lawrence, (2023). While international studies have documented the role of audit characteristics such as auditor independence, firm size, and tenure in shaping investor trust and decision-making, such insights are not well-established in Nigeria's oil marketing sector. This lack of context-specific research hinders a comprehensive understanding of the audit-investor dynamic in the region Sri & Solimun (2019).

The absence of strong empirical evidence on the relationship between audit quality and investment decisions within Nigeria's oil marketing industry poses significant challenges for policymakers, regulators, and investors alike. If audit quality fails to serve as a reliable signal of financial integrity, investors may either misallocate capital or withdraw from the market entirely, thereby undermining sectoral growth and financial system stability. The specific objectives examined the impact of audit type and auditors report lag on investment decision of listed oil marketing companies in Nigeria.

2. Literature Review

2.1 Conceptual Definitions

Concept of Audit Quality

According to International Auditing and Assurance Standards Board (IAASB, 2011), there has been a number of attempts to conceptualize “audit quality” in the past. However, none has resulted in a definition that has achieved universal recognition and acceptance. Audit quality is, in essence, a complex and multi-faceted concept.

Actual audit quality is based on how audited financial statements comply with certain specific GAAP reporting requirements Kim & Son, (2024). Audit quality may be perceived from any of three fundamental perspectives: inputs, outputs, and context factors. Inputs to audit quality, apart from auditing standards, include the auditor’s personal attributes such as auditor skill and experience, ethical values and mindset. Another important input is the audit process including the soundness of the audit methodology, the effectiveness of the audit tools used, and the availability of adequate technical support geared toward supporting a high quality audit.

Concept of Audit Report

The auditor’s report is made up of meanings and indications which can be relied upon, accepted, and applied to make many financial decisions by multiple users of the information Salehi et al., (2022). This is a written letter attached to a company’s financial statement that evidenced or expresses its opinion on a company’s financial statement and its compliance with standard accounting practice. Once the auditors completed their work they present the result of the audit in a document called the auditor’s report. This is promoted by bestowing a duty of accountability on a company’s management.

Concept of Investment Decision

Investment decision relates to the decision made by the investors or the top-level management with respect to the amount of found to be allocated in the investment opportunities. Simply selecting the type of asset in which the found will be invested by the firm is termed as the investment decision.

Investment decision entails efficient capital allocation. It involves an investment decision on long-term assets. Investment decision of a firm may boost

benefits to an entity over a long period. The future benefit of investment can have issues with measurement and prediction. Investment analysis is done by applying fundamental tools. Individual investment behavior has to do with the purchase of securities for his or her account. Investment as the expenditure made now to make gains in future. A company has to invest to be able to develop and stay in a competitive market. Today’s investment decision issues is discussed and deal with by international institutions like World Bank and others they are the one who formulate some specific methodologies to manage investment decisions.

Concept of Audit Report

The auditor’s report is made up of meanings and indications that can be relied upon, accepted, and applied to make many financial decisions by multiple users of the information. This is a written letter attached to a company’s financial statement that evidences or expresses its opinion on a company’s financial statement and its compliance with standard accounting practice.

Unqualified/clean opinion report: This is a report issued by the auditor to a financial statement when auditors found no material misstatement after their testing. This report contains the unqualified opinion from an independent auditor. The report shows that the entity’s financial statement are

Qualified opinion report: This is an audit report that is used by auditors to the financial statement that found material misstatements in them but those material misstatements are not pervasive. For example, the opening balance of entity contains the large amount of inventories that could not verify. In this case, the auditor issue qualified audit opinion on the qualified audit report.

Adverse opinion report: This is a type of auditor’s report that issued to the financial statement when auditors found that there are material misstatements in the financial statement. The misstatement found here are different from that found in qualified audit report.

Disclaimer opinion report: This is the report issued to the financial statement where there are matters to auditors' independence and those matters prevent auditors not being able to obtain sufficient audit evidence to support their opinion. This has happened when auditors are prevented from accessing to certain information related to items or accounts in the financial statement while those items or accounts are believed to be materially misstated and pervasive.

Auditors Independence

Auditor's independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the financial reporting and auditing process. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (Deangelo, 1981). Auditor independence is seen as very important for the reliability and integrity of financial reporting. Auditor independence not only comprises independence of mind but also independence in appearance. Two types of auditor independence were developed by Mautz and Sharaf (1961), namely practitioner independence (or independence in fact) and professional independence (or independence in appearance).

2.2 Empirical Review

Musa, Moses, and Success (2022), define audit quality as the likelihood that financial statements contain no material omissions or misstatements and contends that a higher level of assurance corresponds to a higher level of audit service quality.

Amahalu and Obi (2020) ascertained the effect of audit quality on the financial performance of quoted conglomerates in Nigeria from 2010-2019. The results showed that audit committee size, audit committee independence, and audit committee financial expertise have a significant positive effect on return on assets at 5% level of significance respectively. The study also showed that the auditor's report can be improved by incorporating additional information. This information especially touches on the capabilities of the company.

Nam, Chi, and David (2020) the study examined the link between corporate governance practices and

risk-taking/performance in a Vietnamese stock market characterized by concentrated ownership and weak investor protection. Analyzing a large sample of Vietnamese listed firms, the research found no consistent relationship between ownership concentration and firm profitability. Instead, a non-linear association emerged between ownership concentration and firm value, with high concentration potentially increasing the likelihood of fraudulent accounting. However, no correlation was observed between ownership concentration and market risk. These findings highlight significant differences in the effects of concentrated ownership depending on the outcome measure. Consequently, the conclusions of this study, focused on a general equity market, cannot be directly applied to the oil and gas sector without considering sector-specific factors.

Olabisi et al (2020) explored the various factors influencing audit quality within Nigeria's listed insurance sector. The study utilized a survey approach, applying Pearson correlation analysis, Ordinary Least Squares (OLS), and regression techniques. Findings indicated a significant link between audit quality and factors such as audit firm size, audit tenure, audit fees, and cash flow ($p < 0.05$). Conversely, no significant relationship was identified between auditor independence, joint audits, and audit quality ($p > 0.05$).

Awardat Housset (2019). The study analyzed the quality of financial disclosures and its effects on financial quality, audit quality, and investors' perceptions regarding the quality of financial reporting. The study identified seventy-eight empirical research articles and concluded that the Sarbanes-Oxley Act (2002) has significantly heightened management's awareness of the importance of accounting disclosures. Furthermore, the findings underscored the role of the audit committee in enhancing both audit and disclosure quality. The review suggests that further research is needed to examine the effects of various independent variables related to audit committee characteristics, such as its size and the qualifications and experience of its members.

Majed et al (2012) analyzed the auditor's report content and its effect on decision making. The result shows a negative relationship and that the auditor's report is not neutral for decision making by management

and lenders, more demanding comprehensive audit report to enhance their decision-making process

Ugwunta, Ugwuanyi, and Ngwa (2018) assessed the effect of audit quality on share prices in Nigerian oil and gas sector using regression and covariance analyses. The audit committee membership and auditor type have a considerable impact on quoted company market prices, according to the findings. According to the covariance study, whereas auditor type, auditor independence, and audit committee composition all have a significant association with share price, audit tenure has a negative link with share price. This study is timely, however, it only looked at one component of performance, necessitating the need for a study that looks at the impact of audit quality on overall performance.

Zayol Kukeng (2017) reviewed the effect of auditor independence on audit quality. The study adopted the ex post facto research design relying on secondary information obtained from journals, textbooks and other internet materials. Based on the review, they concluded that there is a strong relationship between auditor independence and audit quality. They also revealed that there are four threats to auditor independence, which they listed as client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms.

Dashtbayaz and Mohammadi (2016) investigated the audit quality and Investment efficiency of the listed companies on the Tehran Stock Exchange (TSE). The population includes 94 firms selected through systematic sampling. The data is collected from the audited financial statements of the firms provided by TSE's website from 2008 to 2015. In this study, the Ant

Auditor's theory of inspired confidence

Auditors' theory of inspired confidence offers a linkage between the user requirement for credible and reliable financial reports and the capacity of the audit process to meet those needs. It seems through the development of those needs of public (stakeholders) and the audit process overtime developed by the Limperg institute in Netherlands in 1985, the theory of inspired confidence state that the auditor as a confidential agent derives his broad function in society from the need for expert and independent examination as well as the need for an

independent judgment supported by the examinations. Thus, accountants and auditors are expected to know and realize that the public continues to expect a low rate of audit failure. This requires that the auditor must plan and perform their work in a manner that will minimize the risk of an undetected material misstatement. The accountant is under a duty to conduct his work in a manner that does not betray the confidence which he commands (Limperg institute, 1985).

The importance of the theory of inspired confidence is that the duties and responsibilities of auditors are derived from the confidence that are bestowed by the public on the success of the audit process and assurance which the opinion of the accountant conveys. Since this confidence determines the existence of the process, a betrayal of the confidence logically means a termination of the process or function.

Stakeholders 'Theory

Stakeholder theory emphasizes that some individuals or groups are very important for the survival of the organization. This explanation is seen as an organization-oriented explanation, but in earlier research, Fredman reports that stakeholder theory refers to any group or individual who can affect or who is likely to be affected by the achievement of the organization's objectives. Fredman and Mile (2009) supported this explanation of freeman (1984) because according to him, his definition of stakeholder theory was more balanced and cover a wider area than those of Standford Research Institute (SRI) (1963) who defined the theory as simply as those people who, without their support and idea organization would not exist.

The stakeholders in most organizations usually include shareholders, employees, customers, lenders, suppliers, local charities, various interest groups, and the government. Craig (2010) reported that stakeholders theory emphasize that all stakeholders have right to be provided with relevant information about how the organization and this information could involve information about influence of pollution from the organization to the environment, information about community sponsorship, information on provision of employment, information on safety initiative provided by the organization etc. he also emphasize that

information should be provided to the stakeholders even though they do not affect the survival of the organization.

3. Methodology

This study employed a quantitative research design. This is because the study entails the use of secondary data, which are sourced from the Nigerian Exchange Group and annual reports and accounts of the listed oil marketing companies under study. The populations of this study consist of all the oil marketing companies listed in the Nigerian Exchange Group (NGX) as at 2022. A total of five (5) listed oil marketing companies are selected to serve as the sample of the study, which are. Ardova Plc, Oando plc, Total Energies Marketing Nigeria plc, Eterna plc, and Conoil Plc.

Secondary data are collected from annual reports and accounts of the sampled companies under study and the Nigerian Exchange Group from 2018 through 2022. Audit quality serves as the independent variable for this study, because it will cause, influence, or affect the outcome. And this was measured by the Auditor's type "1" if a Big 4 audit firm, otherwise "0", and the auditor's independence. Auditor's independence may be defined as an auditor's unbiased mental attitude in deciding on

the financial reporting and auditing process. And was measured using the audit fee represented as the natural log of the audit fee paid by the company. Audit report lag is measured with the length of time from a company's fiscal year end to the audit report date Kawor & Kporgtorgbi, (2014) and is often viewed as the most important financial reporting timeliness determinant. The control variable, firm size was measured by the natural logarithm of the firm's total assets. Kawor et al (2014). Regression analysis was used to test the impact of audit quality on the investment decision of listed oil marketing companies in Nigeria. In line with this, a model was adopted for the study.

$$ID = (AUDTYPE, AUDRLAG, FIRMSIZE) \\ = \beta_0 + \beta_1 AUDTYPE_{it} + \beta_2 AUDRLAG_{it} + \beta_3 FIRMSIZE_{it} + \varepsilon$$

Where:

ID = Investment decision

AUDTYPE = Auditor's type

AUDRLAG = Audit report lag

FIRMSIZE = Natural logarithm of total asset

4. Results and Discussion

Table 1: Descriptive Statistics

	Mean	Standard Deviation	Minimum	Maximum	Count
<i>INVESTMENT</i>	7.077	15.717	-20.724	53.851	25
<i>AUDIT TYPE</i>	0.593	0.501	0.000	1.000	25
<i>AUDIT REPORT DAYS/LAG</i>	116	53	66	296	25
<i>FIRM SIZE</i>	11.090	0.542	10.269	12.031	25

The table shows that the measure of total investment has a mean value of 7.077 with standard deviation of 15.717, minimum value of -20.724 and 53.851 as its maximum value. The standard deviation level of 15.717 which indicate significant variation on total investment of listed oil marketing Companies in Nigeria. The table also shows that the audit type has a mean value of 0.593 with a standard deviation of 0.501 and the minimum value of 0 and maximum of 1 which also indicate significant variation on audit type of listed oil marketing companies in Nigeria. Furthermore, the table also shows that audit

report days/Lag has 66 days as its minimum value and 296 days as maximum value respectively. It shows a mean value of 116 days and standard deviation of 53days. This implies that the deviation from the mean is 53days.

Lastly, the firm size during the period of study for mean value is around 11.090 with standard of 0.542. This implies that the data in the sample deviate from the mean by 0.542 the minimum and maximum value of firm size are 10.269 and 12.031 respectively.

Table 2: Correlation Matrix of Dependent and Independent Variables

	INVESTMENT	AUDIT TYPE	AUDIT REPORT DAYS/LAG	FIRM SIZE
INVESTMENT	1.000			
AUDIT TYPE	0.473	1.000		
AUDIT REPORT DAYS/LAG	-0.231	0.076	1.000	
FIRM SIZE	-0.280	0.191	0.367	1.000

The correlation shows the relationship between the independent variables (proxy by audit type, audit report days/lag, and firm size) and the dependent variable, which is the company's performance (proxy by total investment) of listed oil and gas companies in Nigeria. The correlation coefficient between audit type and total investment is 0.473. This indicates that audit type and total investment have a positive correlation with total investment. The analysis also shows the coefficient between audit report days/lag and total investment is -0.231, which indicates that audit report days/lag has a negative correlation with total investment. Lastly, the

correlation coefficient of firm size shows a negative correlation with total investment is -0.280, thus, this indicates that firm size has a negative correlation with total investment.

The correlation coefficient of audit type and audit report days/ lag and firm size shows a positive correlation between audit type and audit report days/lag and firm size, with a coefficient value of 0.076 and 0.191, respectively. Finally, audit report days/lag and firm size have a positive correlation between both variables with a coefficient value of 0.367.

Table 3: Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	115.776	57.722		2.006	.057
Audit Type	18.100	5.444	.555	3.325	.003
Audit Report Days/Lag	-.059	.054	-.190	-1.080	.292
Firm Size	-10.048	5.420	-.331	-1.854	.077

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics	F	df1	df2	Sig. F Change
1	.640 ^a	.410	.329	13.45693	.410	5.089	3	22		.008

The regression results of total investment and explanatory variables. The analysis shows that audit type has a significant positive impact on total investment of listed oil marketing companies in Nigeria under study. It has coefficient of 18.100 and *P* value of 0.003. Furthermore, the result reveals that audit report days/lag has a negative and insignificant impact on total

investment with a coefficient of -0.059 and *P* value of 0.292. The findings also shows that firm size has a negative impact on total investment with a *P* value of 0.077 and a beta coefficient of -10.048.

From the table 4.3 above, the multiple coefficient of determining R^2 is 0.410, means 41% changes in total investment is caused by changes in the explanatory

variables. This means that 59% is caused by other variables that are unknown to the researcher. Next is the adjusted R square value of 0.032, this value is just for the number of terms in a model. It is used whenever there is more than one X variable. The standard error and observations (sample size) are 13.457 and 25 respectively.

Hypothesis 1:

H₀₁: Audit type has no significant impact on investment decision of listed oil marketing companies in Nigeria.

The results show that audit type has a positive and significant impact on total investment in the listed oil and gas firms in Nigeria with the coefficient of 18.100 *t-stat* is 3.325 with *p value* of 0.003 which is less than or greater than 0.05. Therefore, the null hypothesis which states that audit type has no significant impact on investment decision of listed oil marketing companies in Nigeria is rejected.

Hypothesis 2:

H₀₂: There is no significant relationship between audit report days/lag and investment decision of listed oil marketing companies in Nigeria.

The results show that audit report days/lag has negative and insignificant relationship with investment in the listed oil and gas firms in Nigeria with a coefficient value of -0.059, *t-stat* is -1.080 with *p value* of 0.292 which is more than or greater than 0.05. Therefore, the null hypothesis which states that there is no significant relationship between audit report days/lag and investment decision of listed oil and gas companies should not be rejected.

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5. Conclusions and Recommendations

Based on the findings of the study, the following conclusions are drawn:

- i. Audit type has significant and positive impact on investment decision of listed oil marketing companies in Nigeria. This means that any increase in the use of a big 4 audit firm will automatically increase the investment decision of the firms quoted under study.
- ii. Audit report days/lag has a negative but insignificant impact on investment decision of listed oil marketing companies in Nigeria. Any increase in the level of audit report days/lag will reduce the investment decision of listed oil marketing companies in Nigeria.

Based on the conclusion drawn, the following recommendations are made:

- i. The study recommends that listed oil marketing companies in Nigeria should encourage external auditors to submit reports promptly, as the date of submission or delay reduces the total investment of the company under study, since it has a negative impact on investment decision.
- ii. Subsequently, the listed oil marketing companies in Nigeria should concentrate more on Big 4 audit firms, and also ensure to maintain or increase the use of Big 4 auditors' firm because it positively influences the investment decision of listed oil marketing companies in Nigeria

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