THE RELATIONSHIP BETWEEN AUDIT COMMITTEE AND AUDIT QUALITY: EVIDENCE FROM NIGERIA

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(International Accounting)

DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations that have been duly acknowledged.

I also certify that the substance of this project paper has never been submitted for any degree and is not currently being submitted for any other qualifications.

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ABSTRACT

The purpose of this research is to examine the relationship between non-executive directors, financial expertise of non-executive director, represent the audit committee and audit quality represent the (Big Four and non Big Four). The sample of the study is non-financial sectors in Nigerian Stock Exchange. Hence, the archival data from the annual reports were used. The model by Lawrence, Minutti -Meza, Zhang (2011) was modified to measure the audit quality as proxy for Big Four and non-Big Four. The result indicates that there was negative relationship between non-executive directors audit committee member and audit quality. This implies that larger number of non-executive directors audit committee member do not have any improvements over the audit quality. Second finding shows that there was a positive insignificant relationship exist between the financial expertise of non-executive directors audit committee and audit quality. This denotes that, having financial expertise of non-executive directors in audit committee does not improve or add to higher audit quality. This findings provide evidence on the effect of audit committee on the level of audit quality (Big Four versus Non Big Four).

Keywords: Audit committees, Audit quality, Non-Financial Sectors in Nigerian listed companies.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji hubungan antara pengarah bukan eksekutif, kepakaran kewangan pengarah bukan eksekutif yang mewakili jawatankuasa audit dan kualiti audit *(Big four* dan *none Big four).* Sampel kajian ini terdiri daripada sektor bukan kewangan di Bursa Saham Nigeria. Justeru, data arkib yang terdapat di dalam laporan tahunan telah digunakan. Menggunakan pendekatan Model Lawrence, Minutti -Meza, Zhang (2011) yang telah diubahsuai bagi mengukur kualiti audit sebagai proksi untuk *Big Four* dan *non Big Four*. Hasil kajian ini mendapati bahawa wujud hubungan negatif antara pengarah bukan eksekutif dalam jawatankuasa audit dan kualiti audit. Ini menunjukkan penambahan bilangan ahli lembaga pengarah bukan eksukutif dalam jawatankuasa audit tidak menyumbang sebarang penambahbaikan ke atas kualiti audit. Dapatan kedua pula mendapati bahawa wujud hubungan positif dan tidak signifikan antara kepakaran kewangan pengarah bukan eksekutif dalam jawatankuasa audit dan kualiti audit. Ini menunjukkan bahawa kepakaran kewangan pengarah bukan eksekutif yang terdapat dalam jawatankuasa audit tidak meningkatkan atau menambah baik kualiti audit. Penemuan hasil kajian ini membuktikan bahawa terdapat kesan antara ahli jawatankuasa audit terhadap tahap kualiti audit *(Big Four berbanding Non Big Four).*

Kata kunci: jawatankuasa audit, kualiti audit, sektor bukan kewangan.

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
IAASB	International Auditing Assurance Standard Board
GAAP	Generally Accepted Accounting Principles
FRC	Financial Reporting Council
CAMA	Company and Allied Matters Act
CEO	Chief Executive Officers
SEC	Securities and Exchange Commission
ICAEW	Institutes Of Chartered Accountants In England and Wales
NAS	Non-Audit Service
IPO	Initial Public Offering
SOX	Sarbanes -Oxley Act
CG	Corporate Governance
USA	United State Of America
GAO	Government Accountability Office
FSRCC	Financial Services Regulation Coordinating Committee
NSE	Nigeria Stock Exchange
FASB	Financial Accounting Standard Board
NYSE	New York Stock Exchange

NASDAG	National Association Of Securities Dealers Automated Quotations System
$\alpha 0$	Constant
AUDQUAL	Audit Quality
NEDAC	Non-Executive Directors Audit Committee
FENEDAC	Financial Expertise Of Non- Executive Directors Audit Committee
BDSIZE	Board Size
COMPSIZE	Company Size
ROA	Return On Asset
ACME	Audit Committee Meeting
CFO	Cash Flow
LEV	Leverage
ε	Error Term

CHAPTER ONE

1.0 Introduction

The purpose of this study is to examine the relationship between audit committee and audit quality in the Nigerian context. The prime parts of the audit committee base on these: oversee the financial reporting process, evaluation of capabilities and autonomy of external auditor and execution of the organization's insider audit capacity and in addition that of external auditors and discuss about the yearly audited financial proclamation. Jun Lin, Xiao and Tang (2008) additionally bolstered that observing the management help companies to give choice handiness since management aims to control figures for their own advantage. This section exhibits the reason for the study by expressing the background of the study, trailed by problems, research objectives, research questions, scope, significance, and structure of study. This section finishes up with the conclusion.

1.1 Background of the study

The turbulent impacts of the worldwide financial related emergency have highlighted the basic significance of tenable excellent financial reporting. Business environment in Nigerian has been seen in a few quarters as not very helpful for investors; both intra and inter. Akinjobi and Omowumi (2010) decreed explanations behind this statement incorporate the failure of financial reports to address the issues of this group of clients. The commonness of fraud, over the earnings management and other financial wrongdoings in the nation has decreased the level of certainty rested in these financial statement and in the capacity of these remarks to perform their essential capacities. In light of the expense of fakes to the business and the guilty party, it is critical to create strategies to avert or distinguish business fraud and investigating the danger elements connected with business.

The issues of audit quality and audit committee have gotten huge consideration from auditing profession, the general public population and the government controllers particularly taking after the recent prominent corporate outrages, for example, Enron in 2001; Global Crossing, Tyco, and WorldCom in 2002 made investor to have doubt in investing in foreign and local business (Fodio, Ibikunle and Oba, 2013) in Nigeria. It was observed that audit committee trustees neglected to successfully oversee managers (Al-Matari, Al-Swidi & Fadzil, 2012). Vicknair, Hickman and Carnes (1993) expressed that with a specific end goal to work successfully, audit committees should not have cordial relation with inside management, this would create differentiation between inside management and independent board of audit committee. It would permits audit committee and external auditor to be independent and effective from companies executives. For instance, Enron controlled its financial proclamations through off-balance sheet financing. The committee was not able uncover the contorted proclamations on account of the absence of board autonomy from senior executives (Deakin & Konzelman, 2004).

The respectability of the financial related reporting system is being scrutinized, the trustworthiness of the auditor is in uncertainly and an organization control structure is at risk to be blamed in perspective of the absence of auditor flexibility and oversight from the board. DeFond and Francis (2005) claim that the result of the corporate shock has restored the importance of self-ruling audits and their linkage to the checking part of corporate governance.

Fulfilling quality financial reporting depends upon the part that the outside audit plays in supporting the way of financial reporting of referred to organizations.

Numerous and inevitable changes in the governance and evaluating system keep on emphasizing the key part of audit committee in viable stewardship. Audit committee serve the premiums of stakeholders and investors through their autonomous oversight of the yearly corporate reporting process, incorporating the organization's correlation with the outside auditor.

This desire is predictable with the commendations of Levitt's Blue Ribbon Panel. Auditing react inside of the setting of a accounting firm. The discernible result of the audit is an audit report that is issued for the sake of the accounting firm, alongside the investors and clients inspected financial performance. Audits are of higher quality at the info level when the general individuals actualizing audit tests are able and autonomous, and when the testing systems utilized are equipped for delivering solid and applicable confirmation.

Audit quality has been characterized as the joint likelihood that a current material blunder is identified and reported by an auditor (DeAngelo, 1981). As this directly affects the financial reporting, audit quality can assist by characterized as the capacity of a auditor to give an autonomous audit free from misquote, mistake and misrepresentation.

Audit quality is a reliable evidence amongst the most basic issues in audit practice today. A couple individuals and social affairs; both inside and outside, have an excitement for the way of audited business information International Auditing and Assurance Standard Board (IAASB 2011). Audit quality can be conceptualized as a theoretical continuum moving from low to high audit quality. Audit disappointments clearly happen on the lower end of the quality continuum, thus a decent beginning stage in pondering audit quality is to solicit what the rate of outright audit disappointment. An audit disappointment happens in two circumstances: when normal sound accounting guidelines are not authorized by the auditor Generally Accepted Accounting Principles (GAAP failure) and when an auditor neglects to issue an altered or qualified audit report in the proper circumstances (audit report disappointment). In both cases, the audited financial proclamations are conceivably misleading to clients and stakeholders (Friedman, 2004).

There are various causes which can influence the high quality of audit. Financial Reporting Council (FRC) in 2008 recommends these could be (a) components outside the control of the auditors (b) convenience of the audit reporting (c) the culture surrounded the of audit firm both inside and outside, (d) the audit process and (e) personal qualities and skills characteristics of audit accomplices and staff. The GAAP traces critical components, for example, ability, autonomy and activity of due expert to the nature of the external auditor's execution.

Audit quality assumes a vital part in keeping up an effective business sector environment, a free quality audit supports trust in the validity and honesty of financial articulations which is key for well working markets and upgraded financial performance. External audits performed as per excellent evaluating measures can advance the usage of accounting principles by reporting elements and guarantee that their financial proclamations are dependable, straightforward and helpful.

Sound audits can fortify strong risk management, internal control at firms and corporate governance, along these lines adding to financial performance. High quality outside auditing is a focal part of well-working capital markets. The accounting literature concentrates on two principal strengths that rouse auditors to convey quality a suit/protection motivating force and a reputation incentive. Under the main thought process, if auditors are legitimately obligated for audit disappointments, then they have a motivator to deliver high quality to avoid the costs of litigation. The insurance part emerges on the grounds that investors consider larger audit firms as these organizations can better meet investors' lawful cases, in this manner giving financial resources plan of action against poor audit quality. Additionally the reputational incentives motivate, accounting firms have to avoid audit disappointments since audit quality is profitable to customers. Customers imperfection to different auditors when an audit company reputation for quality turn out to be more awful (Skinner & Srinivasan, 2012).

Though, the Big Four firms as characterized in Business Week (see Gerdes 2009) are Deloitte and Touche, Ernst and Young, PricewaterhouseCoopers (PwC), and KPMG which are positioned top among 50 open and legislative organizations.

By and large, dependable and fair appraisal of information about public recorded organizations' financial position gave by auditor is essential to speculators to settle on investment choice and improves the effectiveness of financial markets.

The auditors, as guard dogs of the organization, are esteemed to outfit themselves with adequate information, systems and apparatuses to evaluate any material inconsistencies of inspected financial articulations relating to the guidelines.

They are under statutory commitment to answer to the Securities Commission (SC) or Stock Exchange any action or undertaking of the organization that as they would see it constitutes an anomaly or rebelliousness with any posting prerequisites or securities law.

The statutory audit can fortify certainty in light of the fact that auditors are relied upon to give an outer, target sentiment on the arranging and presentation of financial verbalizations.

Auditors ought to be free in the notions they express, while the work they have to set up their appraisals is exceedingly dependent on and set up in this present reality and may get the opportunity to be attempting in some business circumstances, for instance, the cement business. It is against this connection that the investigation work is finished. The cause behind this concentrate in like manner is to choose the segments that determine audit quality in Nigeria.

1.2 Problem statement

Section 359 (3) and (4) of the Company and Allied Matter Act (CAMA) in 1990 made it required for public sectors in Nigeria to set up an audit committee. The reason behinds this requirement is to transform transparency, integrity and protect the stakeholders and investors by setting down strategies which would make it ready to adequately do its statutory obligations and responsibilities. Securities and Exchange Commission (SEC), Nigeria appointed committee, issue the code of corporate governance in 2003 stated the roles and responsibilities of audit committee. The audit committee should have the following functions: assist in the oversight of the integrity of the company's financial statements, compliance with legal and other regulatory requirements, assessment of qualifications and independence of external auditors, performance of the company's internal audit function as well as that external auditors. To establish an internal audit function and ensure there are other means of obtaining sufficient assurance of regular review or appraisal of the system of internal controls in the company. Most of the corporate governance emphasis is specifically placed on audit committee (Agrawal & Chadha, 2005). Sherer and Turley (1997) observed that corporate governance serve as a guidance for audit committee to run the activity of the company properly because majority of the companies are running by the management. Audit committee should oversee management's process for the identification of significant fraud risks across the company and ensure that adequate prevention, detection and reporting mechanisms are put in place. The focal goal of corporate governance code was to restore the dependability of financial statements by controlling accounting extortion (Cohen, Dey, & Lys, 2008). Enhancing the effectiveness of audit committee and reliability of high quality financial statement have been referred to good corporate governance mechanism. Owolabi and Dada (2011) and Kumar and Singh (2012) described audit committee as a component of good corporate governance. Audit Committees assume imperative parts in financial parts of corporate governance as they guarantee audit quality while in the meantime securing the interest of investors (Okaro & Okafor 2010). The audit committee has privileged to discuss issues facing international market that might have negative effect on their company (Adeyemi, Okpala & Dabor 2012).

There have been enormous misrepresentation and unscrupulous practices inside and among various companies in Nigeria including Unilever Plc. The recent trading, enormous and predominant fakes, required retirement of chief executive officers of banks, because of degenerate practices and wasteful rubberstamped board, have joined to flag the non-attendance of disappointment of existing corporate governance structure (Quadri, 2010). Additionally, the cordial association among the management, shareholders and the board were addressed in order to guarantee the investors and compete with the standard of developed countries who are already successful in theory and practical of code of Corporate Governance (CAMA, 2004). The events had genuine obliterating impact on stakeholders as far as misfortunes in their ventures. On the procedure to restore the certainty to the investors, diverse laws were put set up, for instance, Sarbanes Oxley Act Code 2000 in the United States (US) and launching of CG Code (2003) in Nigeria is required to relieve corporate outrages and other related issues. Hence, corporate disappointment and outrages are still there, for instance the issue of Nigerian Banks, the Cadbury (Nig) Plc, Ile-Oluji cocoa products, Standard Printing and publishing company, African Petroleum Company and Union Dicon Salt (Okaro & Okafor 2013; Otusanya & Lauwo 2010; Bakre, 2007).

Abiodun (2008) Claims that audit committee and auditors in Nigeria are not providing good corporate governance because their god-father are funded. He further that, some of blockholders of the companies appointed their candidates to be elected into audit committees. As was the studies of Okaro and Okafor (2013) and Otusanya and Lauwo (2010) reveled the corporate crumples and related frauds that have occurred in Nigeria incorporating the financial distress in Nigerian Banks and the Cadbury (Nig) Plc. According to Uwuigbe (2013) and Al-Faki (2008) stressed the case of Cadbury (Nig.) Plc, issues arising from the report in the areas of declining profitability, worsening leverage ratio, deteriorating cash flow, inadequate disclosure, and obtaining loans for the payment of dividends to shareholders contrary to SEC regulations and financial mis-statements in the published annual accounts and reports. The audit committee of the company was heavily indicted by the Nigerian SEC report on the accounting scandal in that company. The audit committee was found guilty of complete dereliction of duty. The auditors were accused, among other things, of failure to exercise due diligence and lack of professional skepticism in carrying out the audit of the company.

The shaking issue of Nigerian banking sector was also encountering the insolvency. Sanusi (2012) described accounting scandals in the Nigeria banking as unreliable evidences of accounting choice. Unreliable evidence demonstrates that the whole unsuccessful banks in Nigeria in the most recent decade had recorded surprising audited financial reports. A large portion of these banks pronounced massive benefit however went under after some months of declarations. Sanusi (2012) suggested reason for banking crisis as the "lacking divulgence and openness" Various techniques have been utilized to pronounce it, "inadequate disclosure and transparency" smoothing, bath accounting and creative accounting. The crisis that perplexed the financial sectors of audited financial reports have require the concern of financial analyst, stakeholders and indigenous researchers. Some have contended that inexperience of audit committee is responsible for this doubtful reporting quality. Other pointed out as low experience and incompetence size of the audit firms. However, Huang and Scholz (2012) document that low quality financial reporting may have implications on investors and clients for hiring higher audit quality. Skinner and Srinivasan (2010) argued that financial crisis resulting some audit clients switch from firms that have reputation for low audit to other firms.

Therefore, it was argued that when financial distress and bankruptcy occurring in a company will lead to calling of high quality.

The formation of audit committee in Nigeria has been scrutinized as being skewed for management subsequently decreasing the unmistakable freedom of the body. This tends to compromise the nature of their work (Komolafe, 2012). It was expected that audit committee in Nigeria still need a considerable measure of mileage to draw nearer to the worldwide pattern that have seen audit committee as of late turning out to be increasingly responsible and dependable (Egbiki, 2006).

The accumulative impacts of the revolting events prompted the reviewing of the Code of Corporate Governance in Nigeria (2011).This make the reviewing of the code to compel the member of the committee should have basic financial literacy, able to read financial statements and at least one member should have knowledge of accounting. The redesign was especially enlightening on the grounds that the audit committee of any organizations were seriously scrutinized along these lines they are accused of the obligation to supervise the financial and other reporting procedure of companies with a specific end goal to empower them show validity, honesty and straightforwardness in their operations, including financial reporting. Aanu, Odianonsen, and Foyeke (2014) place poor people and false financial reporting and governance skilled at a recent time in Nigeria showed the part the audit advisory group needs to play either specifically or in a roundabout way as they are accused of administering financial reporting.

In turn, corporate governance is dynamic and seems broader than the standard management practices. It is involved with transparency in business dealings, integrity and answerableness, moral conduct, fairness and strict compliance with each regulative and ethical standards. The essence of corporate governance reformation is to reinforce financial reporting structure of corporations (Beasley, Carcello, Hermanson, & Neal 2009; Krishnan & Visvanathan, 2009; Turley & Zaman, 2007).

Apart from the very fact that corporate governance reforms have a bearing on reporting quality, it additionally affects the behaviour of auditors (DeFond & Zhang, 2014). The underlying theoretical justification is that the worry of reputational harm and legal proceeding risk which may arise from financial failure owing to regulative reform can cause the board of directors, investors, and shareholders to be a lot of thorough in their method and demand for high quality audit (Zaman et al., 2011).

The accounting firms are to convey information on the financial ground, execution corporate governance practices of a firm and high caliber that is convenient for financial specialists and creditors to settle on investors choices. Audit committee and accounting firms assume huge part in finding out the legitimacy, worthiness and unwavering quality of high caliber. Both audit committee and quality can minimize agency cost.

The creation of a quality audit report is seen to foster instigated trust in financial reports by the customers of those reports. Investors particularly tend to place better trust in financial statements that are examined; as the typical opportunity of the auditor helps the affirmation that basic financial investors decisions can be made on the push of those declarations. The extended conviction of these course of action of financial clients tend to attract the inflow of capital which has the long-run effect of making advancement and change in the business environment (Adeyemi & Fagbemi, 2010). Therefore, inefficiencies with respect to management could prompt ‘‘structured financial statement’’. These financial statements usually do not demonstrate the genuine situation and financial position of the corporation and consequently, could risk the choices of future investors. Adverse results on investment would decrease the believability of the financial statement; which lead to decrease in the level of capital stream, in this way breaking down the condition of the business organization.

In addition, proof of a life cycle in the example of corporate financing, with organizations more reliant on outside financing in their initial years (Rajan and Zingales 1998). Stiglitz and Weiss (1981) market frictions, for example, asymmetric that can hinder the conceding of credit to meriting firms might be more extreme for young firms.

This study assesses, how organizations give an ideal setting to considering the impact of auditor choice on their loan fees. This shows connecting with a Big Four auditor, which has a brand name reputation for supplying a higher-quality audit could upgrade the believability of financial proclamations, empowers young firms to decrease their acquiring costs.

The most important of debt checking by a Big Four auditor progressively dies down with firm age. As information in the capital markets on young firms turns out to be more accessible, the impact on firms' loan fees of depending on a Big Four auditor to lower checking expenses ought to diminish after some time.

Datar, Feltham, and Hughes (1991) contend that substantial, prestigious public accounting firms worried about securing their interest in reputation capital have more motivator than different auditors to supply reliable and transparency audit quality. Balvers, McDonald, and Miller (1988); and Beatty (1989) find that high-reputation auditors allow capitalist to diminish the degree of extent of ex ante uncertainty in new value issues. Copley and Douthett (2002) observed the extensive literature on the connection between the expense of capital in firms' underlying open offerings and audit quality. Diamond’s (1989) expectation that companies bring down their financing costs by building up their reputation. Lenders may incline toward that young firms, which are simply framing their reputations for obligation overhauling, have higher-quality audits.

The responsibilities now lays on the auditors to address these issues through proficient and successful execution of the audit task, and the ensuing creation of a quality report. The concentrate accordingly explores the variables that could influence the nature of the audit task, and dissects the presence and level of connections between these components and the accomplishment of high audit quality in the Nigerian corporate governance. The regulatory bodies have a major role to play in advancing audit quality as this will thus expand open trust in the audit process and in financial reporting. It is to the greatest advantage of audit firms to lead as high quality audit. In this way, it might shock to find that when assessments are completed on the behavior of audits, the regulatory bodies run over numerous occurrences where audit quality is deficient.

Despite the fact that, numerous researches have been completed on audit committee, for example, outside auditors, audit committees (Piot and Janin, 2007), audit quality (Francis, 2011), corporate governance mechanisms (Berthelot, Francoeur, & Labelle, 2012), audit committee effectiveness and restatements (Carcello, Neal, Palmrose, and Scholz, 2011), association between accruals quality and characteristics of accounting experts (Dhaliwal, Naiker, and Navissi, 2010). This study provides accentuation on particular instruments, specifically, relationship between audit committee and audit quality in Nigeria.

Against the above backdrop of the robustness of governance issues, one fundamental question becomes pertinent: is there any relationship between audit committee and audit quality in Nigerian companies?

The above problems justify the main objective of the current study which is an attempt to examine the relationship between audit committee and audit quality in Nigeria, using Nigerian non-financial public listed companies as a reference point.

It is expected that organizations with strong governance practices should enjoy a market premium. This lack of convergence is the driving force behind this current study.

Therefore, this study extends and contributes to extant empirical literature with a view to resolving the inconsistency.

1.3 Research Questions

Specifically, this study seeks to find answers for the following research questions:

1. Is there any relationship between non-executive directors of audit committee member and audit quality?
2. Is there any relationship between the financial expertise of non-executive directors of audit committee member and audit quality?

1.4 Research Objectives

The main objective of this research is to examine the relationship between audit committee and audit quality.

Accordingly, the following specific objectives are identified:

1. To examine the relationship between non-executive directors of audit committee member and audit quality.
2. To examine the relationship between the financial expertise of non-executive directors of audit committee member and audit quality.

1.5 Scope of the study

Research on relationship between audit committee and audit quality can be directed at either a country level or company level. The present study aim only on Nigeria. The research focuses on the relationship between non-executive directors of audit committee member, financial expertise of non-executive directors audit committee member and audit quality.

This study is premised on the appraisal of audit quality in Nigeria. Therefore, data on non-financial companies in Nigeria were sought for providing answers to the problems and questions raised in this research. The non-financial companies mentioned in this research are: (consumer goods, oil & gas, construction /real estate, services, conglomerates, industrial good, Ict, agriculture, health care and natural resources) from the fact book 2012/2013.Therefore, audit committee variables targets only on non-executive directors of audit committee member, financial expertise of non-executive directors of audit committee member. In terms of audit quality, this study focuses on Big Four and non-Big Four Firms.

1.6 Significance of the study

Numerous studies on audit quality had completed in developed nations, for example, Canada, Australia, the United States and the United Kingdom. This study makes various commitments to the writing on audit committee and audit quality. On the other hand, there is restricted experimental confirmation in regards to relationship between audit committee and audit quality in Nigeria. The significance of evaluating can be represented under the principal- agent relationship. The interest for outsider audits is directly connected with the way that it is the directors (the agents) who set up the evaluated financial statements, which is basically taking into account cost reasons. Accordingly, this study is required to provide valuable knowledge into enhancing audit quality. This study adds to the audit study as it gives extra observational confirmation on the effect of audit committee on the level of audit quality (Big four versus Non-Big four Firms).

This research sharpen knowledge to explore the adequacy of the effect of audit committee on audit quality as progressing critical issue for the examining so as to call these days Nigeria Big Four and Non Big Four auditors recognition. This outcome would be helpful for policies makers and regulatory boards to improve the transparency in financial reporting that will lead to increase in trust of local and foreign investors in turn it will increase investment of non-financial companies in Nigerian Stock Exchange (NSE).

1.7 Structure of the Research

This section shows the organization of the thesis. This research paper is segmented into five chapters. In the next chapter, review of literature, which cover the overview of audit quality, non-executive directors of audit committee member, financial expertise of non-executive directors audit committee member and also discusses theoretical perspective.

Chapter three describes the methodology being applied in the research, which includes framework of the study, hypotheses development, operational definitions and measurement of the variables, sampling method, population, unit of analysis, sample size, sampling procedure, data collection and the techniques of data analysis collection.

The fourth chapter discusses the results and findings and analysis of the study. In the last chapter which is chapter five, summary of the study, contribution, limitation and recommendation for future research.

1.8 Conclusion

This is the first chapter which highlighted the background of the study and the problem statement in this research. Subsequently, the research questions, research objectives, scope, significance and structure of the study are added. Chapter two, reviews comprehensive literature on the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

At the end of introduction of research overview, this chapter aims to gift review of literature research that relates to the topic and research variables are gathered and discussed in this chapter. At the end of the chapter, theoretical perspectives (agency theory) even a course of action within the study and a summary of this chapter provides in section 2.5.

2.1 Audit quality

Audit quality broadly refers to the services performed by the auditors engaged by the client firms. Firms demanded for higher quality audit because of the standard and experience they have acquired. Hiring audit quality would attract more investors and picture the performance of the organization. Hence, stakeholders and investors will have confidence and trust on the company that engaged in higher audit quality because of reputation and experiences that accounting firms with audit quality provided.

Therefore, there is no decided measurement in measuring the audit quality. Previous studied have used different proxies in measuring the audit quality. Some of the studies used audit fees as a proxy by Yassin and Nelson (2012). Brooks (2011) and Dunham (2002) used accrual quality as a proxy for audit quality. The other proxy used in measuring the audit quality are discretionary accruals, the ex-ante cost of equity capital, and analyst forecast accuracy and employ propensity-score used as proxies by (Lawrence, Minutti-Meza & Zhang 2011). Hence, one of the proxies for audit quality used in this study is the

Big Four versus non Big Four reputation as used by Comprix and Huang (2015), Eshleman and Guo (2014), McGowan, Yurova and Chan (2014), Farouk and Hassan (2014), Enofe, Mgbame and Enabosi (2013), Gul, Kim, and Qiu (2009), Smart and Zutter (2003), Mitton (2002), Guenther and Willenborg (1999), Beatty (1989), Balvers, McDonald and Miller (1988) and DeAngelo (1981).

The reputation of the auditor is one of the ways to measure the audit quality and high reputation auditors are considered to the target players in the audit market which broadly refers to the Big Four Firms. According to DeAngelo (1981) provides the best normal descriptions on the level of audit quality. The description of audit quality was characterized as the ‘‘market assessed chance that a given auditor can each (a) discover a breach within the client’s register and (b) report the breach.” The designation is gotten by business sector in light of the fact that the capacity of an audit to discover accounting errors thus to particular them in applicable audit sentiment. Watts and Zimmerman (1986) relate breach of an auditor reports into two probabilities: the discovered breach (independence) by auditor reports and the auditor discovered the breach (competence).

Therefore, detecting and revealing/correcting error in the financial statement is a function of independence and competence of the Big accounting Firms. DeAngelo (1981) also described that wherever the essential part alludes to auditors capacity and the elements the auditors apply to the audit, in terms of experience, unqualified reports, transparency and standard litigation would determine whether the auditor is independent. Schandl (1978) claims the auditor’s independence as a required situation to the competence in Big accounting Firms.

Citron and Taffler (1992) reveal that audit quality has valued when both a technically independent and competent are attributed to audit process. Wolnizer (1987) expressed, the word “independent in fact and independent in appearance” served as objectivity and attitude of impartiality i.e mental process of the auditor and the “competent” as the perception of investors, shareholders, clients, regulatory board and financial market on Big accounting firms. Flint (1988) observed the in fact and in appearance to that of independence as trust and capacity of judgement between the clients and higher audit quality.

The competence and independence in Big accounting firms should be considered as reliable information, qualification, sufficient knowledge and experience to deliver higher audit quality (Flint, 1988). Lee and Stone (1995) document the probable of Big accounting firms competent, to the more the probable high quality is independent and the more probable of the local accounting firm is incompetent, the more it is probable the low quality is dependent. Hence, auditor competence dominates the evaluation of audit quality.

Higher audit quality is pro-actively providing assurance to the investors, deliver a service that goes beyond the simple audit and create avenue to consulting (Behn, Carcello, Hermanson, & Hermanson, 1997). Richard (2006) argued that achieving higher audit quality should be balanced among the relationships of personal, professional and independence and competence of accounting firms. Lee et. al (1995) suggested that accounting firms cannot choose to be independent unless it is competent. Clients observed that larger accounting firms are independent and competent in international markets and smaller accounting firms have low and incompetence experiences in local markets (Louis, 2005). The competence of Big accounting Firms have made them to involve and contribute in standard setting such as Anglo-Saxon countries (Brown, 2004). Nobes and Parker (2008) claim that, accounting system in Ministry of Finance, China was developed by Deloitte one of Big accounting Firms due to their independence and competence in international accounting standards board (IASB). Adequate training and competence in auditing are evidenced of high quality auditing to the investors because the result is prepared by professional accounting firms (Gul, Ferid , Hai, Teoh, Beer & Schelluch,1994).

In addition, independence of an auditor is indicated as a factor that determined accounting firms size (Abu Bakar, Rahman, & Rashid, 2005). Mautz and Sharaf (1961) revealed that large accounting firms can be perceived through research facilities, independence, financial resources, qualified experience and training staffs. However, small accounting firms with single client resulted to risk of dependence due to the small portfolio of the client compare to those of Big accounting firms (Mautz et al, 1961). Large accounting firms protect their independence and reputation because of large client portfolio the firms audit (DeAngelo,1981).

Incompetence and low-experiences staff or any elements that can hinder the quality of independence auditors may less the standard of quality of audit (Watts & Zimmerman 1981).

Palmrose (1988) reveals audit quality as far as levels of affirmations. More elevated amounts of affirmations (i.e. probability of financial statements should comprises zero misstatements or less mistakes) have relationships with the standard audit quality at the way round. Audit failures have been created as the basic of this definition (in a situation where the issue of misstatement appears or auditor failed to recognize inconsistent materials) which need to be found in legal process.

As indicated by Francis (2004) described low quality as an audit failure which may bring about a few results, for example, regulatory authorizations, litigation rates, and business disappointment.

According to Institute of Chartered Accountants in England and Wales (ICAEW) in (2002) as a regulator, defined ‘‘audit quality as the best expectations that contain evidence, reliability, and appropriate expertise opinion, free and fair judgments have quality of audit.’’

However, regulator agrees that independent auditors that provide adequate audit evidence have a higher quality service and can be relied upon.

Audit quality is inversely related to audit failures: the higher the failure rate, the lower the quality of auditing (Francis 2004). In spite of the way that technical qualities, for example, an auditors capacity to identify and report blunders, have been contended as the characterizing parts of audit quality, Duff (2004) proposes that audit quality is comprised of both technical quality and service quality (the levels of clients" fulfillment and desires). Technical quality comprises of reputation capital, ability, skill, experience and, autonomy scales, though benefit quality is delineated by responsiveness, feeling and the procurement of non-audit services (NAS) and client services.

Francis (2004) audit quality is contrarily identified with non-fulfillment audit: the lower the nature of auditing, the higher the non-fulfilment rate. Regardless of the way that specialized qualities, for instance, an auditors ability to distinguish and report mistakes, have been claimed as the characterizing parts of quality audit. Duff (2004) suggests that audit quality is contained both specific quality and service delivering in term of quality (the desires and clients satisfaction). Specialized quality contains ability, experience, skill, integrity and independence scales. However advantage quality is depicted by responsiveness, feeling and the procurement of client services and Non-Audit Service (NAS).

Audit quality is chosen by auditors capacity to get ruptures of accounting norms and in this manner the auditors motivating forces to report such breaks i.e., audit quality could be a result of auditor capacity and freedom. DeAngelo (1981) contends that huge enterprises are identified with higher audit quality as an result of they are extra autonomous. For large auditors like Big Four firms, no individual or customer is monetarily fundamental in respect to the estimation of an identified audit disappointment. Besides, Big Four industry have set up brand-name position and in this manner have motivators to shield their prestige by providing desire quality audit (Simunic & Stein 1987; Reichelt & Wang 2010).

Clients ascribe audit quality upheld the name of the auditor. All in all, the vast audits firms have needed to separate themselves from option auditors by using their money to partner with character capital (Beatty 1989) and observed as giving higher quality audits upheld their apparent (1) capacity (by ethicalness of their genuine dispensing on auditor instructing offices and projects) and (2) autonomy (by excellence of their size and tremendous arrangement of clients, that presumptively offers them the financial quality to square up to, or go stroll from, a clients if fundamental). Expected by these contentions, early studies utilize the experience, information asymmetry and service between the Big Four and Non-Big Four firms and demonstrate that Big Four industry perform audits of upper quality and are more extra moderate (Francis & Krishnan 1999). Firms prefer toward name-brand (Big Four) auditors on the off chance that they are liable to extra agency clashes. Big Four auditors have universal position and reveal commonly appeared to be extra freedom than non-industry specialization auditors. On the off chance that Big Four auditor's offer higher quality, the interest for his or her services should increase in light of customers' organization issues. In particular, firms need extra certainly to select Big Four auditor once their apparent munition issues, caught by the degrees of voting force of the greatest mortgage holders, more measure extra serious. Firms with greater recognition wishes inferable from higher agency costs are more extra surely to utilize Big Four auditors (DeFond, 1992).

Firms with greater natural instability (greater information asymmetry between the firm and outcasts) have a motivation to talk their characteristic quality by enlisting an extra solid, top notch auditors. This contention has primarily been made inside the connection of initial public offerings (IPOs) and hence the evidence shows there is diminished proof spatial property (i.e. less underpricing) once opening up to the world about large brand auditors (Beatty, 1989). Big Four firms are sued nearly less as a rule when overwhelming for business size, and massive Big Four firms authorized less as a rule by the Securities and Exchange Commission (Palmrose, 1988).

Auditors spend significant time in fluctuated businesses to acknowledge item separation and supply higher quality audit (Simunic & Stein, 1987). Higher nature of audit by industry specialize is moreover credited to the very certainty that they put vigorously in innovations, physical offices and structure management system that change them to watch anomalies and distortions a great deal of basically (Simunic & Stein, 1987). Their capacity to supply higher quality audits originates from their ability in serving numerous customers inside the same learning, industry and sharing best practices over the business.

PricewaterhouseCoopers (2002) contends that audit quality relies upon a few elements together with auditors "information and knowledge of the organization being examined and the business in which it works". Teoh and Wong (1993) place that to the degree that investors see Big Four auditors as giving higher quality audit, i.e., as recording a great deal of believable income for his or her auditees, the stock worth response to amazing reported profit for vast four auditees should be greater than that of option auditees.

These arguments therefore recommend that auditors with industry experience area unit a lot of doubtless to observe misrepresentations and irregularities than auditors while not industry experience. DeAngelo (1981) contends that firm size might be an intermediary for quality (auditor independence) since there is no single client is vital to a Big Four auditor and this make auditor to protect their reputation (their whole clientele) for not misreporting . Against this, firm with just single client may consistently infer that they require a lot of to realize by going in conjunction with their client and misreporting than by being powerful and probably obtaining pink-slipped.

Big Four firms contains several semiautonomous, city-based take after workplaces. DeAngelo (1981) contention on audit quality and auditor size might be connected to the work environment level. As far as financial significance, for instance, a client that is little with respect to a large four firm might be vital to no less than one of its workplaces. Consequently, previous studies have started to research audit quality at the working environment level (Reynolds & Francis 2000). For example, Francis and Yu (2009) demonstrate that the larger workplaces of Big Four Firm region unit of upper quality which can be ascribed to greater workplaces having a lot of measure in-house experience. Big Four firms expertise area unit a lot of independent and supply higher quality audits.

As a result of auditor’s expertise might have an effect on her judgment and actions. To realize high and reliable audit quality, Big Four firms tend to enroll people that are friendly and labile to government officials authorities and their way of life, goals and value (Jeppeson 2007).

The work expertise in massive Big Four companies is so doubtless to “mold” auditors that end up being totally different from auditors in non-Big Four companies. As an alternative, those recruited by large four firms might have comparatively additional conservative personalities, that additionally results in conservative audit outcomes. Evidence indicates that client of massive four audited firms have lower irregular collections which means less forceful profit management conduct thus higher income quality (Becker, DeFond, Jiambalvo, & Subramanyam 1998).

Gottschalk (2011) that the perspective of audit quality may be categorized into twofold. The lawful perspective of auditing offers a basic classification of either "audit disappointment" or "non audit disappointment." An audit disappointment happens if the auditor is not free truth be told, or if an autonomous auditor mistakenly problems a spic audit report due to the lack to collect adequate equipped proof by auditing due process. Conversely a "decent audit" or a non-disappointment is one within which the auditor agrees to examining gauges and problems the proper feeling with regard to the client's financial explanations at an acceptable level of audit risk.

From at opportune time, audit quality has been characterized as a result restrictive on the neighborhood of specific characteristics of auditors. The widely utilized definition by De Angelo (1981) characterizes the issue of audit quality as "the sector evaluated mutual chance which independent auditor can each notice an opening in an exceedingly customer's accounting, and report the rupture what is more contends that business firm size is an mediator for audit quality, as no single client is imperative to greater accounting firms and, then, larger accounting firms are additional inconceivable than smaller accounting firms.

Dopuch and Simunic (1980) posit that accounting firms with higher quality management recognized as larger firm in lightweight of the actual fact that they need additional distinguished reputation to confirm. Moreover, it can be contended that massive four firms offer unmatched audit quality as their sheer size will bolster additional vigorous making ready comes, Standardized review procedures, and additional decisions for correct second supporter audits.

Although, there are to boot contentions with relevancy why large Big Four and Non-Big Four firms may offer equal audit quality. First, massive Big Four and Non-Big Four firms are control to identical body and knowledgeable benchmarks, and during this manner each kinds of audit companies should stick to a wise level useful.

Second, as "non-Big Four auditors have prevailing information of near markets and higher reference to their customers" (Louis, 2005) these components might empower non-Big Four firms to higher determine anomalies. Obviously, the other rivalry may be created that nearer connections among non-Big Four accounting firms and their clients may conceivably prompt a trade-off of independence; on the opposite hand, the net impact of these balancing strengths is hazy. Thirdly, the failure of non-Big Four firms to induce moderate protection scope would possibly extremely build the audit sweat of Non-Big Four firms in relevancy Big Four on the grounds that audit firms cannot get a comparative level of support from insurance agencies. Basu, Hwang, and Jan (2001) specify the distinction between the Big Four versus Non-Big Four auditee earnings within the US was bigger during times once auditor lawful responsibility disclosure was seemed to be bigger.

This thought is bolstered by Government Accountability Office (GAO) of US report issued in 2008 demonstrating that non-Big four auditors are trying to induce cheap obligation protection scope (GAO 2008, 55). Agency theory perceives evaluating together of the first perceptive instruments to manage hostile circumstances and cut office prices.

Soltani (2014) claims that auditors utilize a couple of technics to understand misquotes in clients accounting structure and report the errors. Audit quality is that the questionable problems for the late decades and most past confirmation recommends that absence of audit quality is among the foremost imperative purpose behind financial and company outrage. Previous studies prove that audit quality as external company administration perceptive will improve organizations' performance (Gul, & Leung, 2004; Eng, & Mak, 2003). Auditors' obligations amplify well past the essential identification of "highly contrasting" GAAP infringement, to giving confirmation of financial reportage quality.

This obligation emerges from professional examining gauges that oblige auditors to contemplate "the quality, not solely the agreeableness" of the client's financial reporting Statement of Accounting Standard (SAS 90). It is more mirrored within the audit assessment, which provides certification that the "financial statements area unit properly exhibited as per GAAP," since cheap presentation needs dependable illustration of the company's basic financial aspects Financial Accounting Standard Board (Fasb) (1980). The auditor's wide charge to contemplate financial reporting quality is in addition certain with court selections that hold examiners subject for deluding cash connected proclamations, however once those statements entirely adjust to accumulation.

Collectively, it is advocated that audit quality may be a nonstop build that guarantees high quality of financial statement with the standard expectations audit quality that provide assurance and impartiality in audited financial statement.

Higher quality of audit enhance the quality of financial reporting in an exceedingly means of promoting the companies image and this would create awareness to stakeholders and investors.

Therefore, it denotes that audit quality serves as a yardstick for standard financial reporting. Effective communication and commitments between auditors and board audit committee are capable to increase audit quality through active involvement.

To sum up, audit quality broadly refers to the independent, competence, mechanism, reputation which auditors implement in order to be recognized as an independent audit in providing financial statement without qualified, error and unfair reports.

2.2 Audit Committee

The role of the audit committee in corporate governance is the subject of increasing public and regulatory interest. The audit committee is a sub-group of the full board. The audit committee gives correspondence between the full board, insider auditor, outsider auditor, the executive officers, and fund executives (Song & Windram, 2004). Jensen and Meckling (1976) displayed a method of reasoning for the presence of the board audit committee that managers take the chance to act against shareholders' benefits when the agency cost increase. Contractual connections in the middle of shareholders and managers decrease agency costs. In any case, these agreements must be along these lines observed. The development of an audit committee emerges from the need to screen these agreements

(Wild, 1994). Audit committee serve as trustees in a governance system decreases information asymmetry in the middle of internal and external and in this manner mitigates agency issues. Beasley, et al. (2009) likewise trusted that a successful audit committee has qualified individuals with authority and assets to ensure shareholders by safeguarding dependence on financial reporting, inward controls, and hazard management however its oversight part.

The Sarbanes Oxley (SOX) Act (2002) allocated particular obligations to the audit committee, it is responsibility of the committee to oversight auditors work, compensate and resolve financial reporting. Audit committee likewise has right to select or appoint independent advice and consultants (Klein, 2003).

The adequacy of audit committee relies upon the degree to which the group can resolve issues and issues confronted by the organization and to enhance their checking elements of the organization (Abbott, Park & Parker 2000). A more dynamic audit committee is relied upon to give a viable observing component.

2.2.1 Membership of Audit Committees in Nigeria

In prescribing that all recorded organizations ought to build up an active audit committee, the Cadbury Committee (1992) took after the US National Commission on Fraudulent Financial Reporting (Treadway Commission, 1987) and the Macdonald Commission (1987). An audit committee is a working advisory group of board of directors accused of oversight of financial reporting and divulgence. The audit committee gives a formal correspondence channel between the board, the inner checking system, and the outside auditor. Its basic role is to improve the validity of audited financial statements. In this limit, it can go about as a judge in the middle of the auditors and management. Honest to goodness differences in the application and interpretation GAAP can exist in the middle of outside auditors and management (Dye 1988; Antle & Nalebuff 1991). Individuals committee are drawn from individuals from the organization's directorate, with a chairperson chose from among the board of trustees individuals.

Though in nations with Codes of Best Practices for Corporate Governance, the prerequisite is the foundation of an audit committee comprising of independent non-executives; in Nigeria, segment 359 (3) and (4) of the CAMA, 1990 stipulates that the audit committee ought to comprise of an equivalent number of representatives of the shareholders and directors of the organization (subject to a most extreme of six individuals) each representing to the shareholders/management and directors) set up.

No less than one board part committee should have basic financial literacy proficiency and ought to have the capacity to read financial proclamations. One individual from the committee is relied upon to know about financial management or accounting knowledge. This procurement would seem to give formal acknowledgment to the group of shareholders in Nigeria. In any case, the Code of Best Practices for Corporate Governance issued by the previously stated Committee decorates the procurements of the CAMA 1990. The reviewing of the Code of corporate governance in 2011 does not mention the composition of audit committee. Most of audit committee in Nigeria public sectors have one or two executive member in their committee. A large portion of the distributed yearly reports in Nigeria do not give facts about the status of the executives on their board, in spite of the fact that some do as such while giving the directors list. Clearness of exposures in yearly reports of companies improves corporate governance, and distributed yearly reports are the methods whereby potential investors and shareholders get information about organizations. It is hard to screen the viability of the management structures of organizations if lacking information about these structures is given in yearly reports. This is an interesting area in which the Nigerian Stock Exchange (NSE) can assume a valuable part. Since the code of corporate governance 2011 did not make any reference or specific numbers of non-executive directors and their financial expertise to be the audit committee member, various organizations exploited this absence of clarity. The result was that preceding the formation of a Code of Best Practices for Corporate Governance in 2001, the examination of enrollment of audit committee of numerous recorded organizations uncovered that it comprised of a blend of executive directors (Okike, 2000; & 2002). Based on this deficiency, this study means to examine the aggregate number of non-executive directors in the audit committee part and their profile of essential financial proficiency, knowledge of accounting and financial management experience they have acquired. The Committee ought to keep up a valuable dialog between the outside auditors, the board and improve the believability of financial revelations and the enthusiasm of shareholders.

Be that as it may, the CAMA 1990 specifies that the committee ought to comprise of "an equivalent" number of directors and shareholders. It creates the impression that the transcendent number of audit committee membership is six, in consistence with the most extreme number indicated in the Act. Hence likewise, the transcendent number of shareholders on the audit committee is three in number.

2.2.1.1 Non-executive directors of audit committee member

It is a key factor for an audit committee to guarantee that management is considered responsible to shareholders (Blue Ribbon Committee 1999; Cadbury Committee 1992; & Treadway Commission 1987).

The independent of audit committees from the management play an important roles in organizations because they have good reputations to transform transparency, support the board of directors, prevent inadequate activity and oversight function of financial reporting. The language of independence has been termed as the degree to which an audit committee comprises of non- executives directors (Smith Report, 2003). The Code of Corporate Governance in Nigeria (2011) posits that an independent director is a non-executive director who is not a considerable shareholder of the organization that is one whose shareholding, straightforwardly or in a roundabout way, does not surpass 0.1% of the organization's paid up capital. The Independent non-executive directors on corporate groups identifies with better checking of management choices and exercises by corporate groups (Fama, 1980). There is indirect confirmation supporting the thought that an autonomous non-execuive audit committee can deflect financial reporting aggressiveness and misrepresentation. Audit advisory groups have no less than two means accessible to practice oversight of financial reporting, the external auditor and the inside auditor capacity.

Blue Ribbon Committee (1999) observed to reinforce the part of audit groups, as regulators of the financial reporting process, for New York Stock Exchange (NYSE) and National Association of Securities Dealers Automated Quotations System (NASDAQ) also called

(NASD) firms. BRC (1999) is about the change of necessity of NYSE and NASD so as to give space for recorded organizations to have audit boards of trustees without executives directors. Numerous other independent counseling bodies have planned rules with recommendation to change both the audit committee and audit process . For instance, it was prescribed by Treadway Commission (1987) that: "the audit board individuals from all public sectors ought to be made out of exclusively autonomous executives.

Cadbury (1992) states that greater part of non-executive directors ought to be autonomous of management and free from any business or other relationship which could tangibly meddle with the activity of their autonomous judgment, aside from their expenses and shareholding. No particular are expressed for autonomy aside from having the capacity to apply "freedom judgment". In addition, SOX (2002) requires that all individuals from an audit committee should be autonomous of the companies management as well as those who oversee the financial reporting processes and accounting procedures. This ideas are in line with Malaysia Corporate Governance.

In Malaysia corporate governance, on the Section 344A (2) of the Bursa Malaysia Listing Requirement requires audit advisory group to comprise at least three individuals, a greater part of which must be non-executive directors. The code (Part 2, AA III) expresses that the group of audit advisory must have no less than 33% (i.e 1/3) independent non-executive directors. A study by Muhamad, Mohamad, Abdul Hamid, and Nassir (2001) found that the Malaysian audit board independent sees that the board assumes a successful part in checking financial capacities and audit roles. As indicated by McMullen (1996) estimated that an independent non-executive audit board is more viable. They concentrate on 128 organizations which disclose financial reporting issues. They found that organizations with financial reporting issues are less inclined to have audit advisory groups made just out of independent executives board. Audit group independent upgrade the viability of checking limits. It serves as a sustaining administrators to the free of inside and outside auditors. It is set that the more independent of the audit counseling gather, the higher the level of oversight and the more likely that people exhibit impartially in evaluating the propensity of the association inside reporting control and accounting. This demonstrates a self-governing audit board can help companies deal with the intelligence of business. Through the way when they are gone up against with financial difficulties, they are required to propose certain movement plans to direct the issue.

Audit advisory group independent non-executive can possibly make a move identified with the outside auditors that may bring about a larger level of audit guarantee or scope. Any of the group that has freedom director as head can endeavor to induce management to choose a more proficient auditor with more remarkable.

In this study, it is observed that auditor quality (i.e., Big Four versus non-Big Four) steady through the rejection of non-Big Four firms. Since audit quality is for the most part characterized as the joint likelihood of the auditor recognizing and reporting a material financial misquote (DeAngelo 1981), it is sensible to expect that autonomous audit committee lean toward a larger level of audit quality. Various studies have investigated the relationship of audit advisory group independent with financial reporting results and with the association with the outside auditor. In such manner, Beasley, Carcello, Hermanson, and Lapides. (2000) find that organizations with in-appropriate financial reports have less non- executives directors or independent committee than organizations with proper benchmark. Abbott and Parker (2001) find that organizations with audit boards of trustees contained totally of free and autonomous non-executive directors that meet at any rate twice every year will probably choose a (then) Big Four auditor when exchanging auditors.

Carcello and Neal (2000) find that fiscally troubled firms with autonomous audit advisory group will probably get going-concern conclusions. Abbott, and Peters (2003) find that organizations with audit advisory group autonomous is less inclined to encounter a fake and low audit quality. Zainal, Mustaffa, and Jusoff, (2009) found that a higher extent of free non-executive directors upgrade companies execution, because of their differing foundation, properties and qualities, which may enhance decision making forms. Non-executive directors are thought to be in a superior position than executives to satisfy their observing capacity since they are free and worried with keeping up their notoriety in the outside work market (Fama and Jensen, 1983).The findings of Beasley et al. (2000), Carcello and Neal (2000; and 2003) and Abbott et al. (2003) depend upon an affirmation that audit group autonomous of management do not have an individual and/or financial reliance on management.

The committee of audit should be free so as to perform their task appropriately (Zaman and Collier, 2005). Independent is pretty much as essential to the audit committee as it is imperative to the auditor (Carcello, Hermanson & Ye, 2011). This will permit them to manage the organization's issues in a target way with no type of predisposition (i.e bias). Audit committee autonomous is required to upgrade open trust in the corporate system with respect to their openness, competence in reporting and a consolation of adequate protections against false reporting and innovative accounting (Rezaee, Kingsley, & Minmier, 2003; Cadbury, 1992; DeFond & Jiambalvo, 1991).

It is likewise foreseen that the audit group ought to cradle the relationship among numerous governance organs inside the firm and outer organs (Rezaee, 2009) The freedom audit group advisory is vitally critical in upgrading the relationship between the outside auditor and management over the span of their obligations as well as in instances of quarrels between them (Arena, Arnaboldi & Azzone, 2010). Keeping in mind the end goal to release their oversight capacities viably, it is imperative that the committee is independent non-executives of management.

Absence of freedom from the management may incidentally transform the individuals from the audit group into an expansion of the management group itself and this will crush the goal of having the audit advisory group in any case. There ought to be an expansive majority of independent or non-executives directors, audit group individuals that serve on the audit advisory group to improve firm value.

2.2.1.2 Financial expertise of non-executive directors in audit committee

Expertise and experience of audit committee individuals is an essential part of audit advisory group viability in managing the evaluated financial articulations. Corporate governance procurements internationally requires that the audit committee be made out of persons that have later and pertinent financial experience, in this manner inferring that they ought to have the capacity to, at any rate, read and comprehend the financial proclamations which incorporate the cash flow statement, notes to the accounts, income statement and the balance sheet. Further, a large portion of these procurements additionally require that no less than one individual among the individuals ought to have recent significant financial capabilities. For example Nigeria Code of Corporate Governance (2011) section 356(3) and (4) of CAMA required that no less than one individual from audit group ought to be financial literate and ready to understand financial proclamations or to know about financial management or with accounting background. This study focuses on financial expertise of non-executive directors in audit committee.

The meaning of current pertinent financial capability is questionable and there has not been an unmistakable understanding of this necessity. One proposed definition gives in the SOX is introduced beneath:

"A financial master is any part who has the training or experience of a public accountant, principal accounting officer of an issuer, principal financial officer, auditor or has been in a position requiring the comprehension of sound accounting guidelines and financial articulation involvement in the arrangement and auditing of financial proclamations of practically identical issuers, involvement in the use of such standards regarding the representing appraisals, understanding of audit committee functions, accruals and reserves, and experience with internal accounting" (Dalley, 2003).

The focal issue to this procurement is the requirement for the individual as non-executive of the audit council to have between them the required experience and aptitude to have the capacity to release their particular oversight works adequately. As per Song and Windram (2000), a high level of financial proficiency is important for an audit brain trust to adequately supervise an organization's reporting and financial control. The part of an audit brain trust in supervising responsibility of the organization because activity of the committee would cover and monitor the management and financial reporting. This requires the audit panel to have accounting information concept to procure an inside and out comprehension of financial reporting and enhance consistence with administrative necessities.

Financial knowledge decreased extortion in corporate financial reporting. A formal acknowledgment of this necessity was recently made in the U.S. with the passing of the SOX (2002) which requires every public recorded organization to uncover regardless of whether it has a financial master in the audit group. Accounting firms by PricewaterhouseCoopers (1999) and SEC (2003) regulators contended that financial mastery is fundamental to guarantee that the audit committee satisfy their essential obligations of regulating the financial reporting prepare and upgrading financial reporting quality.

Jaime and Micheal (2013) claim that financial master of audit board is essential since it audit advisory group is in charge of financial reporting process and audit quality. He focused on that audit boards with financial ability can offer huge worth to the stakeholders and client, since their financial information is favorable position of distinguishing any control. DeFond and Francis (2005) find that market contestants respond decidedly to the arrangement of a audit advisory group with financial master in accounting, however no response is noted for audit advisory group with non-accounting financial capability. This is because of the way that the arrangement of council individuals with accounting financial knowledge enhances the oversight capacity of the advisory group and therefore gives a tenable sign to the investors that the organizations seek to a higher audit quality and financial reporting.

Moreover, DeFond et al. (2005) recommend that positive business sector response is focused on the organizations that are moderately solid in corporate government. Educated audit brain trusts are better prepared to comprehend auditors judgments and observe the substance of contradictions in the middle of administration and the outer inspector (DeZoort 1998; DeZoort & Salterio 2001). The attestation that compelling audit advisory brain trust must contain individuals who have abundant financial experience is predictable with prior study on audit group skill.

DeZoort et. al (2001) place that audit brain trust individuals with more experience will probably comprehend and sympathize with the dangers the outside auditor faces. Financial reporting quality is better when financial knowledgeable part being a piece of the audit group. It is on the grounds that individual from audit group with financial experience and preparing are relied upon to have the capacity to comprehend audited financial reports and the act consequently .

2.4 Theoretical Perspective

Leaders or supervisors of substantial, advanced freely held enterprises are commonly not the holders. Truth be told, the majority of today's top managers own just ostensible measures of stocks in the companies they oversee. The genuine holders (shareholders) choose board of directors who procure supervisors or leaders as their agents to run the company's everyday exercises. The agency theory is extremely applicable to the research of auditing. It is valuable in exploring the relationship that exists among the principals of the (outside auditors, clients, organization and the shareholders) in investigating management extortion hazard (Matsumura & Tucker,1992, Fama & Jensen, 1983; Van Puyvelde, Caers, Du Bois, & Jegers, 2012; Wilks & Zimbelman, 2004; & Jaffar, 2009).

While the agency part manages the arrangement of firm in term of who claims the assets and who uses or controls it. The issue of organization agency theory is a main theoretical perspective of view that considered significant for this study.

2.4.1 Agency Theory

Based on the theoretical point of view for this study depended on agency theory. As indicated by agency theory, organization relationship is an agreement under which "one or more persons (main) who is the economic assets proprietor draw in someone else (agent)who is accused of utilizing and controlling these assets to perform some administration for their sake, which includes appointing some basic leadership power to the agents" (Jensen and Meckling, 1976). Nonetheless, this theory expect that management (as an agents) cannot be trusted to make the best move for the general shareholders and public (as main) in light of the fact that the agents will represent their own particular advantages. To accomplish the arrangement between the agents interest, limit agency cost and principal advantage, different inside and outside corporate governance components have been recommended (Haniff & Huduib, 2006).

The center for the agency theory is to determine disagreement occurring between management control of corporate assets and separation of principals (Fama and Jensen, 1983; Jensen, 1986). Agents typically have more information asymmetry than principals due to what they have unfavorably affected principal to detect if agents are serving on behalf of their interest freely (Adams, 1994).

Jensen and Meckling (1976) referred managerial discretion as an effect of the instructive asymmetry that prompts to agency costs and agency issues. The partition of the exercises of management, informational asymmetry and the ownership which may result to misunderstanding or trust. The manager's self-premium could prompt the mismanagement of firm assets, for case, through putting resources into risk and impulsive activities to the detriment of the stakeholders who give capital (Shleifer & Vishny , 1986). In this way, to control irreconcilable situations and diminish agency costs, different inside and outside components (known as corporate mechanism) have been recommended. For instance, the team of board director is built up as an alternative solution for such clashes. The activity of companies board is important due to the fact that they are outside directors and differentiate from management, this will allow board to provide high quality monitoring and serve stakeholders with due process (Fama & Jensen, 1983).

A standard corporate governance mechanisms provide solution to irregular issues that affect or hinder the dissolution of companies and serve as a guideline to investors and stakeholders. It is also provide the role and right of management and stakeholders. In like manner, the organization part of audit panel is to decrease office struggle through checking top management, observing the inner control method and in addition that of outside auditors, and guaranteeing the nature of financial reports which will then prompt better firm execution. (Fama & Jensen, 1983).

Watts (1998) suggests that auditing is considered as a bonding cost paid by agents to an outsider to fulfill the principals' interest for responsibility. Like whatever other expense of maintaining the business, the expense of auditing is borne by principals to secure their financial advantages. Defond (1992), argues about the significance of the seperation of possession of property and control. He expresses that the more diffused the responsibility for organization, the higher the disparity in inclinations of the principals and managers, the higher recognizability and control of agents' activities by the principals.

Farouk and Hassan (2014), state that audits fill as a principal need in advancing certainty and fortifying trust in financial information. The key agent-principal relationship as delineated in agency theory is essential to see how the part of an auditor has created. Principals select auditors and delegate some basic leadership power to them. In this manner, the principals put their trust in their auditors to act in the principals' best advantages. Notwithstanding, as a consequence of information asymmetries amongst principals and agents contrasting thought processes, principals may need trust in their operators and may along these lines need to put set up instruments, for example, the audit, to strengthen this trust. Agency theory in this manner, is a valuable economic theory of responsibility, which clarifies the advancement of audit quality.

2.5 Summary of the Chapter

In this chapter, a comprehensive rationalization of the literature reviews and study variables in reference to non-executive directors, financial expertise of non-executive directors and audit quality were provided. Previous studies conducted in numerous countries are critically mentioned and reportable. Additionally during this chapter, the summary of theoretical perspective (agency theory) was discussed. Succeeding chapter are presenting in the research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This research methodology chapter offers an outline of by introducing the research design in the first stage. Subsequently, the framework of the study, hypotheses development, operational definition and measurement of the variables, sampling method, population and sample size, unit of analysis, sampling procedure and techniques of data analysis would be explained in details. Finally, the outline of the chapter.

3.1 Research Design

The purpose of this study is to make research on the relationships between non-executive directors of audit committee member, Financial expertise of non-executive directors of audit committee member as independent variables and audit quality (Big Four and non-Big Four audit firms in Nigeria) as dependent variable. As a result of public listed companies on the Nigerian stock exchange fact book (2012/2013), non-financial sectors were considered due to the availability of information gathered from the companies.

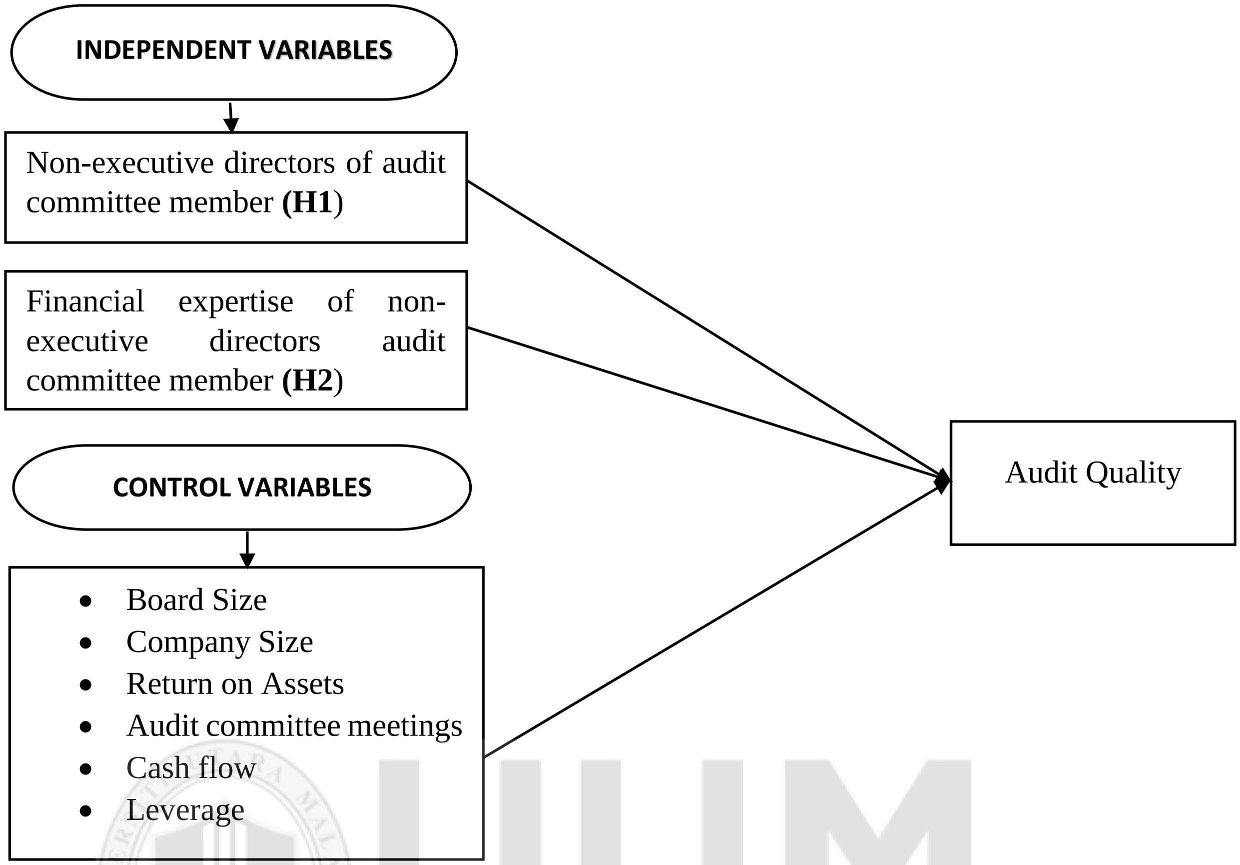
The collection of secondary data was collected through the channel of annual reports of the year 2012, 2013 and 2014 and the annual reports were used to collect the data concerning the audit committee and big Four/Non-big Four. The independent and dependent variables are measured, classified, and quantified into a numerical type. Therefore, the association between audit committee and audit quality is examined and assessed in a very applied statistical means from the data collected. The study is predicated on a panel data study.

3.2 Theoretical Framework

The development of theoretical framework could be a key step in the research methodology as a result of it clearly show the directions of the study's contribution. Consistent with Sekaran and Bougie (2013) theoretical framework is described as a logically developed, outlined framework that offers an in depth network of the connection between the variables related to the problematic state, and known through such processes as literature review.

In line with the objectives made during this research consist on conceptual analysis, and many areas are covered which might be thought as the possible factors that determine audit quality.

The relationships between audit committee and audit quality is illustrated in Figure 2.1



3.3 Hypotheses Development

This segment provides the relationship between audit quality as needy variables with audit committee attributes in particular, non-executive directors of audit committee member, financial expertise of non-executive directors audit committee member as independent variables.

In light of the earlier experimental studies on the variables that decide audit quality, this theory is proposed:

3.3 1 Non-executive directors of audit committee and Audit quality

Agency theory predicts that, since gatherings impart less viably past a specific size, there is pressure from self-serving managers or entrenched in principals to require audit committee adequacy. The suggestion is a backwards relationship between audit committee independent and audit quality. The empirical research likewise reports clashing results concerning the relationship between audit committee independent and audit quality. A typical desire is that, the independent non-executive directors of audit committee would guarantee better financial reporting (SEC 2003), and the desire is generally upheld by existing exact proof (Abbott et al., 2000) For instance, the independence of the board audit committee is another key trademark for powerful observing of the financial reporting process (Krishnan, 2005).

Eichenseher and Shields (1985) claims that audit committee autonomous appoint Big Four auditors for audit quality contemplations as well as on the grounds that Big Firms auditors are fit for retaining a more prominent bit of potential prosecution misfortunes than non-Big firms auditors. Similarly Bronson, Carcello, Hollingsworth and Neal (2009) reported that advantages of audit committee freedom are reliably accomplished just when the audit advisory board is totally autonomous.

Kent, Routledge and Stewart (2010) observed that higher audit advisory group freedom is connected with higher accumulations quality and consequently enhanced financial reporting quality. Anderson, Mansi, and Reeb (2004) provide evidence that completely autonomous audit board are connected with an essentially bring down expense of obligation. Abbott and Parker (1999a, 1999b) find that audit board which meet minimum levels of both independent and activity will probably draw in higher quality outside auditors.

The responsibility of audit board of trustees can be analyzed in three perspectives: the size, the frequency of its meetings and the duties it has to perform. The activity of audit advisory group autonomous non-executives can be characterized into two routes: the external audit and oversight of the financial statements. This study concentrates on the two since they are the most important area that provide the reputation of (Big Firm & non Big Firm) and organization inputs (Audit committee) (Wolnizer, 1995). Since audit quality is characterized as far as the probability of distinguishing and reporting a material financial misquote (DeAngelo, 1981), by augmentation, the issue of independent audit committee has relation with the level of higher financial reporting quality.

Byrd and Hickman (1992) guaranteed that the more noteworthy proportion of non-executives directors, the better the share trading system reaction to a company's delicate offer for different firms high quality. Bonn (2004) found that there is certain relationship between proportion of non-executives directors and organization execution. Ameer, Ramli and Zakaria (2010) presumed that organizations with outside directors is required to have a superior quality contrasted with those organizations that have a large number of executives internal manager and associated non-executives directors in the audit advisory group.

Sun (2013) discovered a negative and significant on the relation of audit industry specialization and audit committee independence. Jeffrey, Lisa, Genesh, and Arnold (2011) audit committee independent is significant in guaranteeing the respectability of the financial reporting process.

This demonstrates that non-executive's audit committee member is likely to be more efficient in monitoring audited financial statement.

Based on the preceding discussion this study hypothesis that:

H1: There is a positive relationship between non-executive directors of audit committee and audit quality.

3.3.2 Financial expertise of non-executive directors and Audit quality

Nigeria Code of Corporate Governance requires that no less than one individual from the audit committee ought to know about financial management or have knowledge of accounting. The explanation for this issue is that audit committee with financial knowledge skill and experience are essential as they show support for auditors (DeZoort, Hermanson, & Houston 2003; DeZoort et al. 2001). There are very few experimental research proposes that financial proficiency ability impacts audit committee individuals' judgments and financial reporting-related results (DeZoort et al. 2001; Mc Daniel, Martin, & Maines, 2002). For instance, McDaniel et al. (2002) observed that specialists tended to concentrate more on recurring, less-unmistakable issues, while financial literates concentrated more on non-repeating, conspicuous issues. Audit committee non-executive directors affiliate with financial reporting experience will probably comprehend outside auditor judgment (Dezort et al, 2001).

Lo, Wong, and Firth (2010) note that the existence of financial expertise on the audit advisory has a significant positive relationship with financial reporting quality. Defond, Hann and Hu (2005) in their study identified that the business sectors show partiality just to financial reporting with an accounting experience or skill on the audit committee. Also, Krishnan and Visvanathan (2008) provide confirmation of a solid positive relationship between earning quality and accounting financial knowledge.

Dhaliwal et al. (2010) demonstrate that accounting financial knowledge are connected with less profit management. Davidson, Xie, and Xu, (2004) found that there is positive relationship between financial performance and financial proficiency or knowledge audit committee members. Chang and Sun (2009) find that the market sector responds positively to financial specialists on audit committee after SOX. This will help mitigate some of the agency problems that cause low audit quality.

Based on the various theoretical arguments, this study proposes that:

H2: There is a positive relationship between financial expertise of non-executive directors in audit committee and audit quality.

3.4. Operational Definition and Measurement of the Variables

This section provides measurement of dependent variables, independent variables and control variables. The measurements of variables for the study are as follows:

3.4.1 Dependent Variable

Audit Quality : The quality of audit services is defined to be the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report that breach" (DeAngelo, 1981, p. 186).

The Big Firm audit firms in Nigeria are: Akintola Williams Delloite, PricewaterhouseCoopers, Ernst and Young, and KPMG. The logistic regression for this study takes the form.

$$\mathbf{AUDQUAL = \alpha 0 + \beta 1\ NEDAC + \beta 2\ FENEDAC + \beta\ 3\ BDSIZE + \beta 4\ COMPSIZE + \beta 5\ ROA + \beta 6\ ACME + \beta 7\ CFO + \beta 8\ LEVERAGE + \varepsilon}$$

Table 3.0 provides a list of variables used for this study and their operationalization.

Definition of the variables

Variable Names	Acronym	Operationalization of the variable	Source
Dependent Variable			
Audit Quality	AUDQUAL	1 if the client engage the service of Big Four auditor in financial year, and 0 otherwise	Enofe, Mgbame and Enabosi (2013)
Independent Variables			
Non-executive directors of audit committee member	NEDAC	The percentage of non-executive directors in the audit committee.	Ojeka, Iyoha and Obigbemi (2014)
Financial expertise of non-executive directors in audit committee	FENEDAC	Dummy Variable (=1 if at least one of non-executive director in audit committee is accounting knowledge, financial management or able to read financial statement; = 0 otherwise).	Mustafa and Ben Youssef (2010)
Control Variables			
Board Size	BDSIZE	The total number of directors serving on the board of directors.	Haniffa and Hudaib (2006)
Company Size	COMPSIZE	The natural log of total assets.	Ujunwa (2012)
Return on Assets	ROA	Earnings before interest and tax divided by total asset.	Schmidt and Wilkins (2012)
Audit committee Meetings	ACME	Number of audit committee meetings held during the year.	Al-Mamun,Yasser, Rahman,Wickramasinghe and Nathan (2014)
Cash flow	CFO	Cash flow from operation scaled by lagged total asset.	Pittman and Fortin (2004)
Leverage	LEV	Total debt / total assets.	Graham, Leary and Roberts (2015)

3.4.2 Independent Variables

This section provides measurements of the audit committee as independent variables which are considered as follows:

3.4.2.1 Non-executive directors of audit committee member

Non-executive directors audit committee is a continuous variable, measured as the extent of non- executives directors on the audit group announced as independent by the board. NEDAC is the percentage of individuals who are non-executive directors. The Higgs Report was counseled in characterizing non-executive directors independent. Due to the Higgs Report (2003) claims that, 'A non-executive director is viewed as autonomous when the board establishes that the executive is independent in character and judgment, and there are no connections or circumstances which could influence, or seem to influence, the director's judgment'.

NEDAC = The percentage of non-executive directors in the audit committee.

3.4.2.2 Financial expertise of non-executive directors in audit committee

The quintessence of audit committee ability is caught utilizing the governance capability i.e. Audit advisory group skill is a dummy variable and measured as an audit board financial knowledge of non-executives directors serving on the audit panels. Financial literate of audit committee is to show occurrences where the non-executive of audit advisory groups satisfy the necessity of having an expertise in financial aspect.

The thought of general financial ability is measured utilizing Section 359(3) and (4) of the CAMA code which expresses that no less than one board individual from the audit group ought to be financial knowledgeable, should have knowledge of accounting or financial management and able to read financial statement . This proposes that the term financial ability could involve the finance expertise and accounting skill, and also any expertise in the readiness of financial proclamations. The dummy variable of non-executives financial knowledge in audit committee part who has financial literate, accounting knowledge, able to read financial statement or has financial management and 0 otherwise.

FENEDAC = Dummy Variable (=1 if at least one of of the non-executive director in the audit committee is accounting knowledge, financial management or able to read financial statement; = 0 otherwise)

3.4.3 Control Variables

This section provides board size, company size, return on assets, audit committee meetings, cash flow and leverage as control variables:

3.4.3.1 Board Size

Board size or the quantity of executives on board is an imperative element in the viability of the board. Increment in board size would enhance organizations' board adequacy to bolster the management in lessening agency cost that came about because of poor management and would prompt better financial results (Jensen & Meckling, 1976). Jensen (1993) claims that when the numbers of boards size are more than seven or eight is likely to be difficult to coordinate or effective. As indicated by Raheja (2005) claims that the directors of board has two function that is: key relevant to monitor and advise the board. Cheng (2008) claims that high quality of financial statement are related to the commitment of larger board size. According to Kiel and Nicholson (2003) realize the larger board size to positive effect on audit quality.

Hence, the large board sizes are definitely important, previous research has proved that most of the organization with small board sizes has effective contributions because of easier communication between the manager and directors.

3.4.3.2 Company Size

Assessing the size of the company measure as the control variable in this study is inspired by the way that it has been observed to be connected with organizations with various qualities. Leuz, Nanda and Wysocki. (2003) contended that the structure of the board can be determine base on the development and possibility of firm size. They observed that firm size is specifically identified with size and contrarily corresponding to the growth and proxy, that insider representation is conversely relative to firm size and directly related with the representative for circumstances development a firm size affects the firm execution. The economies of scale support the establishment and effectiveness of board audit committee because of increase in high quality (Pincus, Rusbarsky, & Wong, 1989). Hence, firm size can have a significant effect on corporate performance. For instance, large companies size may prefer large accounting firms than small accounting because of their different knowledge, high reputation, greater agency problems and high audit quality (Kyereboah-Coleman & Biekpe, 2008). Similarly, Coles and Jarrell, (2001) claimed that companies engaged in large numbers of board, when the company is meeting up with global market or has more branches .This helps board formulate strategy when the number of boards are larger and easy to oversee the financial reporting.

In this way larger firms are ordinarily connected with higher quality management, better observing, expanded accounting management and higher motivation to lower quality (Watts & Zimmerman, 1978).

3.4.3.3 Return on Assets (ROA)

ROA is utilized to show how gainful a company's benefits are with regards to income creating. Organizations that require substantial initial investments for the most part with lower ROA (Saleh, Zulkifli, & Muhamad, 2011). ROA is figured as a net pay and to be divided by aggregate resources of the organization (Amran & Abdi 2012). Klapper and Love (2002) indicate that quality of the audit can be related with the performance of the firm (ROA) and their operations. Miller and Dobbins (2001) measure ROA as a gauging that provide how firms assets are used and this serve as information asymmetry for accounting firms to provide high quality, for the purpose of operations and investors.

Haniffa et al. (2006) suggest that higher return on asset shows that organization benefits are utilized properly and meet economic interests of the shareholders. ROA changes broadly among organizations and is a measure of benefit use productivity. It can be utilized as an essential indicator to demonstrate the distinction between companies' or businesses benefit and the rate of return set as a benchmark .(which indicate that risk adjusted weighted and the average cost of capital).

3.4.3.4 Audit Committee Meetings

Audit committee activity plays a vital part in managing and observing the financial reporting process. It is contended that the recurrence of groups of audit committee meeting is a key determinant of its adequacy and a vital part in tending to critical organization issues connected with management force vesting through large ownership (Sharma, Naiker, & Lee, 2009).The Smith committee (2003) contends that audit committee meetings are at the heart of its work and the groups must have the meeting which defines their duties and responsibilities. The improvement and transparency of higher audit quality are associated with the regular meeting of audit committees (Bryan, Liu, M.H.C. & Tiras, 2004). Bronson, Carcello, and Raghunandan (2006) found that, there is possibility of high level of quality as well as audit committee meet regularly. While the chance of restatements or reporting problems decreases (Abbott, Parker, & Peters, 2004).

Most of the information on audit committee meeting was extracted through the companies corporate governance annual reports. In the annual report, it was revealed that minimum audit committee meeting should be two in a year.

3.4.3.5 Cash Flow

CFO is characterizes as the total amount of the companies being transferred into and out for operation in the business. The less cash flow in organization management have a higher motivator to control by reporting future incomes or by deferring current expenses in order to proof that they are capable in financial condition (Leuz, Nanda & Wysocki, 2003).

Becker et al. (1998) claims that, the companies with a higher income may control profit and high standard of audit quality by making provision or safe for their future needs. This usually attract investors and stakeholders to partner with that particular company. Pervits, Bricker, Robinson, and Young (1994) argue that to analysis companies evaluation has to be appeared with cash flow and input of audit quality. Similarly, Graham, Harvey, and

Rajgopal. (2005) document that the external constituents consider cash flow operation than earnings in a situation when financial distress appear.

This is upheld by Lee (2011) contend that companies with a high income will probably beat the profit benchmark.

3.4.3.6 Leverage

The debt ratio can be described as the degree of liabilities, short term and the total long term financial debt as the percentage of aggregate resources. It is contended that debt proportion variedly affects the performance of company. In another perspective, the cash flow may be reduced for exposing and monitoring the business market, when there is a positive effect. This study argued that the higher level of debts in a company may likely have less quality of audit quality. Large investors and stakeholders, may be influenced through the low leverage of companies because, this provide the evidence of good performance and high audit quality (Ahmadu, Aminu, & Taker, 2005).

It was argued by Jensen and Meckling (1976) that companies with highly leverage experience the higher monitoring costs, this implies that the audit committees performance will increase through the effective and commitments boards when the higher levels of debt increase agency cost. Hence, effectiveness of boards increase when there is high level of leverage in companies and increase in debts may lead to failure or negative effect of agency fees (Jensen, 1986).

3.5 Sampling Method

In order to attain the study objectives, convenient sampling methodology was used in choosing the sample organizations that were utilized in data assortment from the list of the businesses listed in Nigerian Stock Exchange fact book 2012/2013. This can be supported the very fact that it enabled the researcher to pick the organization with full market and data necessary for the better conduct of the analysis, that likelihood sampling methodology cannot do.

3.5.1 Population and Sample size

Based on a study by Cooper and Schindler (2008), the population is explained as those individuals, events, or records that contain the required data which might answer the measurement queries. During this research, the population is consist of 190 listed firms on Federal Republic of Nigeria Stock Exchange fact book 2012/2013 who have fully fledged exploitation audit services (Big Four or non-Big Four). The data of financial years from 2012 to 2014 was required to measure audit committee and audit quality and used the period of three years. The sampling size for this study consisted of all 190 listed companies on the NSE with financial year 2012, 2013 and 2014. Based on the data collection, 78 companies do not have the required profile of non-executive directors and financial expertise of non-executive directors in the audit committee needed for this study in their annual report. Also 56 financial service sectors (i.e. Banks, insurance and mortgage companies) are not included due the fact that Financial Services Regulation Coordinating Committee (FSRCC) requirements for financial companies differ from companies listed on the NSE.

Therefore, the final sample size of 56 companies with the period of 3 years (i.e. 168 companies) were available for testing the association between audit committee and audit quality. Below tables are summary of sample size and break down of non-financial sectors.

Table 3.1: Summary of Sample Size.

Item	Frequency
Nigeria Stock Exchange Fact book 2012/2013	190
Less: Financial Service Sectors (i.e. Banks, Insurance and Mortgage Companies).	56
Companies with incomplete required profile of (NEDAC and FENEDAC) in their annual reports.	78
Companies with complete required profile needed in their annual reports (Non-Fin Sectors).	56
Years focus (2012, 201in3 & 2014).	3
Final Sample	168

Table 3.2: Break down of Non-Financial Sectors that have required profile in their annual reports

Sectors	**Number**
Agriculture	3
Conglomerates	5
Construction/real estate	2
Consumer goods	13
Healthcare	2
ICT	2
Industrial goods	9
Natural resources	2
Oil and gas	6
Services	12
Alternative Service Market (ASEM)	0
Companies realized in a year	56
Years	3
Total number of Companies in 3 years	168

3.5.2 Unit of Analysis

The unit of analysis in this study was the Nigeria Stock Exchange Listed Companies.

3.5.3 Sampling Procedure

The necessary data for this research on audit committee and audit quality (Big Four and Non Big Four) were extract from the published annual reports of the companies that listed within the Nigeria stock exchange. This secondary data provides varied information for the study and for drawback findings (Sekaran & Bougie, 2003). Table 3.5 and 3.6 present the sample selection procedure, break-down and analysis of industry composition of sample size of this research.

3.6 Data Collection

The main sources of the collection data for this study was obtained from companies annual reports for the year 2012/2013 through internet. The data required for audit quality was also collected from the annual reports. The secondary data used for this study provides numerous information for the analysis and for issues solving (Sekaran & Bougie, 2003).The annual reports of the year 2012, 2013 and 2014 were chosen because all the information needed for this study were extracted in the companies annual report.

3.7 Techniques of Data Analysis

This study utilized the logistic regression. This was in line to study the relationships that exists between the explanatory variables and audit quality is estimated by logit regression: logistic regression, is a regression model where the dependent variable (DV) is categorical.

3.8 Summary of the Chapter

This chapter has provided the methodology utilized in this research and discussed the hypotheses that are developed. Additionally, a proof of the theorectical framework, the research data and technique of data analysis. Finally chapter five provides findings and discussion.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

The aim of this chapter is to report the outcome of the data analysis that narrates the relationship that exist within the variables: Non-executive directors of audit committee, financial expertise of non-executive directors audit committee (Audit committee), Big Four and non-Big Four (Audit quality), board size, company size, return on assets, audit committee meetings, cash flow and leverage (control variables). This chapter is in four sections: descriptive, Pearson Correlation (multicollinearity and VIF regression) and logit regression (autocorrelation & heteroscedasticity). Summary of the chapter is provided in 4.5.

4.2 Descriptive Statistics

The descriptive statistics for both the independent, dependent and the control variables are as disclosed in Table 4.1.

The underlying step of the analysis of multivariate data involves a table of means and standard deviations (Genser, Cooper, Yazdanbakhsh, Barreto, & Rodrigues, 2007). With the utilization of logit regression, the scores may greatly affect the outcomes and turns into a reason for concern.

The results of descriptive statistics audit committee and audit quality are as follows: It is reveal that 64.3 percent of non-financial sector in this study engage with Big Four firm while the remaining 35.7 percent goes to non Big Four firms. On average the number of non-executive directors in audit committee is 0.42 with a minimum of 0.17 directors and maximum of 0.75 directors. The average 58 percent of the financial expertise of non-executive directors of audit committee were accounting, or financial expert with a range between 0 and 1 percent. This study also discovered that the average board size of directors serving in firm is 8.94 with the recorded a minimum, maximum, and deviation of 5, 13, and 1.80 respectively. The mean of the company size is 7.28 while the maximum and minimum are 8.99 and 5.77 respectively with deviation of 0.66. The result on the return on assets indicate the mean is 0.07 with a minimum of -0.38, maximum 0.61 and standard deviation of 0.11. Result found that the average held of the audit committee meeting during the year is 3.81 with a minimum 2 and maximum of 7.

In addition to that, the cash flow recorded a figure of 9274787, -2.7770, 2.7500 and 3.0200 respectively for mean, minimum, maximum and deviation while the mean of the leverage is 23.83 percentages while the minimum and maximum are 0 and 72.17 respectively with deviation of 16.05. Belows are the summary of Table 4.1 that presents the means, minimum, maximum and standard deviations resulting from STATA.

Table 4.1 Summary Descriptive Statistics for sample firms

VARIABLE	OBS	MEAN	STD. DEV.	MIN	MAX
Big 4	168	0.64	0.48	0	1
NEDAC	168	0.42	0.14	0.17	0.75
FENEDAC	168	0.58	0.50	0	1
BDSIZE	168	8.94	1.80	5	13
LogCOMPSIZE	168	7.28	0.66	5.77	8.99
ROA	168	0.07	0.11	-0.38	0.61
ACME	168	3.81	0.97	2	7
CFO	168	9274787	3020000	-2770000	27500000
LEV	168	23.83	16.05	0	72.17

Notes: AUDIT QUALITY = 1 if the client engage the service of Big Four auditor in financial year, and 0 otherwise, NEDAC = the percentage of non-executive directors in the audit committee, FENEDAC = Dummy Variable (=1 if at least one of non-executive director in audit committee is accounting knowledge, financial management or able to read financial statement, 0 otherwise), BDSIZE = the total number of directors serving on the board of directors, COMPSIZE = the natural log of total assets, ROA = earnings before interest and tax divided by total asset, ACME = number of audit committee meetings held during the year, CFO = cash flow from operation scaled by lagged total asset and LEV = total debt / total assets.

4.3 Pearson Correlation

Multicollinearity analysis is a condition of very high inter-associations or intercorrelations among the independent, dependent and control variables. The pearson correlation is applied in order to understand and discover the association that exist among all the variables. It is interesting in this type of study as they highlight the associations that exist among independent. Levin (2008) broadly refers correlation to the statistical mechanism process which used to determine how one variable is linked to one variable(s). Correlation explains the association between audit committee and audit quality. Correlation ranges from (+1) to (-1). When correlation between the variable is +1. It implies a perfectly positive association. When it is -1, it implies a perfect negative association. Gujarati (2004) posits that pairwise correlation coefficient between two variables must not be too high (i.e exceed of 0.8). If this occur can lead to the problem of multicollinearity. Overall, most of the correlations are less than the threshold value of 0.80.

In addition to the Pearson correlation, Variance Inflation Factor (VIF) is also used to examine the existence of multicollinearity among the variables. The values of VIF for all variables range between 1.04 to1.58 and the average value of VIF is 1.20. Hair, Anderson, Tatham, and Black (2010) suggested threshold value of 10 and the VIF of this research is below threshold value. However the VIF values of the variables are moderately correlated because is less than recommendation value of 5. Therefore, the issue of multicollinearity is not the problem of this study. Table 4.2 belows contain the summary of Pearson Correlation Analysis.

Table 4.2 Pearson Correlation Analysis

		1	2	3	4	5	6	7	8
NEDAC	1	-0.198	1						
FENEDAC	2	0.156	-0.193	1					
logBDSIZE	3	-0.066	0.009	0.188	1				
logCOMPSIZE	4	0.344	0.119	0.151	0.366	1			
ROA	5	-0.045	0.02	-0.109	-0.073	-0.12	1		
ACM	6	0.016	-0.027	0.04	0.206	-0.035	0.116	1	
CFO	7	0.188	0.109	-0.019	0.121	0.487	0.065	-0.058	1
LEV	8	-0.212	-0.023	-0.048	-0.07	-0.067	0.062	-0.131	-0.079

4.4 Logit Regression

Al-Ghamdi (2001) claims that regression method are broadly utilized for breaking down the relationship between dependent variable and one or more independent variables. Logistic regression, similar to least squares regression, is a measurable method that is utilized to investigate the relationship between a dependent variable and at least one independent variable. The regression techniques can be connected when the dependent variable is categorical. As a result, the remainder of this study discussion will focus on independent variables in this regression analysis.

However before then the study carried out some diagnostic test to confirm the validity of the regression result. Based on linear regression model the variance of each error term needs to be constant (homoscedasticity) likewise there should be absence of correlation

between the error terms (autocorrelation) (Gujarati, 2008). Based on the Wooldridge test for autocorrelation the prob > F test is significant (0.000) suggesting the presence of autocorrelation. Similarly, the white test for homoscedasticity reveals a prob > chi2 that is significant at 0.0214 rejecting the null hypotheses of homoscedasticity and showing the presence of heteroscedasticity, which indicates that the error terms are not constant.

On this note, the logit regression model was used considering the robust standard error as suggested by Hoechle (2007). According to Hoechle (2007) states that, the robust standard error accounts for both the heteroscedasticity and autocorrelation issue. The results obtained from Logit regression are presented in table 4.3 below.

Table 4.3 Summary of Logit Regression

	Coef	**RobustStd. Error**	**Z**	**VIF**
NEDAC **(H1)**	-0.546	0.163	-3.35*	1.07
FENEDAC **(H2)**	0.232	0.243	0.95	1.07
logBDSIZE	-1.964	0.724	-2.71***	1.25
logCOMPSIZE	0.957	0.229	4.17**	1.58
ROA	-0.051	0.202	-0.25	1.07
ACM	0.111	0.537	0.21	1.10
CFO	0.000	0.000	1.60	1.37
LEVERAGE	-0.018	0.007	-2.51**	1.04
Cons	-0.879	-0.879	-0.49	
No of Obs	168			
Prob > chi2	0.0000			
Pseudo R2	0.2517			
Mean VIF				1.20

Notes: Audit quality = 1 if the client engage the service of Big 4 auditor in financial year, and 0 otherwise. * Significant at p< 0.01 or better. (1-tailed), **Significant at p< 0.05 or better. (1-tailed) and ***Significant at p< 0.10 or better. (1-tailed).

Based on hypotheses 1 stated the relationship between non-executive directors of audit committee (NEDAC) with AUDIT QUALITY is positive. As presented in Table 4.3, this hypothesis is not supported. The coefficient for NEDAC is negative and statistically significant p-values of NEDAC is 0.001 which implies that the variable is significant at

1% of level of significant. However, this relation remains significantly negative when the non-executive directors is measured as the number of non-executive directors on the committee as a proportion.

This result is in line with the findings of previous studies. Adegbite (2015) claim that many Nigerian CEOs, serving in another companies and upon their retirement, are appointed as non-executive directors in other companies which lead to retain strong influences on behalf of their successors and less audit quality. Ahunwan (2003) considers that strong minority or majority owners of companies shares are described as CEOs property especially in Nigeria. Spira (1999) and Al-Mudhaki and Joshi (2004) emphasized that research on audit committee in developing countries have not met applicable independence definitions. Mautz and Neumann (1970) and Okike (1994) posit the association between managements of companies and audit committee have long been excessively closed making it impossible to guarantee an autonomous supervision of the audit quality. Similarly, Sun (2013) find a negative and significant on the interaction of audit committee independence and audit industry specialization and Jeffrey et al (2011) that audit committee independence director is significant in guaranteeing the respectability of the financial reporting process.

Bassett (1998) denotes that performance evaluation and self-assessment are needed for audit committee which reviews the performance of (internal) evaluation non-executive directors and audit quality (Big Four & non Big Four). Though the issue of board evaluation is not popular in Nigeria but it provide a clear picture of performance individual members whether they are consistent with the objectives and responsibilities of setting the audit committee.

Hypothesis 2 states a positive relationship between financial expertise of non-executive directors audit committee (FENEDAC) and AUDIT QUALITY. However, as found in the study, the relationship is positive but not significant in this study with indicator p>10 . Financial expertise of non-executive director is measured as the actual number of audit committee members who have financial expertise or as a dichotomy. This result of the finding is consistent with the study of (Lin and Yang 2006)) that do not provide any significant relationship between accounting or financial expertise or accounting and financial reporting quality.

This therefore implies that the insignificant of the financial expertise of non-executive directors audit committee may be the effect of their important input if some of the FENEDAC serve duality committee (i.e more than one committee) which might be the less of effective for overseeing and not meeting applicable independence definitions. Also, when the audit committee meetings do not meet regularly can have an impact of improving transparency, competence and confidence on financial expertise of non-executive independence directors in both small and large business.

In addition, the results in Table 4.3 also indicate the relationship between board size and audit quality is negative significant at the level of 0.10. Company size variable is positive to audit quality at the 0.01 level of significance. The relationship between return on assets (ROA) and audit quality is negative but not significant with indicator p>0.10. The results of audit committee meetings have revealed positive insignificant relationship between the frequency of audit committee meetings and audit quality with p>0.10. For cash flow results, there is positive insignificant relationship between cash flow and audit quality with indicator p>10. Finally, this indicated that the relationship between leverage and audit quality is negative with significant level of 0.05.

4.5 Summary of the Chapter

This chapter has reported the result of the findings in this research. The techniques of data analysis utilized in this study were descriptive, multicollinearity, logit regression and variance inflation factor problem were ruled out.

Table 4.4: Summary of the Hypothesis Results

Hypothesis Testing	**Relationship**	**Predic Sign**	**Findings**
H1	Between NEDAC with AUDIT QULITY	+	Negative & Significant
H2	Between FENEDAC with AUDIT QULITY	+	Positive & Insignificant

CHAPTER FIVE

CONCLUSION

5.1 Introduction

This study has examined the relationship between audit committee (non-executive directors, financial expertise of non-executive director audit committee), represent the independent variables, audit quality (Big Four and non-Big Four), as the dependent variable and board size, company size, return on assets, audit committee meetings, leverage and cash flow as the control variable, in the Nigeria Stock Exchange fact book 2012/2013, the list of non-financial sectors was compiled. The study based on three years (2012, 2013 and 2014) due to the fact that Nigeria code of corporate governance 2003 was reviewed in 2011 and the number of companies that disclosed their corporate governance information at the time of this study was limited. The total annual reports collected in a year for this study is 56 non-financial firms. The next segments of this chapter presents the summary of the study and contribution. Finally limitation and recommendations for future research.

5.2 Summary of the Study

The issues of corporate scandal have negatively effect in accounting manipulations, regulators, practitioners, researchers and organizations in the world. Due the fact of this , there is need to review the code of corporate that governed the corporations of many countries. As such the new regulations and practices in developed countries, Federal Republic of Nigeria was not lacked behind.

Issues of governance and audit quality have gotten genuine experimental thought as of late. This unending interest on governance research may have been maintained by the prominent corporate demise, financial outrages and the worldwide financial meltdown bringing about general loss of public certainty and investors disregard. A lot of corporate crumples and related frauds have occurred in Nigeria incorporating the distress saga in Nigerian Banks, African Petroleum, and the Cadbury (Nig) Plc. These have thrown slanders on the believability of corporate governance in Nigeria. Specifically, the viability of audit committee has being raised doubt.

The creation of the audit committee in Nigeria has been scrutinized as being skewed for management subsequently lessening the unmistakable freedom of the body. This tends to compromise the nature of their work. This make Nigeria code of corporate governance 2003 was reviewed in 2011 with the guidelines that compel all the companies listed on the NSE should conform to a certain practices.

This study addresses the problem that arises on the poor and fraudulent financial reporting in Federal Republic of Nigeria that revealed the role of responsibilities of board audit committee has to play in organization and to provide openness information or results either directly or indirectly as they are charged with overseeing financial reporting. Audit committees assume imperative parts in financial parts of corporate governance as they guarantee audit quality while in the meantime securing the enthusiasm of investors. Audit committee and accounting firms which play significant role in ascertaining the validity, acceptability and reliability of high quality. Based on this problem, this study aims to achieve the belows main objectives:

1. To examine the relationship between non-executive directors of audit committee member and audit quality.
2. To examine the relationship between the financial expertise of non- executive directors of audit committee member and audit quality.

In order to succeed and achieve the above-mentioned objectives of this study, a thorough literature review was conducted and a sample of 168 companies used throughout this study, especially non-financial sectors to examine the relationship that exists between audit committee (non-executive directors, financial expertise of non-executive directors), and audit quality (Big Four and non-Big Four) in Nigeria and an analysis of logit regression is applied.

As hypothesized relationship between independent and dependent variables, the prediction to the hypothesized 1 stated that, is there any positive association between non-executive directors audit committee member and audit quality? The result on Table 4.3 from the regression shows that larger number of non-executive directors audit committee member does not have any improvements over the audit quality. The findings of result also reported that there is significant relationship between non-executive directors member and audit quality and result is consistent with the findings of (Sun, 2013). As hypothesized H2, whether there is any positive association between financial expertise of non-executive directors and audit quality? The findings of result reveal a positive insignificant relationship exist between the financial expertise of non-executive directors audit committee and audit quality. This implies that, having financial expertise of non- executive directors in audit committee does not improve or add to higher audit quality. This result of the finding is in line with the study of Lin et al (2006) that do not provide any significant relationship between accounting, financial expertise and financial reporting quality.

5.3 Contributions of the Study

There are different studies on audit quality that have been completed in developed nations, for instance, Canada, Australia, the United States and the United Kingdom and many researches have been carried out on audit committee, such as external auditors, audit committees (Piot et.al, 2007), audit quality (Francis, 2011), association between accruals quality and characteristics of accounting experts (Dhaliwal et al, 2010), board governance and the quality of accounting earnings (Iyengar, Land, & Zampelli, 2010), and audit committee effectiveness and restatements (Carcello et al, 2011). With all these, there is an absence of studies that have been done on the factors that determined audit quality (Big Four and non-Big Four) in developing countries, which specifically the Federal Republic of Nigeria is included.

To the best of my knowledge, it was discovered that no studies have been carried out on the non-financial sector in Nigeria to determine the association between non-executive directors, financial expertise of non-executive directors (audit committee) and audit quality (Big Four and Non Big Four). However, this study relies on the listed non-financial companies on Nigeria stock exchange fact book 2012/2013.

This study contributes to the audit literature as it provides additional empirical evidence on the impact of the size of audit firm (Big 4 and Non-Big 4) on the level of audit quality and assist Nigeria stock exchange, shareholders, scholars, government and institutional investigations.

5.4 Limitation and Recommendation for Future Research

There are two different limitations connected to this study concerning the availability of data. These limitations can be categorized into this ways: consideration of non-financial sectors listed on the Nigeria stock exchange fact book 2012/2013 and the factors that determine audit quality (Big Four and Non Big Four) non-executive directors and financial expertise of non-executive directors represent the (audit committee). In view of the findings and limitation, this study recommends future research to cover the area of limitations and provides more bits of knowledge into the factors that determine the relationship between the audit committee and audit quality. This present study focused and tested on two members of audit committee i.e. non-executive directors and financial expertise of non-executive directors, therefore it is recommended that future study to integrate other corporate governance variables, and also investigate the members of audit committee if they are in the list or serving another committees which may affect the effectiveness of their important input of audit committee in Nigeria .

In addition, it is recommended that future study should use different or combine model for the measuring of audit quality and some of the control variables used in this study such as (ROA and Sales Growth) should be excluded in order to contrast and compare the future research with this study.

Future research could also address the association between audit quality and internal audit function and also using other theories that likely to have connection with corporate governance mechanisms such as public interest theory and private interest theory.

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