DETERMINANTS OF AUDIT QUALITY IN NIGERIA PUBLIC SECTOR

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Abstract

The objective of this study is to empirically examine the determinants of audit quality with emphasis on the Nigeria public sector. The study used primary data, by administering sixty (60) copies of likert-scale questionnaire to academics, and professional accountants in office of the auditor general of the federation. Using the ordinary least square regression techniques on the data generated after coding the responses of the fifty (51) copies of useable questionnaire retrieved, this study found out that human resource practice has a significant negative relationship with audit quality in Nigeria public sector; audit facilities has a significant negative relationship with audit quality in Nigeria public sector; external factors has an insignificant negative relationship with audit quality in Nigeria public sector; and behaviour of auditee has a significant positive relationship with audit quality in Nigeria public sector. It is recommended that factors such as: human resource practices, audit facilities, external factors and behaviour of auditee be encourage in an audit environment to promote audit quality.

Introduction

Audit quality is essential in addressing the issues bothering on accountability in every sector of an economy whether public, private or quasi sector. The issue of trust violation, financial mismanagement and conflict of interest precipitates the need for audit quality. In Nigeria accounting system, emphasis appears to be more on the private sector (companies and other lose form of business arrangements), but unfortunately, the issue of trust violation, financial indiscipline, and fraudulent tendencies are prevalent in the public sector as well, hence the need to beam a search light on the audit quality in the public sector.

According to Masood and Afzal (2016) audit quality is an important concept in both public and private sector, asserting that there is no signal model to define and operationalise audit quality, and pointed out that to determine the relationship between workplace conditions and audit quality, it is necessary to understand the term audit

quality. The most widely cited definition of audit quality is credited to DeAngelo (1981) who defined audit quality as market-assessed joint probability that an auditor will both detect financial misstatement by applying relevant technicalities and report such misstatements in demonstration of independence. Audit quality in public sector particularly in the Nigerian scenario is a matter of concern when it comes to rendering of stewardship by public sector administrators, political office holders and other relevant stakeholders on issues relating to public financial management. Deis, Jr. and Giroux (1992) submitted that reputation and power conflict are the two explanations for variations in audit quality, maintaining that in a bid by an incumbent auditor to capture client-specific quasi-rents, they most likely will lower audit quality to retain the engagement, while audit firm size may appear to be having a moderating effect as large client base rank reputation ahead of client.

Many empirical studies on the determinants of audit quality in Nigeria have been domiciled in the private sector (such as Onwuchekwa, Erah, & Izedonmi, (2012); Adeyemi, Okpala, & Dabor (2012); Habbash, (2015); and Okaro & Okafor (2015)), meanwhile only limited work have been carried out in this area in the public sector to the best of our knowledge; an indication that the Nigeria public sector appears to have been neglected in terms of research on audit quality, suggesting a research gap. However, on the international climes, the most recent empirical studies on the determinants of audit quality in the public sector are that of Deis, Jr. and Giroux (1992) in the United States and Masood and Lodhi (2016) in Pakistan. Consequent upon this dearth of research on the determinants of audit

quality in Nigeria public sector, this study intends to address it by empirically looking at the determinants of audit quality in Nigeria public sector through a replication of Masood and Lodhi (2016) in Pakistan. Hence the following research questions will be answered in this study:

i. What is the relationship between human resource practice and audit quality in Nigeria public sector?

ii. To what extent do audit facilities affect audit quality in Nigeria public sector?

iii. How do external factors affect audit quality in Nigeria public sector?

iv. What is the effect of behaviour of auditee on audit quality in Nigeria public sector?

The broad objective of this study is to establish the determinants of audit quality in Nigeria public sector. The specific objectives are to:

1. Determine the relationship between human resource practice and audit quality in Nigeria public sector;

2. Examine how audit facilities affect audit quality in Nigeria public sector;

3. Ascertain how external factors affect audit quality in Nigeria public sector; and

4. Determine the effect of behaviour of auditee on audit quality in Nigeria public sector .

Flowing from the specific objectives, the following constitutes our research hypotheses stated in null form:

H_{o1}. There is no relationship between human resource practice and audit quality in Nigeria public sector

H_{o2}. Audit facilities has no effect on audit quality in Nigeria public sector

H_{o3}. External factors do not affect audit quality in Nigeria public sector

H_{o4}. Behaviour of auditee has no effect on audit quality in Nigeria public sector .

Audit Quality

DeAngelo (1981,p. 186) defines audit quality as "the market-assessed joint probability that a given auditor will both (a) uncover a fraud in the client's accounting system and (b) report the fraud." This definition presupposes that the quality of an audit is premised on technical competence of the auditor; ability of the auditor to discover material omissions or misstatement in the client's financial statements, and independence; the uncertainty that the auditor will disclose material errors. The diversity in the level of the discovery aspect represents the diversity in the level of competency of the auditor, while the diversity in the incentives to report represents the level of the auditor's independence. An improvement in either competence or independence would lead to an improvement in audit quality, while the reverse will lead to low audit quality. Audit quality is the uncertainty that an auditor will discover any material errors, misrepresentation and omissions detected in a client's accounting system and truthfully report same (De Angelo 1981).

Empirical review

Onwuchekwa, Erah, and Izedonmi (2012) conducted a study on mandatory audit rotation and audit quality in southern Nigeria. The study used primary data through administering questionnaire to lecturers, investors, accountants, consultants and auditors in southern Nigeria, while data analyses were done with the aid of percentage analyses and binary logistic regression technique using Eviews 7.0. The estimation result revealed that there is an inverse relationship between Mandatory Audit Rotation (MAR) and audit quality (AUDQ).

Adeyemi, Okpala, and Dabor (2012) looked at factors affecting audit quality in Nigeria. The study used both primary and secondary data which comprises of four hundred and thirty (430) respondents from different fields of financial reporting and auditing and annual reports of forty (40) companies listed on the Nigerian Stock Exchange respectively. The study employed SPSS version 17 for purpose of analyses and estimation, and findings revealed that inter alia, multiple directorship has a significant relationship with audit quality in Nigeria, while non-audit service significant relationship with audit quality is based on probability, while mandatory audit firm rotation was found to be insignificantly related to audit quality.

Habbash (2015) carried out a study to examine the nexus between audit committee effectiveness and audit quality in Saudi Arabia. The specific objectives of the study were to find out the effect of audit committee size, audit committee activity, audit committee independence, and audit committee expertise on audit quality using the Big-4 audit firm as point of emphasis, while the effectiveness of Saudi Corporate Governance (CG) was also a focus. The study used binary logistic regression analysis for conducting relevant estimation and findings revealed that using independent specialist auditor as a proxy for audit quality, audit committee size is the only determinant of audit quality; with a negative significant correlation. Meanwhile a combined audit committee effectiveness score showed a negative significant correlation with audit quality. However, using Big-4 as a proxy for audit quality, none of the audit characteristics were found to be determinants either individually or

collectively. Control variables such managerial ownership, family ownership, and firm size showed positive correlation with audit quality.

Okaro and Okafor (2015) conducted a study to ascertain the perception of professional accountants in Nigeria on how some cultural factors affect audit quality. The study used survey research design was adopted for the study, through administration of copies of questionnaire to 108 professional accountants. Analyses of the 50 useable returned questionnaires were done with the aid of descriptive statistics, and the t-test results showed that some Nigerian accountants receive bribes in the course of duty thus compromising audit quality. Also low litigation culture, slow and tardy judicial process and corruption in the wider Nigerian Society affected adversely audit quality.

Masood and Lodhi (2015) examined the factors affecting the success of government audits in Pakistan. They collected data from fifteen (15) government auditors of Pakistan through face to face in- depth interviews. The interviews responses were coded in QSR NVIVO 10 and presented through word tree maps, word tag cloud and Nvivo based conceptual model. Pearson correlation coefficients were generated to determine the nexus between several antecedents and ineffective government audits, and it was concluded that conservative auditing methods, massive corruption, low morale of auditors, lack of cooperation from auditee, lack of financial independence, lack of financial, lack of power to take action against malpractices, technological and human resources, lack of qualified trainers and ineffective training institutes are antecedents of ineffective audits which ultimately make it difficult to bring transparency and accountability in the public

sector, thus having a likely effect on the audit quality.

Masood and Afzal (2016) examined the determinants of audit quality in Pakistan, putting into consideration some workplace factors. The study used both primary and secondary data, the questionnaire responses were drawn from randomly selected sample of 250 auditors from different federal ministries. Analysis done with Nvivo 10 in stage one however showed several important variables that were quantitatively tested in stage two, and the estimation revealed that performance of auditors, physical work environment, and top management support has positive and significant nexus with audit quality.

Masood and Lodhi (2016) conducted an investigation on the factors affecting the behavior of government auditors in public sector of Pakistan. The study used four behavioural variables model which comprises of behavior of the auditee, audit facilities, human resource practices, and external factors as explanatory variables, while three hundred (300) government auditors in Pakistan were selected as a sample of the study. Give a response rate of 83%, the study used both simple and multiple linear regression estimation technique, and findings reveal that audit facilities, external factors, human resource practices and behavior of the auditee have positive and significant relationship with the behavior of auditors. The behaviour of the auditor can also affect the audit quality, hence may be deduced that the explanatory variables may exhibit similar nexus on audit quality without appeal to casual empiricism.

Theory
Auditing theory is a systematic set of rules/principles which provides a basis for

understanding the nexus between variables in the auditing environment.   Imegi and Oladutire (2018) noted that auditing theory provides us with a framework for understanding the relationship of a firm and that the demand side of audit services to which auditees (organizations that need audit services) can be explained using different theories. According to Imegi and Oladutire (2018), some of the theories motivated by public perception are the policeman, lending credibility theory, agency theory, theory of inspired confidence, moderator of claimant theory and quasi-judicial theory. For the purpose of this study emphasis shall be placed on one these theories.

The policeman theory

The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud. According to Imegi and Oladutire (2018) the main aim of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statement. The detection of fraud is however a topic in the debate on the auditor's responsibilities and typically after the events where the frauds in the financial statements have been revealed, the pressure increases on increasing the responsibilities of auditor in detecting fraud. In another sense, this theory is premised on the fact that auditors act like policemen. That auditor should act as watchdogs over the activities of the client. Auditors are thus expected to act as policemen to their client and hence protect their interest in all ramifications.

Methodology

This study shall adapt the theoretical model developed by Masood and Lodhi (2016) on the "factors affecting the behavior of government auditors for the surveillance of the public sector of Pakistan". Masood and Lodhi (2016) used four variable determinants for behaviour of government auditors which includes: Human Resource practices, Audit Facilities, External Factors and Behavior of Auditee. We shall replicate this study in Nigeria, by adapting these variables and relating it to audit quality in Nigeria public sector.

Model specification

The econometric model is hereby specified:

$$AUDQ = \beta_O + \beta_1 HRprac + \beta_2 AUDfac + \beta_3 EXTfactors + \beta_4 BEHauditee + E_t$$

Where:
β_o = Constant
$\beta_1 - \beta_2$ = Parameter Estimate
HRprac = Human Resource practices,
AUDfac= Audit Facilities,
EXTfactors = External Factors
BEHauditee = Behavior of Auditee
E_t = Stochastic error term

The model specified above captured audit quality as the dependent variable, while the theoretical model developed by Masood and Lodhi (2016) constitutes our independent variables.

Data analyses and interpretation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.771[a]	.595	.559	.535	.595	16.877	4	46	.000	2.513

a. Predictors: (Constant), Good response from client during investigation results in audit quality?, Modern audit gadgets enhance audit quality?, The perception of the public influences audit quality?, Use of professional/certified accountants enhances audit quality?

b. Dependent Variable: Audit quality is the ability of an auditor to objectively look at a financial statement and form an opinion?

Source: SPSS 20

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.335	4	4.834	16.877	.000[b]
	Residual	13.175	46	.286		
	Total	32.510	50			

a. Dependent Variable: Audit quality is the ability of an auditor to objectively look at a financial statement and form an opinion?

b. Predictors: (Constant), Good response from client during investigation results in audit quality?, Modern audit gadgets enhance audit quality?, The perception of the public influences audit quality?, Use of professional/certified accountants enhances audit quality?

Source: SPSS 20

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.443	1.708		3.773	.000
	Use of professional/certified accountants enhances audit quality?	-.959	.297	-.458	-3.227	.002
	Modern audit gadgets enhance audit quality?	-.645	.137	-.620	-4.723	.000
	The perception of the public influences audit quality?	-.124	.118	-.127	-1.051	.299
	Good response from client during investigation results in audit quality?	1.272	.206	.789	6.188	.000

a. Dependent Variable: Audit quality is the ability of an auditor to objectively look at a financial statement and form an opinion?

Source: SPSS 20

The tables above present the result of the estimation of the ordinary least square regression estimate. They are model summary, ANOVA and coefficients tables respectively. The precitive power of the model is explained by an R-squared value of 0. 595, signaling that about 59% of systematic variation of audit quality (represented by question no. 1) is jointly explained by human resource practices, audit facilities, external factors and behaviour of auditee (represented by questions no. 4, 7, 10 and 13 respectively)leaving the balancing 41% unaccounted for in the stochastic error term (ε_t).Given an adjusted R-squared value of 0.559and Prob (F-statistic) value of 0.000 with a corresponding F-stat value of 16.877, the model on the average can be said to be statistically significant at 95% confidence interval, hence suggestive of a significant relationship between the explained and the explanatory variables.

The t statistical absolute values from coefficients' table which includes:3.227, 4.723, 1.051, and 6.188 for human resource practices, audit facilities, external factors and behaviour of auditee (represented by questions no. 4, 7, 10 and 13 respectively) respectively, is an indication that all variables except external factors are statistically significant with audit quality. Hence our findings are that: human resource practice has a significant negative relationship with audit quality in Nigeria public sector; audit facilities has a significant negative relationship with audit quality in Nigeria public sector; external factors has an insignificant negative relationship with audit quality in Nigeria public sector; and behaviour of auditee has a significant positive relationship with audit quality in Nigeria public sector.

Conclusion

The objective of this study is to empirically examine the determinants of audit quality with emphasis on the Nigeria public sector. One of the catalyst for enhancing stakeholders confidence when it comes to financial probity is the dissipation of quality audit services and subsequent issuance of opinion as it relates to the true and fair view of stewardship reported in the financial statement under consideration. This study carefully examined the position of prior empirical studies and situated it investigation of audit quality determinants to the Nigerian public sector. The study used primary data, by administering sixty (60) copies of likert-scale questionnaire to academics, professional accountants in office of the auditor general of the federation. Using the ordinary least square regression techniques, this study found out that human resource practice has a significant negative relationship with audit quality in Nigeria public sector; audit facilities has a significant negative relationship with audit quality in Nigeria public sector; external factors has an insignificant negative relationship with audit quality in Nigeria public sector; and behaviour of auditee has a significant positive relationship with audit quality in Nigeria public sector. Hence it is recommended that factors such as: human resource practices, audit facilities, external factors and behaviour of auditee be encourage in an audit environment to promote audit quality.

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Appendix
Questionnaire on Determinants of Audit Quality in Nigeria Public Sector

School of Postgraduate Studies,
Department of Accounting,
Faculty of Management Sciences,
University of Benin,
12th August, 2018.

Dear Respondent,

We are research team in the School of Postgraduate, Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city. You have been carefully selected as a sample respondent to contribute your opinion to the subject matter; **"Determinants of audit quality in Nigeria public sector"**. This study is part of the requirements for article publication in advanced auditing and forensic accounting (ACC913) course work in the Ph.D Accounting program 2017/ 2018 academic session

of the School of Postgraduate, Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city.

For the avoidance of doubt, your contributions will be treated with utmost confidentiality and the findings of this research will be published in any local or international journal articles.

Yours Faithfully,

Prof. A. O. Enofe
O. J. Ibhadode (Ph. D. Accounting Student)
O. J. Nakpodia (Ph. D. Accounting Student)
D. P. I. Izevbigie (Ph. D. Accounting Student)

SECTION A

Instruction on completion of questionnaire:

Please Tick [√] the box to rate appropriate

Rating Scale:
5: (Strongly Agree)
4: (Agree)
3: (Neutral)
2: (Disagree)
1: (Strongly Disagree)

SECTION B

QUESTIONS

Audit quality in Nigeria public sector

1. Audit quality is the ability of an auditor to objectively look at a financial statement and form an opinion?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

2. The ability to be able to discover a breach and objectively report the breach

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

3. Ability for an auditor to be independent in appearance and in-fact

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

Human resource practice and audit quality in Nigeria public sector

4. Use of professional/certified accountants enhances audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

5. Continuous training of audit team enhances audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

6. Sufficient motivation of audit staff brings about audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

Audit facilities and audit quality in Nigeria public sector

7. Modern audit gadgets enhance audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

8. Good data management systems promote audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

9. Computer auditing system enhances the quality of audit?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

External factors and audit quality in Nigeria public sector

10. The perception of the public influences audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

11. Pressure from civil right group promotes audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

12. Political pressure from opposition parties will promote the need for audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

Behaviour of auditee and audit quality in Nigeria public sector

13. Good response from client during investigation results in audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

14. Attitude of the client during the audit determines the audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree

15. Client compliance to auditor' laid down rules and regulations promote audit quality?

(a) Strongly Agree (b) Agree (c) Neutral (d) Disagree (e) Strongly disagree