

Assessing The Influence Of Audit Quality On Share Prices In The Financial Services Sector: The Roles Of Audit Fees, Audit Tenure, And Audit Firm Size.

By

Ogbu, Godwin Otseme

Princeogbu2007@gmail.com, 08065370991

Debt Recovery and Management Unit, Yola Electricity Distribution Company Yola. Adamawa State

Tyoakosu, Simon A.

tyoakosu,simon@uam.edu.ng, 07030559716

Department of Procurement Management, Center for Innovation in Procurement, Environmental and Social Standards, Joseph Sarwuan Tarka University, Makurdi

ABSTRACT

This study addresses the critical issue of the relationship between audit quality and share prices in Nigeria's financial services sector, a key driver of economic growth that has experienced significant fluctuations in market valuations. The main aim was to examine the effects of audit fees, audit tenure, and audit firm size on share prices. Utilizing a sample of 32 financial service firms listed on the Nigerian Stock Exchange from 2013 to 2022, the study employed panel data regression techniques, specifically the GMM II models, to analyze the data. The findings revealed that both audit fees and audit tenure have significant negative effects on share prices, indicating that higher audit fees and longer auditor-client relationships can erode investor confidence and depress market valuations. In contrast, audit firm size did not have a significant impact, suggesting that the perceived quality benefits of being audited by a Big Four firm do not necessarily translate to higher share prices in the Nigerian context. The results imply that investors are particularly sensitive to audit-related costs and the potential compromise of auditor independence over long tenures. Consequently, it is essential for corporate managers and directors to adopt cost-effective audit practices without compromising quality, while policymakers should enforce transparency in audit fee disclosures and mandate auditor rotations to enhance independence. Analysts and investors are advised to scrutinize audit fee disclosures and monitor auditor tenure as part of their investment decisions. Despite the lack of significant impact from audit firm size, firms should still consider the reputational advantages of engaging Big Four auditors. The study underscores the importance of maintaining a balance between audit quality and associated costs to sustain investor confidence and market stability. Future research should explore the broader implications of audit quality across different sectors and regions to provide more generalized insights.

1.Introduction

Banks financial performance is a function of interaction of both internal and external operating environments (Bello & Umar, 2019). The financial services sector in Nigeria has witnessed significant fluctuations in share prices, driven by various factors such as economic policies, market dynamics, and firm-specific attributes. Recent studies have highlighted that share prices in the financial services sector are influenced by a range of

variables including macroeconomic indicators, firm performance, and investor perceptions (Afifa, Alsufy, & Abdallah, 2020; Almashaqbeh, Alzoubi, & Mashal, 2020). In this context, the quality of financial reporting and auditing practices plays a crucial role in shaping investor confidence and market valuations. As firms strive to enhance their market credibility, the integrity of audit processes becomes paramount (Pham, Vu, Nguyen, & Nguyen, 2020). High-quality

audits, often associated with reputable audit firms and longer audit tenures, are linked to more accurate and transparent financial disclosures. Recent literature underscores the positive impact of audit quality on various aspects of financial performance and market behavior, suggesting that higher audit quality can lead to enhanced investor trust and reduced information asymmetry (Khajavi & Zare, 2016; Almashaqbeh et al., 2020). This relationship is particularly important in emerging markets like Nigeria, where financial systems are still developing, and market inefficiencies are more pronounced (Eneisik & Akani, 2021).

Audit quality, defined by the auditor's capability to detect and report material misstatements, is a critical component in ensuring the reliability of financial statements (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). High-quality audits provide a safeguard against financial misreporting and enhance the credibility of financial information disseminated to the public and investors. In Nigeria, where the financial services sector is a key driver of economic growth, maintaining high audit standards is essential for fostering a trustworthy financial environment. Despite the recognized importance of audit quality, the Nigerian financial services sector faces several challenges that undermine the effectiveness of audit processes. One significant problem is the prevalence of auditor-client relationships that compromise auditor independence, often due to long tenures and close ties (Ugwunta, Ugwuanyi,

& Ngwa, 2018). This issue is compounded by the limited presence of Big Four audit firms in the Nigerian market, which are generally perceived to deliver higher audit quality (Eneisik & Akani, 2021). The consequence is a financial reporting environment where the accuracy and reliability of financial statements are questioned, leading to volatility in share prices and reduced investor confidence (Khajavi & Zare, 2016).

The root causes of the problem in the Nigerian financial services sector include insufficient regulatory oversight and weak enforcement of audit standards. The regulatory framework governing audit practices needs to be strengthened to ensure that auditors remain independent and adhere to high-quality standards. Another root cause is the limited capacity of local audit firms, which may lack the resources and expertise to conduct thorough and unbiased audits. This limitation often leads to a reliance on a few dominant audit firms, which can create conflicts of interest and reduce the overall quality of audits. The effects of these problems are far-reaching. Poor audit quality can lead to significant financial misstatements, which in turn erode investor confidence and lead to increased market volatility. Share prices become more susceptible to sharp declines when investors lose trust in the financial information provided by firms. This lack of confidence can deter investment, stifle market growth, and ultimately impede the development of the financial services sector (Almashaqbeh et al., 2020).

The gaps in the current auditing practices also highlight the need for regulatory interventions to enhance audit quality. Existing regulations may not be stringent enough to ensure auditor independence and high standards of audit practice, leading to a call for reforms that promote better audit oversight and accountability (Almashaqbeh et al., 2020). Moreover, the financial services firms themselves must adopt better corporate governance practices to support robust auditing processes. Without these improvements, the sector risks continued instability and mistrust among investors, which can impede its growth and development (Oroud et al., 2019). Enhancing the audit quality framework could involve introducing mandatory rotation of audit firms, stricter penalties for audit failures, and continuous professional development for auditors. These measures would not only improve the audit quality but also ensure that financial statements are reliable and reflective of the true financial position of firms. The relationship between audit quality and share prices is underpinned by the signaling theory, which posits that high-quality audits send positive signals to the market about the firm's financial health and governance standards (Pham et al., 2020). Empirical evidence from various studies indicates that firms with higher audit quality tend to exhibit lower volatility in share prices, as investors have greater confidence in the reported financial information (Afifa et al., 2020). This relationship is particularly crucial for financial services firms, which operate in a sector

where trust and transparency are essential for market stability (Bulsara & Maheshwari, 2019). The implications of this relationship extend to policy-making and corporate strategy, emphasizing the need for continuous improvement in audit practices to support market integrity. Better audit quality can lead to more stable share prices, which in turn attracts more investment and supports the overall growth of the financial sector.

This study contributes to the existing body of knowledge by exploring the nuanced effects of audit quality on market behavior within the Nigerian context. The study utilizes robust methods such as panel data analysis to measure the impact of various audit quality indicators—such as audit firm size, audit tenure, and audit fees—on share prices, thereby providing empirical evidence on their significance. The theoretical contributions include a deeper understanding of the signaling theory in emerging markets, while the empirical contributions will offer insights into how improved audit practices can stabilize share prices and foster investor confidence in the Nigerian financial services sector. By addressing the identified gaps and providing actionable recommendations, the study aims to enhance the overall quality of financial reporting and auditing in Nigeria. The advantages of using panel data analysis include the ability to control for unobserved heterogeneity and provide more reliable and generalizable results. This study will also contribute to policy discussions on how to improve audit quality through better

regulatory frameworks and corporate governance practices, ultimately supporting the development of a more transparent and robust financial market in Nigeria.

2 Conceptual Clarifications and Theory

2.1 Share Price

Share price is a critical financial metric representing the market value of a company's equity. It reflects the collective judgment of investors about the future prospects and current performance of the company (Afifa, Alsufy, & Abdallah, 2020). Share prices are determined by supply and demand dynamics in the stock market, influenced by various factors such as company earnings, investor sentiment, economic conditions, and broader market trends (Bulsara & Maheshwari, 2019). According to Almashaqbeh, Alzoubi, and Mashal (2020), share prices are also affected by the quality of financial reporting and transparency, as investors rely on accurate and reliable information to make informed decisions. Various authors have measured share price using different approaches. One common method is to use the closing price at the end of the trading day, which represents the most recent valuation agreed upon by buyers and sellers (Pham, Vu, Nguyen, & Nguyen, 2020). Another approach involves calculating the average share price over a specific period to account for daily fluctuations and provide a more stable measure of a company's market value (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). Some studies use market capitalization, which is the share price multiplied by the total number of outstanding shares, to

assess the overall value of a company in the stock market (Khajavi & Zare, 2016). For companies, a higher share price can enhance their ability to raise capital through equity financing and improve their market reputation (Eneisik & Akani, 2021). For investors, share price serves as an indicator of investment value and potential returns. Fluctuations in share prices can affect investor wealth and influence investment decisions. For the present study, share price is defined as the market value per share of a listed financial services firm in Nigeria, measured by the closing price at the end of each trading day.

2.2 Audit Quality

Audit quality refers to the probability that an auditor will both detect and report material misstatements in a company's financial statements. This concept is crucial for ensuring the integrity and reliability of financial reporting, thereby enhancing investor confidence and market stability (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). High-quality audits are characterized by thoroughness, accuracy, and independence from client influence. According to Afifa, Alsufy, and Abdallah (2020), audit quality is influenced by factors such as auditor expertise, auditor independence, and the audit firm's reputation. Various methods have been used to measure audit quality. One common approach is to evaluate the auditor's report for any qualifications or modifications that indicate issues with the financial statements (Bulsara & Maheshwari, 2019).

Another method involves assessing the auditor's industry specialization, as auditors with extensive experience in a specific industry are more likely to provide high-quality audits (Pham, Vu, Nguyen, & Nguyen, 2020). Audit firm size is also used as a proxy for audit quality, with larger firms such as the Big Four being perceived as providing higher quality audits due to their resources and expertise (Almashaqbeh, Alzoubi, & Mashal, 2020). High audit quality enhances the credibility of financial statements, reduces information asymmetry, and protects investors from potential financial misstatements (Khajavi & Zare, 2016). It also helps in improving corporate governance and regulatory compliance. For the present study, audit quality is defined as the degree to which an audit is capable of detecting and reporting inaccuracies in financial statements, measured by the auditor's industry specialization and the size of the audit firm.

2.3 Audit Fees

Audit fees are the compensation paid to auditors for their audit services, reflecting the complexity, scope, and quality of the audit engagement. The amount of audit fees can provide insights into the level of effort and resources expended by the auditor, as well as the perceived risk and complexity associated with the client (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). According to Afifa, Alsufy, and Abdallah (2020), higher audit fees are often associated with more comprehensive and higher quality audits, although excessively high fees might also

indicate potential threats to auditor independence. Different studies have measured audit fees in various ways. The most straightforward method is to use the actual fees paid to the auditor as reported in the company's financial statements (Bulsara & Maheshwari, 2019).

Another approach involves adjusting audit fees for factors such as the size of the company, complexity of operations, and industry-specific risks to provide a normalized measure of audit effort (Pham, Vu, Nguyen, & Nguyen, 2020). Some researchers also analyze the relationship between audit fees and other variables, such as auditor tenure or the provision of non-audit services, to understand the broader implications for audit quality and independence (Almashaqbeh, Alzoubi, & Mashal, 2020). The implications of audit fees are significant for both auditors and clients. For auditors, fees must cover the costs of conducting a thorough and effective audit while also providing a profit margin. For clients, audit fees represent an expense that must be justified by the benefits of having high-quality and credible financial reporting (Khajavi & Zare, 2016). For the present study, audit fees are defined as the total amount paid by a listed financial services firm in Nigeria to its auditor for audit services, as disclosed in the firm's financial statements.

2.4 Audit Tenure

Audit tenure refers to the length of time an auditor or audit firm has been engaged with a particular client. It is a significant factor in assessing audit quality, as longer tenures can lead to better

understanding of the client's business and improved audit efficiency (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). However, extended audit tenures may also pose risks to auditor independence due to the development of close relationships between the auditor and the client (Afifa, Alsufy, & Abdallah, 2020). Audit tenure has been measured in various ways in literature. One common approach is to count the number of consecutive years an auditor has been engaged by the same client (Bulsara & Maheshwari, 2019). Another method involves categorizing audit tenures into different ranges (e.g., short, medium, long) to analyze their impact on audit outcomes and quality (Pham, Vu, Nguyen, & Nguyen, 2020).

Some studies also consider regulatory guidelines or mandates on mandatory audit firm rotation to assess the implications of audit tenure on audit quality and financial reporting (Almashaqbeh, Alzoubi, & Mashal, 2020). The implications of audit tenure are multifaceted. On the one hand, longer audit tenures can enhance the auditor's knowledge of the client's operations, leading to more effective and efficient audits. On the other hand, prolonged engagements may compromise auditor independence and objectivity, potentially reducing the quality of the audit (Khajavi & Zare, 2016). For the present study, audit tenure is defined as the number of consecutive years a listed financial services firm in Nigeria has been audited by the same audit firm, measured by the duration of the auditor-client relationship.

2.5 Audit Firm Size

Audit firm size refers to the scale and resources of an audit firm, typically categorized into large firms (e.g., the Big Four) and smaller firms. Larger audit firms are generally perceived to provide higher quality audits due to their extensive resources, expertise, and reputational concerns (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). According to Afifa, Alsufy, and Abdallah (2020), larger firms are better equipped to handle complex audits and are more likely to adhere to rigorous auditing standards. Measurement of audit firm size often involves categorizing firms based on their market presence and resources.

The most common categorization distinguishes between the Big Four audit firms (Deloitte, PwC, EY, and KPMG) and non-Big four firms (Bulsara & Maheshwari, 2019). Another approach includes assessing the number of employees, revenue size, and global reach of the audit firm to provide a more granular view of audit firm size (Pham, Vu, Nguyen, & Nguyen, 2020). Some studies also consider the audit firm's market share within specific industries or regions to measure its size and influence (Almashaqbeh, Alzoubi, & Mashal, 2020). The implications of audit firm size are significant for both audit quality and client perceptions. Larger firms, with their extensive resources and expertise, are often seen as more capable of conducting thorough and reliable audits. They are also subject to greater scrutiny and reputational risk, which incentivizes

them to maintain high standards of audit quality (Khajavi & Zare, 2016). For clients, engaging a larger audit firm can enhance the credibility of their financial statements and improve investor confidence. For the present study, audit firm size is defined as the classification of audit firms into Big Four and non-Big Four, measured by the firm's market presence and resources.

2.6.Theoretical Exposition

Agency theory, initially proposed by Jensen and Meckling (1976), examines the relationship between principals (owners) and agents (managers) within a corporation. The theory posits that there is an inherent conflict of interest between these two parties, as agents may not always act in the best interests of principals. This conflict, known as the agency problem, arises due to information asymmetry, where managers possess more information about the company's operations and performance than the shareholders. To mitigate this problem, principals employ mechanisms such as financial reporting and auditing to monitor and control the actions of agents (Jensen & Meckling, 1976). Audit quality plays a crucial role in reducing information asymmetry and mitigating the agency problem. High-quality audits ensure that the financial statements accurately reflect the company's financial position and performance, thereby providing reliable information to shareholders and other stakeholders (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). When audit quality is high, it increases the transparency of financial reporting and enhances investor

confidence, which can positively impact share prices. Conversely, low audit quality can lead to financial misstatements, eroding investor trust and resulting in increased volatility and decreased share prices (Afifa, Alsufy, & Abdallah, 2020).

Audit fees, tenure, and firm size are key determinants of audit quality within the framework of agency theory. Higher audit fees often correlate with more comprehensive audit efforts, reflecting the complexity and scope of the audit engagement. This can lead to higher audit quality, as auditors allocate more resources to thoroughly examine the financial statements (Bulsara & Maheshwari, 2019). However, excessively high fees might also threaten auditor independence if auditors become financially dependent on their clients (Pham, Vu, Nguyen, & Nguyen, 2020). Audit tenure refers to the length of the relationship between the auditor and the client. While longer tenures can enhance the auditor's understanding of the client's business, they may also compromise auditor independence due to familiarity threats (Almashaqbeh, Alzoubi, & Mashal, 2020). The size of the audit firm, often measured by whether the firm is part of the Big Four, is associated with higher audit quality due to greater resources, expertise, and a stronger emphasis on maintaining reputational capital (Khajavi & Zare, 2016).

The linkage between these variables—audit quality, audit fees, audit tenure, and audit firm size—and share prices can be understood through the lens of agency theory. High audit quality, often associated with appropriate audit fees,

balanced audit tenure, and large audit firms, reduces the information asymmetry between managers and shareholders. This reduction in information asymmetry ensures that shareholders have access to reliable and accurate financial information, thereby enhancing their confidence in the company's reported financial health (Oroud et al., 2019). As a result, investors are more likely to invest in the company, leading to higher and more stable share prices. On the other hand, low audit quality, potentially resulting from inadequate fees, excessively long or short audit tenures, and engagement with smaller audit firms, can exacerbate the agency problem, resulting in financial misstatements, reduced investor confidence, and volatile share prices (Eneisik & Akani, 2021).

2.7 Hypotheses Development

Few studies abound in terms of the relation between audit fees and share price. In terms of those that found positive linkage, we review the studies of Afifa, Alsufy, and Abdallah (2020) in Jordan, who investigated the effect of audit fees on the share prices of industrial firms listed on the Amman Stock Exchange. Employing a panel data regression model on samples spanning from 2010 to 2018, they found that higher audit fees, which indicate more comprehensive and diligent audit efforts, positively impact share prices by enhancing investor confidence in the reliability of financial reports. Similarly, Almashaqbeh, Alzoubi, and Mashal (2020) in Jordan found that increased audit fees, reflecting greater audit efforts, positively affected share prices of firms

listed on the Amman Stock Exchange, highlighting the role of thorough audits in bolstering market confidence. However, some studies reported mixed or negative findings. Eneisik and Akani (2021) in Nigeria studied the oil and gas sector and discovered that while higher audit fees were generally associated with improved audit quality, excessive fees could raise concerns about auditor independence, leading to negative market perceptions and thus negatively impacting share prices. In a different context, Ugwunta, Ugwuanyi, and Ngwa (2018) also in Nigeria found that audit fees had an insignificant effect on the share prices of firms in the oil and gas sector, suggesting that other factors may play a more critical role in influencing market valuations. Therefore, it is hypothesized that:

H1: There is no significant relationship between audit fees and share prices of listed financial service firms in Nigeria.

Research examining the relationship between audit tenure and share price has yielded diverse findings. In terms of those that found positive linkage, we review the studies of Bulsara and Maheshwari (2019) in India, who examined the effect of audit tenure on earnings management and share prices of firms listed on the Bombay Stock Exchange. Utilizing panel data from 2008 to 2018, they found that longer audit tenure improved audit quality, which in turn positively impacted share prices by enhancing the reliability of financial reporting. Similarly, Afifa, Alsufy, and Abdallah (2020) in Jordan discovered that longer audit tenure, which allowed auditors to gain deeper insights into their clients' operations,

positively influenced the share prices of industrial firms listed on the Amman Stock Exchange. However, other studies reported negative or mixed findings. Oroud, Almomani, Kharabsheh, and Alshawabkeh (2019) in Jordan found that while longer audit tenures could improve audit quality initially, excessively long tenures might compromise auditor independence, leading to reduced investor confidence and negatively impacting share prices. Eneisik and Akani (2021) in Nigeria observed that extended audit tenures were negatively associated with the share prices of oil and gas firms due to concerns about the potential loss of auditor independence over time. Therefore, it is hypothesized that:

H2: There is no significant relationship between audit tenure and share prices of listed financial service firms in Nigeria.

The relationship between audit firm size and share price has been the subject of numerous empirical studies. In terms of those that found positive linkage, we review the studies of Afifa, Alsufy, and Abdallah (2020) in Jordan, who explored the impact of audit firm size on share prices of industrial firms listed on the Amman Stock Exchange. Using panel data analysis, they discovered that firms audited by Big Four audit firms had higher share prices due to the perceived higher quality and reliability of the audits provided by these large firms. Similarly, Pham, Vu, Nguyen, and Nguyen (2020) in Vietnam found that audit firm size positively influenced the stock return synchronicity of firms listed on the Ho Chi Minh City Stock Exchange, suggesting that larger audit firms contribute to

higher market confidence and better share price performance. However, some studies reported different findings. Almashaqbeh, Alzoubi, and Mashal (2020) in Jordan found that while Big Four audit firms were generally associated with higher audit quality, the relationship between audit firm size and share prices was not always straightforward, as other factors such as firm-specific characteristics and market conditions also played significant roles. In a contrasting study, Eneisik and Akani (2021) in Nigeria reported that the size of the audit firm did not significantly affect the share prices of oil and gas firms, indicating that the market's response to audit firm size might vary across different sectors and regions. Therefore, it is hypothesized that:

H3: There is a significant relationship between audit firm size and share prices of listed financial service firms in Nigeria.

3. Data and Method

The population for this research comprises of forty five (45) financial services firms listed on the Nigerian Stock Exchange. From this population, a sample of 32 firms was selected using a sample filtering technique. This technique ensures that the sample is representative of the population while meeting specific criteria relevant to the study. The sample period spans from 2013 to 2022, providing a comprehensive view of the trends and impacts over a decade. The data for this study were collected from secondary sources, specifically the annual reports of the selected financial service firms. These reports provide detailed and reliable information on various financial metrics, including audit fees,

auditor tenure, audit firm size, and share prices. The use of secondary data from annual reports is advantageous as it ensures the availability of consistent and standardized financial information across the sample firms. This approach also allows for the extraction of historical data, which is essential for conducting a longitudinal analysis over the specified period.

The independent variable in this study is audit quality, which is measured using three proxies: audit fees, audit tenure, and audit firm size. Audit fees are logged to normalize the data and mitigate the effects of outliers, providing a more accurate measure of the audit effort (Afifa, Alsufy, & Abdallah, 2020). Audit tenure is represented as a dummy variable, with a value of 1 if the auditor-client relationship has lasted for three years or more, and 0 otherwise. This measure captures the impact of the duration of the auditor-client relationship on audit quality (Bulsara & Maheshwari, 2019). Audit firm size is also a dummy variable, with a value of 1 if the firm is audited by one of the Big four audit firms, and 0 for other audit firms (Pham, Vu, Nguyen, & Nguyen, 2020). These measures provide a comprehensive view of the different dimensions of audit quality and their potential impact on share prices.

The dependent variable in this study is the share price, measured as the market value per share at the end of each fiscal year (Oroud, Almomani, Kharabsheh, & Alshawabkeh, 2019). The relationship between audit quality and share prices is analyzed using panel data regression

techniques, specifically the GMM II models. These models are chosen for their ability to account for unobserved heterogeneity and provide robust estimates of the relationships between the variables. The GMM II model controls for time-invariant characteristics of the firms (Khajavi & Zare, 2016). The econometric model for this study is specified as follows:

$$SHPR_{it} = \beta_0 + \beta_1 AUDF_{it} + \beta_2 AUDT_{it} + \beta_3 AUFS_{it} + \beta_4 FSIZ_{it} + \mu_{it}$$

Where SHPR is share price, AUDF is audit fees, AUDT is audit tenure, AUFS is audit firm size, FSIZ is firm size; β_0 is the constant term, β_1 - β_4 is the slope coefficient, μ is the error term. The GMM models will be employed to analyze the data, with the Hausman test used to determine the most appropriate model for the analysis. This rigorous methodological approach ensures that the findings of this study are robust and reliable, providing valuable insights into the relationship between audit quality and share prices in the Nigerian financial services sector.

4. Results and Discussion

To accomplish the objective of this study, the study first performed a pooled least squares regression. The study then proceeded to examine whether there were any discrepancies with the fundamental assumptions of ordinary least squares regression such as multicollinearity and heteroscedasticity. However, the study conducts initial pre-regression analysis, including descriptive statistics, and correlation matrix.

4.1.Descriptive Statistics Analyses

In this section, the researcher examines the descriptive statistics for both the independent and

dependent variables of interest. Each variable is examined based on the mean, standard deviation,

maximum and minimum. Table 4.1 below displays the descriptive statistics for the study.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Shpr	320	4.274	8.230	0.180	47.950
Audf	320	4.713	0.733	3.250	8.070
Audt	320	0.628	0.484	0.000	1.000
Aufs	320	0.653	0.477	0.000	1.000
Fsize	320	7.196	0.838	6.010	9.060

Source: Authors Computation (2024)

The variable SHPR, representing share price, has 320 observations with a mean of 4.274 and a standard deviation of 8.230, ranging from 0.180 to 47.950. The high standard deviation indicates considerable variability, suggesting differing market valuations among the firms due to factors like performance and investor perception. AUDE, representing audit fees, shows a mean of 4.713 and a standard deviation of 0.733, with values ranging from 3.250 to 8.070. This indicates substantial audit efforts with consistent audit fees across firms, implying a standard pricing strategy or similar audit complexity. AUDT, representing audit tenure, has a mean of 0.628 and a standard deviation of 0.484, where 62.8% of observations have audit tenures of three years or more. This balance indicates a mix of stable long-term relationships and frequent auditor changes, impacting audit quality through enhanced understanding or potential independence risks.

AUFS, representing audit firm size, has a mean of 0.653 and a standard deviation of 0.477, indicating that 65.3% of observations are audited by Big Four firms. This highlights the market preference for Big Four auditors, associated with higher audit quality due to their resources and expertise. FSIZE, representing firm size, has a mean of 7.196 and a standard deviation of 0.838, with values ranging from 6.010 to 9.060. This indicates that the firms are relatively large and comparable in scale, suggesting more complex operations and greater resources, potentially leading to higher share prices. The high firm sizes may also reflect a selection bias towards well-established financial service firms

4.2. Correlation Analysis

In examining the association among the variables, the study employs the Spearman rank Correlation Coefficient (correlation matrix), and the results are presented in the table below.

Table 4.2: Correlation Analyses

Variables	(1)	(2)	(3)	(4)	(5)
(1) shpr	1.000				
(2) audf	0.745	1.000			
(3) audt	0.017	0.071	1.000		
(4) aufs	0.406	0.633	-0.004	1.000	
(5) fsize	0.886	0.810	0.082	0.453	1.000

Source: Authors Computation (2024)

In the case of the correlation between audit fees and share price, the above results show that there exists a strong positive association between the independent variable of audit fees (0.745) and the dependent variable of share price. This indicates that higher audit fees are associated with higher share prices during the period under study. Additionally, the result shows that there is a very weak positive association between the independent variable of audit tenure (0.017) and the dependent variable of share price, suggesting a negligible relationship between the length of the audit-client relationship and share prices during the period under study. Furthermore, there is a moderate positive association between the independent variable of audit firm size (0.406) and the dependent variable of share price. This suggests that firms audited by Big Four audit firms tend to have higher share prices during the period under study. In the case of the control variable, the result shows that firm size (0.886) is positively associated with the dependent variable of share price. This strong positive correlation indicates that larger firms tend to have higher share prices during the period under study. Also, the results show strong positive associations

between the independent variables of audit fees and audit firm size (0.633) and between audit fees and firm size (0.810). These relationships indicate that higher audit fees are associated with both larger firm sizes and more prominent audit firms during the period under study. Lastly, the correlation between audit tenure and audit firm size (-0.004) is slightly negative, indicating an almost non-existent inverse relationship between these variables during the period under study.

4.3 Regression Analyses

Prior to examining the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the data was tested for normality because financial time series data are generally believed to be non-stationary and the non-stationarity implies the existence of a unit root in the data which often give rise to the occurrence of spurious regressions (Bello, 2016). Furthermore, the study used a panel GMM regression analysis since the result reveal the presence of heteroscedasticity and endogeneity in the model.

Table 4.4: Regression Results

Variables	(1) OLS	(2) GMM I	(3) GMM II
Audf	-1.806 (0.058)	-0.677 (0.343)	-0.679*** (0.000)
Audt	0.029 (0.964)	-0.382 (0.287)	-0.384*** (0.000)
Aufs	-0.427 (0.586)	0.056 (0.958)	0.054 (0.369)
Fsize	8.852*** (0.000)	7.584*** (0.000)	7.591*** (0.000)
L.shpr		0.404*** (0.000)	0.404*** (0.000)
Intercept	-50.654*** (0.000)	-48.581*** (0.000)	-48.552*** (0.000)
Observations	320	256	256
R ²	0.568		
Sargen Test		chi2: 192.39{0.0000}	chi2: 33.24{0.0553}
endo:	1{0.000}		
VIF	3.06		
Hettest:	275.09{0.0000}		

Notes: *p*-values are in parentheses. *** *p*<.01, ** *p*<.05

Source: Authors Computation (2024)

The table above represents the results obtained from the estimation of the models of this study. The results show that the dependent variable of share price has an R-Square value of 0.568 in the OLS model. This implies that the independent and control variables of the study could explain 56.8% of the systematic change in the dependent variable share price. However, the unexplained part of the changes in share price has been captured by the error term. To further validate the estimates of the pooled OLS results, this study also tests for multicollinearity and heteroscedasticity. Multicollinearity can primarily be identified using tolerance and its inverse, known as the variance inflation factor (VIF). The mean Variance Inflation Factor (VIF) of the regression models is 3.06. The analysis reveals that the average VIF for the models is well

below the threshold of 10, which aligns with Gujarati's (2004) findings. This suggests that there is no multicollinearity present, indicating that none of the independent variables should be excluded from the models. The assumption of homoscedasticity specifically indicates that if the errors exhibit heteroscedasticity, it becomes challenging to rely on the standard errors of the least square estimates. The results indicate that the assumption of homoscedasticity in the pooled OLS regression model has been broken, as evidenced by the significant *p*-value from the heteroscedasticity test (Hettest: 275.09 {0.0000}). Therefore, the study modifies the model to address this violation by utilizing the Generalized Method of Moments (GMM) regression, as suggested by Greene (2003).

4.4 Discussion of Findings

The results obtained from the GMM II regression model presented in Table 4.4 revealed that audit fees [coef. = -0.679 (0.000)] have a significant negative effect on the share price of the listed financial service firms in Nigeria during the period under study. The result implies that an increase in audit fees will significantly decrease the share prices of the listed financial service firms in Nigeria during the period under study. Hence, the null hypothesis that audit fees have no significant effect on the share prices of the listed financial service firms in Nigeria is rejected. The significant negative effect of audit fees on share prices suggests that higher audit fees, which might be associated with more rigorous and detailed audit work, are perceived negatively by investors, possibly due to concerns about cost efficiency or financial strain on the firm. This finding aligns with the results of Eneisik and Akani (2021), who also observed that excessive audit fees could raise concerns about auditor independence and negatively impact market perceptions. However, this result contradicts the findings of Afifa, Alsufy, and Abdallah (2020), who reported a positive association between audit fees and share prices, indicating that investors might view higher audit fees as a sign of thorough auditing and reliability in financial reporting. The coefficient of Audit tenure [-0.384 (0.000)] also has a significant negative effect on the share price of the listed financial service firms in Nigeria during the period under study. The result implies that a longer audit-client relationship

significantly decreases the share prices of the listed financial service firms in Nigeria during the period under study. Hence, the null hypothesis that audit tenure has no significant effect on the share prices of the listed financial service firms in Nigeria is rejected. The significant negative effect of audit tenure on share prices indicates that longer audit-client relationships might raise concerns about the auditor's independence and objectivity, leading to decreased investor confidence and lower share prices. This result supports the findings of Oroud, Almomani, Kharabsheh, and Alshawabkeh (2019) of excessively long audit tenure compromises auditor independence. Conversely, this finding is at odds with Bulsara and Maheshwari (2019), who found that longer audit tenures could enhance audit quality and positively impact financial performance due to the auditor's deeper understanding of the client's business. Finally, the coefficient of audit firm size [0.054 (0.369)] does not have a significant effect on the share price of the listed financial service firms in Nigeria during the period under study. The result implies that whether a firm is audited by a Big four audit firm or not does not significantly affect the share prices of the listed financial service firms in Nigeria during the period under study. Hence, the null hypothesis that audit firm size has no significant effect on the share prices of the listed financial service firms in Nigeria is accepted. The non-significant effect of audit firm size on share prices suggests that being audited by a Big Four firm does not necessarily influence

investor perceptions and market valuations in the Nigerian context. This finding contrasts with the study by Pham, Vu, Nguyen, and Nguyen (2020), which indicated that larger audit firms positively influenced stock return synchronicity due to their perceived higher audit quality. The lack of significance in this study might be due to the specific market dynamics in Nigeria, where other factors could play a more dominant role in determining share prices.

5. Conclusion and Recommendations

This study addressed the unclear relationship between audit quality and share prices of listed financial service firms in Nigeria. The primary aim was to examine how audit fees, audit tenure, and audit firm size, as proxies for audit quality, affect the share prices of these firms. The key findings of the study revealed that audit fees and audit tenure have significant negative effects on share prices, while audit firm size does not significantly impact share prices. These findings suggest that higher audit fees may be perceived as a financial burden or as indicative of inefficiencies, thereby reducing investor confidence and share prices. Similarly, longer audit tenures might raise concerns about the auditor's independence and objectivity, leading to a negative perception among investors and a subsequent decline in share prices. On the other hand, the lack of significant impact from audit firm size suggests that in the Nigerian context, the perceived quality associated with being audited by a Big Four firm does not necessarily translate to higher share prices. The study advocates that

investors in the Nigerian financial services sector are sensitive to audit-related costs and the duration of the auditor-client relationship. These insights highlight the importance of maintaining a balance between audit quality and associated costs, and the necessity of ensuring auditor independence to bolster investor confidence and enhance market valuations. Given the findings, the following recommendations are made to corporate managers and directors, policymakers and regulators, analysts, investors, both potential and existing, and other stakeholders. Stakeholders should focus on strategies that enhance audit quality while balancing costs and ensuring auditor independence. This approach will help maintain investor confidence and positively influence share prices. Corporate managers and directors should engage in cost-effective audit practices that do not compromise audit quality. Policymakers and regulators should ensure transparency in audit fee disclosures and set guidelines that prevent exorbitant fees, which may erode investor confidence. Analysts and investors should critically assess audit fee disclosures to gauge the cost efficiency of audit practices and their impact on firm valuation. Firms should consider implementing policies for periodic auditor rotation to mitigate risks associated with long audit tenures. Regulators should enforce mandatory auditor rotation policies to enhance auditor independence. Investors and analysts should monitor auditor tenure as a factor in their investment decisions, understanding that longer tenures may affect

auditor objectivity and financial statement reliability. While audit firm size was not found to significantly impact share prices, corporate managers should still consider the reputational benefits of engaging Big Four firms, especially in markets where such affiliation might influence

investor perception. Regulators and policymakers should ensure that audit quality standards are upheld across all firms, regardless of size. Investors and analysts should look beyond audit firm size and focus more on the actual quality and integrity of the audit process.

REFERENCES

- Afifa, M. M., Alsufy, F. J., & Abdallah, A. A. (2020). The effect of audit fees on the share prices of industrial firms listed on Amman Stock Exchange. *Journal of Financial Reporting and Accounting*, 18(4), 1-20.
- Almashaqbeh, H., Alzoubi, T., & Mashal, A. (2020). The impact of audit quality on share prices of industrial firms listed on the Amman Stock Exchange. *International Journal of Financial Research*, 11(2), 30-45.
- Bello, M. A. (2016). Market reaction and insider trading around the announcements of equity issues: Evidence from Nigeria. *International Journal of Accounting, Finance and Risk Management*. 1 (1): 25-32. doi: 10.11648/j.ijafmr.20160101.14
- Bello, M. A. and Umar, K. (2019). Credit Quality and Financial Performance of Deposit Money Banks in Nigeria. *Bayero Journal of Management Sciences*, Vol. 2.
- Bulsara, H. P., & Maheshwari, P. (2019). The effect of audit tenure on earnings management and share prices of firms listed on the Bombay Stock Exchange. *Indian Journal of Corporate Governance*, 12(3), 25-40.
- Eneisik, B., & Akani, F. N. (2021). The relationship between audit fees and share prices in the oil and gas sector in Nigeria. *Journal of Accounting and Taxation*, 13(1), 1-15.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Khajavi, S., & Zare, A. (2016). The relationship between audit quality and market performance. *International Journal of Auditing*, 20(2), 99-114.
- Oroud, Y. A., Almomani, R. A., Kharabsheh, H. A., & Alshawabkeh, M. M. (2019). The effect of audit quality on the financial performance of listed companies in Jordan. *Asian Journal of Finance & Accounting*, 11(1), 53-74.
- Pham, T. T., Vu, T. D., Nguyen, H. T., & Nguyen, T. T. H. (2020). The influence of audit quality on stock return synchronicity of firms listed on the Ho Chi Minh City Stock Exchange. *Journal of Asian Business and Economic Studies*, 27(1), 73-85.
- Ugwunta, D. O., Ugwuanyi, G. O., & Ngwa, F. N. (2018). Audit fees and share prices in the oil and gas sector in Nigeria. *International Journal of Economics and Financial Issues*, 8(4), 51-57.