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Effect of Auditor Modification Choices on Corporate Performance of Quoted Companies in Nigeria

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Abstract **Original Research Article**

This study determined the effects of auditor modification choices on corporate performance of quoted companies in Nigeria from 2012-2020. Ex Post Facto research design was adopted for the study. The population of the study comprised eleven quoted health companies in Nigeria. The study, the study employed descriptive statistics to analyze the data and Regression analysis was used to test the statistical significant effect of the variables via E-view 9.0 statistical software. The study found that audit firm has a positive effect on companies performance of health companies in Nigeria, but this effect is not significant at 5%, while audit fees shows a negative effect on companies performance though it was significant. As the study discovered that auditor modification choices (audit firm) have a significant impact on corporate performance (return on assets); hence, management should keep an eye on firm profits in order to improve audit choice, resulting in increased firm earnings.
Keywords: Auditor modification choices, Corporate performance, Audit fees and Audit firm.

INTRODUCTION

The most basic goal of financial statements in Nigeria and throughout the world is to give information that assists a wide range of financial statement users in making educated economic decisions. Managers use financial statements to report on their stewardship to wealth owners, according to Chadegani, Mohamed, and Jari (2011). The goal of financial statements is to offer information on the financial situation, performance, and changes in the financial position of businesses (International Accounting Standard Board framework - IASB, 2005). Essentially, financial accounting information serves two (2) purposes: first, it is a means of transferring information from managers to interested parties both inside and outside of a company, thereby reducing information asymmetry; and second, it is a means of transferring information from managers to interested parties both inside and outside of a company, thereby reducing information asymmetry; and second, it is a way of transferring information from managers to interested parties both inside and outside. It is frequently used in contracts between a company and other parties involved in the company's operations, such as lenders, managers, business partners, and the government (Guenther, 2005; and Chen, Rong-Ruey, Cheng-Ta and Lin-Hui, 2019).

There are two types of financial statement audits: internal and external; however, this study focused on external financial statement audits, which are required for all organizations. External audits are required by law (Collis, Jarvis, and Skerratt, 2004; Hussein, 2018) and are a legal requirement for publicly traded corporations (Nzomo, 2002). External auditors are so accountable to shareholders and owe a duty to the company to execute the audit with due professional care.

There have been various debates in recent years over auditor selection and motivations for switching auditors. Auditor switching refers to the process of selecting the next auditing firm to manage the company's external auditing once the current audit firm's term expires, though it can also occur for other reasons such as contract breach. Auditor switch decisions entail the replacement of an existing auditor, resulting in the selection of quality differentiated audit firms to realign the audit firm's characteristics with changing client needs (Huson, Shamsher, Annuar and

Ariff, 2000; Choi, Lim and Mali, 2017;and Okere, Ogundipe, Oyedeji, Eluyela and Ogundipe, 2018).

Most of the studies on this nature have been conducted in various countries, more especially in foreign countries, and such were limited in developing economy like Nigeria. The overall goal of this research is to look into the impact of auditor modification choices on the performance of Nigerian quoted companies. This study however, set to ascertain the impact of auditor modification choices on return on assets of quoted health sector companies in Nigeria.

CONCEPTUAL REVIEW

Today, auditing comprises a wide range of activities, each with its own set of goals. Traditionally, it has served as a check and balance mechanism to ensure that government officials or ministries (internal audit) and the established legislature (external audit) are doing their jobs, that public funds are being received and spent in accordance with the required appropriate and established relevant laws and regulations (compliance audit), and that government financial performance reports are true and fair, and that they are prepared from the underlying financial records and reports (Ziniyel, Otoo & Andzie, 2018). According to (Diamond, 2002), the audit function has involved many countries in taking a more complete view of the economic and social implications of government operations, which is sometimes referred to as "value for money" or "cost-benefit analysis." Internal controls are the safeguards put in place by a company to ensure that its objectives, aims, and missions are met (Brennan & Soloman, 2008). They are policy and procedural systems that protect an organization's assets, provide accurate financial reporting, promote adherence to laws and regulations, and ensure effective and efficient operations. Internal auditing provides a foundation for fixing errors that have eluded the first line of defense before they become unmanageable or are highlighted in an external auditor's report by spotting shortcomings in management operations.

Auditor Modification Decisions

Given the nature, dynamism, and complexities of the audit market in Nigeria, the idea of auditor modification choices has occupied a significant position in the accounting literature. Auditor switching refers to the process of selecting the next auditing firm to manage the company's external auditing once the current audit firm's term expires, though it can also occur for other reasons such as contract breach. The decision to change the incumbent auditor results in the selection of quality differentiated audit companies to realign the audit firm's characteristics with the evolving needs of customers in changing situations (Huson et al 2000) Several scholars, auditing standards, and announcements have defined auditing. Auditing, according to Aguolu (2008), is an independent review of an entity's financial statements with the goal of providing an opinion on whether the statements or opinions reflect a true and fair picture and conform with applicable accounting and auditing regulations. Auditors' choice, on the other hand, can be simply characterized as the Big-4's preference over non-Big-4 audit companies.

The decision to transfer auditors has been justified in several ways. The expected positive relationship between auditor size and audit quality was explained by Gray and Ratzinger (2010) using two different reasons. First, large auditors have stronger incentives to produce higher-quality audits in order to avoid losing client-specific rents due to erroneous findings (DeAngelo, 1981). Second, because of their wealth of knowledge, larger audit companies' offer better and more accurate audits (Dye, 1993); this is known as the 'deep pockets hypothesis.' Cassell, Giroux, Myers, and Omer (2012) developed a corporate governance index that included governance characteristics to explore the implications of corporate governance on auditor-client realignments.

Financial ratios, which reflect relationships between variables presented in financial statements, are commonly used to assess an entity's performance. Financial ratios are valuable and can be meaningfully used as corporate performance metrics when compared to other relevant information, either currently or in the past, for the same business or in the same industry (Kabayeh, Nu'aimat, and Dahmash, 2012). The importance of business performance is highlighted in accounting by the numerous prescriptions for improving financial performance. Some studies used either accounting-based or market-based metrics to assess organizational success.

When compared to a benchmark rate of return equal to the risk adjusted weighted average cost of capital, accounting-based measurement is generally believed to be an effective dynamic of an entity's performance. Accounting-based measurement depicts an entity's performance over a short period of time in previous years. It's worth noting that corporate performance ratios are useful indications of a company's overall efficiency as well as growth, success, and control. Financial performance ratios, for example, are of importance to creditors since they show the entity's ability to satisfy interest obligations.

Return on Assets

The level of auditor modification choices or decisions influences an entity's operating performance, and one key operating performance dynamic caused by auditor modification is return on asset (ROA). Typically, the ratio of operating income to total assets or net income divided by total assets is used to calculate ROA. Okere *et al.*, (2018) discovered a strong link between auditor modification decisions and operating performance (ROA). According to Stergiou (2013), modifying to the Big-4 audit may result in better operating results and a more neutral use of accounting and auditing principles.

Empirical Studies

Utomo, Zaky, and Imang (2019) looked at the impact of managerial ownership as a moderating variable on audit quality and auditor switching to fake financial statements in Indonesia between 2013 and 2017. A total of 100 non-fraudulent businesses were used. The results of the logistic regression revealed that audit quality has a considerable negative impact on falsified financial statements. Furthermore, there was a considerable positive correlation between auditors turning on fake financial statements. Using a sample of listed Korean enterprises, Sook, Seon, Dong, and Seung (2019) investigated the link between mandatorily switched audit firms and the cost of equity capital from 2006 to 2008. Using the Gode and Mohanram, price-earnings-growth, and modified price-earnings-growth models, the study discovered evidence that mandated audit firm switching has a negative relationship with the cost of auditing. Hamza, Wan, Norfadzilah, Razana, Nadiah, and Zarinah (2018) used a descriptive statistical technique to determine the factors affecting audit quality (auditor rotation, tenure, and switch). According to the study's findings, audit quality is lowered when audit firms rotate and switch. In addition, when compared to auditor rotation and tenure, the auditor changeover has a greater impact on audit quality. In five countries: Indonesia, Malaysia, Singapore, Thailand, and the Philippines, Totok, Rahmawati, and Agung (2017) investigated the moderating effects of audit opinion correctness on the connection between corporate governance and downward auditor switching. The results of the fixed effect logistic regression showed that if opinion accuracy is high, the audit committee, independent commissioner, and financial deepening all have a negative effect on downward auditor switching. Gharibi and Geraeely (2016) investigated the elements that influence the choice of an auditor in Iran. From 2010 to 2014, the criteria analyzed in Tehran's Stock Exchange were company size, auditor opinions, audit reporting delay, and audit firm repute. They analyzed the data using multiple regression, and the findings revealed a strong positive link between company size, auditor opinion, auditing reporting delay, and auditor change. However, they discovered no link between audit company reputation and auditor turnover. Olowookere and Inneh (2016) investigated the factors that influence auditor selection in publicly traded manufacturing firms. Primary data was acquired through the delivery of a standardized questionnaire in this study, which used a survey research methodology. Both descriptive and inferential statistics were used to analyze the data. The hypothesis was tested using logistic regression. The findings revealed that international coverage and a long-term relationship with current auditors are the two most critical criteria that impact a company's choice of auditors. Luypaert and Caneghem (2012) used binary probit regression to investigate the factors that influence auditor switching in acquired enterprises. The factors of auditor size, similarity of operations between acquired and acquiring firms, kind of audit opinion, and agency variables were included, and the results showed that after the takeover, the majority of acquired firms move to the acquiring firm's auditor. Ezejiofor and Okolocha (2020) investigated the impact of internal auditing on the financial performance of Nigerian commercial banks. The survey research design was used in this study. The study's population comprises of seven (7) branches from five (5) different commercial banks in Enugu, Nigeria's Enugu State. The researchers used frequency counts, mean score, and standard deviation to examine the data acquired for the study. At a 5% level of significance, the two hypotheses were tested using a basic regression statistical tool using SPSS version 20.0. Internal audit control and procedures have a beneficial effect on commercial banks' financial performance in Nigeria, according to the analysis, and this effect is statistically significant at the 5% level of significance. Onwuchekwa, Erah, and Izedonmi (2012) employed a regression statistical method to examine the relationship between audit quality and audit tenure, and discovered that rotating auditors improves audit quality significantly.

METHODOLOGY

Research Design

This study adopts the *Ex-Post Facto* research design. The design is suitable because the researcher is interested in establishing the causal relationship among the dependent and independent variables.

Population and Sample Size of the Study

The population of the study comprised of quoted eleven (11) health companies in Nigeria. The purposive sampling technique is imperative at this stage given that the researcher do not have access to relevant data on some other sectors quoted on the Nigeria Exchange Group.

The data were extracted from the annual reports and accounts of the health companies in Nigeria. The data obtained encompassed auditor switch decisions (measured using audit firms), corporate performance (return on asset, control variable was audit fees. Data were sourced during the period 2012-2020. The choice of this period is the year of mandatory adoption of IFRS in Nigeria.

Model Specification

The study adopted Hair, Black, Babin, Anderson, and Tatham (2006) model. The model econometrically presented in equation as follows:

$$ROA_{it} = \eta_0 + \eta_1 BIG4_{it} + \eta_2 ADF_{it} + \sum_t \text{ ……………………… (i)}$$

Where,
ROA = Return on assets (Earnings Before Interest and Tax (EBIT)/Total Assets)
BIG4 = Big-4 and non-Big4 audit firm; A dummy variable indicated as 1 if a firm chooses a Big-4 otherwise 0. Big-4 refers to the following auditor companies: PricewaterhouseCoopers (PwC); Deloitte; Ernst &Young (E&Y); and Klynveld, Peat, Marwick & Goerdeler (KPMG)
ADF = Audit fees; Amount paid to auditors divided by revenue
t = Time dimension of the variables;
η_0 = Constant or intercept;
η_{1-2} = Coefficients to be estimated or the coefficients of slope parameters.

Methods of Data Analysis

The study employed descriptive statistics to analyze the data and Regression analysis was used to test the statistical significant effect of the variables via E-view 9.0 statistical software.

Decision rule

Using SPSS, 5% is considered a normal significance level. The accept/reject criterion was based on the p-value, alternative hypothesis will be accepted. If p-value > 0.05 otherwise reject and accept the null hypothesis.

DATA ANALYSIS AND RESULTS

Table 1: Descriptive Analysis

	ROA	BIG4	ADF
Mean	10.18123	0.555556	0.025156
Median	9.741000	1.000000	0.024200
Maximum	13.21570	1.000000	0.036500
Minimum	6.279600	0.000000	0.012800
Std. Dev.	2.455907	0.527046	0.008904
Skewness	0.071643	-0.223607	0.048296
Kurtosis	1.845651	1.050000	1.481229
Jarque-Bera	0.507395	1.500938	0.868498
Probability	0.775927	0.472145	0.647751
Sum	91.63110	5.000000	0.226400
Sum Sq. Dev.	48.25182	2.222222	0.000634
Observations	9	9	9

Source: Researcher's computation (2022)

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) statistics (normality test). The result in Table 1 provided some insight into the nature of the selected Nigeria quoted banks that were used in this study.

It was observed that on the average over the nine (9) year period (2012-2020), the sampled quoted companies in Nigeria were characterized by positive average ROA (10.18). It was observed that the average audit firm (BIG4) value over the period was 0.56; the maximum value was 1.00 while the minimum stood at 0.00. It was also observed that the average audit fees (ADF) value over the period was 0.03; the maximum value was 1.04 while the minimum stood at 0.01. In Table 1, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables shows that all our variables are normally distributed and significant at 5% level and the result could be generalized. This also implies that a least square regression can be used to estimate the pooled regression models.

Hypothesis I:

H_0: Auditor modification choices have no significant effect on return on assets of health companies in Nigeria.

Table 2: Regression analysis between ROA, BIG4 and ADF

Dependent Variable: ROA				
Method: Least Squares				
Date: 05/27/22 Time: 15:23				
Sample: 2012 2020				
Included observations: 9				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.73098	2.292008	6.427106	0.0007
BIG4	3.692715	1.860355	1.984951	0.0944
ADF	-262.4174	110.1155	-2.383110	0.0545
R-squared	0.496062	Mean dependent var		10.18123
Adjusted R-squared	0.328083	S.D. dependent var		2.455907

S.E. of regression	2.013121	Akaike info criterion		4.498451
Sum squared resid	24.31593	Schwarz criterion		4.564192
Log likelihood	-17.24303	Hannan-Quinn criter.		4.356581
F-statistic	2.953112	Durbin-Watson stat		1.615426
Prob(F-statistic)	0.127977			

In Table 2, a regression analysis was conducted to test the significant effect between audit modification choices and return on assets. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of adjusted R squared was 0.33, an indication that there was variation of 33% on return on assets due to changes in audit modification choices. This implies that only 33% changes in return on assets of the firms could be accounted for by audit modification choices, while 67% was explained by unknown variables that were not included in the model. The probability of the slope coefficients indicate that; P-value =0.009<0.05). The co-efficient value of; β_1= 3.692715; t = 1.984951 implies that audit firm (BIG4) is positively related to return on assets, though not statistically significant at 5%. However, The probability of the slope coefficients indicate that; P-value =0.009<0.05). The co-efficient value of; β_1= -262.4174; t = -2.383110 implies that audit fees (ADF) is negative related to return on assets, though statistically significant at 5%.

The Durbin-Watson Statistic of 1.615426 suggests that the model does not contain serial correlation. The F-statistic of the regression is equal to 2.953112 and the associated F-statistical probability is equal to 0.127977, so the null hypothesis was accepted and the alternative hypothesis was rejected.

Decision

Since the Prob (F-statistic) of 0.127977 is less than the critical value of 5% (0.05), then, it would be upheld that audit modification choices have insignificantly affect return on assets of health firms in Nigeria.at 5% level of significance, thus, Ho is preferred over H1.

Appendix 1: Names of the Health Companies

S/N	NAMES OF COMPANIES	TICKER	SECTOR
1	EKOCORP PLC.	EKOCORP	HEALTHCARE
2	EVANS MEDICAL PLC.	EVANSMED	HEALTHCARE
3	FIDSON HEALTHCARE PLC	FIDSON	HEALTHCARE
4	GLAXO SMITHKLINE CONSUMER NIG. PLC.	GLAXOSMITH	HEALTHCARE
5	MAY & BAKER NIGERIA PLC.	MAYBAKER	HEALTHCARE
6	MORISON INDUSTRIES PLC.	MORISON	HEALTHCARE
7	NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	NEIMETH	HEALTHCARE
8	NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	NEIMETH	HEALTHCARE
9	NIGERIA-GERMAN CHEMICALS PLC.	NIG-GERMAN	HEALTHCARE
10	PHARMA-DEKO PLC.	PHARMDEKO	HEALTHCARE
11	UNION DIAGNOSTIC & CLINICAL SERVICES PLC	UNIONDAC	HEALTHCARE

CONCLUSON

This study assessed the effects of auditor modification choices on corporate performance of quoted companies in Nigeria from 2012-2020. Using health sector companies, the study, the study employed descriptive statistics to analyze the data and Regression analysis was used to test the statistical significant effect of the variables via E-view 9.0 statistical software. Besides, all the variables have a normal distribution as shown by the kurtosis values, suggesting that the study variables are normally distributed.

The study found that audit firm has a positive effect on companies performance of health companies in Nigeria, but this effect is not significant at 5%, while audit fees shows a negative effect on companies performance though was significant. This implies that audit fees can essentially influence the audit performance as well the corporate performance, but subject to regulation, while the type of audit firm can influence the performance but not actual substantial.

The recommendation was made by the researchers based on their findings: The study discovered that auditor modification choices (audit firm) have a significant impact on corporate performance (return on assets); hence, management should keep an eye on firm profits in order to improve audit choice, resulting in increased firm earnings.

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