EXAMINATION OF THE RELATIONSHIP BETWEEN AUDITORS' INDEPENDENCE AND QUALITY OF AUDIT REPORTS OF INSURANCE COMAPNIES IN NIGERIA

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ABSTRACT

This study examined the relationship between auditors' independence and quality of audit reports of insurance companies in Nigeria. The main objective of the study was to establish how quality of audit report is influenced by the independence of auditors. The proxies for independent variables which is the auditors' independence was audit fee and audit tenure while the audit quality was the dependent variable. The entire population of all insurance firms listed on the floor of Nigerian Stock Exchange was adopted in the study. Ex-post design was adopted in the study and data for the study were extracted from audited financial statements of insurance firms in Nigeria from 2010 to 2018 using content analysis. The data were analyzed using descriptive statistics and multiple regression analysis. The results indicated a significant positive relationship between audit fee and audit tenure; and audit quality. The study concluded that audit fees and audit tenure have significant positive relationship with the quality of audit reports of insurance companies. The study recommended amongst others that insurance companies should adequately remunerate its auditors in order to guarantee quality audit services; as well as strict enforcement of compliance with the auditor rotation policy.

Key Word: Audit Quality; Auditors' Independence; Audit Report; Financial Statement

INTRODUCTION

Statutory audit is concerned with the gathering and assessment of available evidences in order for auditors to form a professional opinion or judgement on the financial statements. Without audit report, the accounting information used for decision making by internal and external users lacks credibility. Without the verification by the auditor, the managers could have incentive to misrepresent the performances of the company and their management skills, since they could gain private benefits by such actions (Ittonen, 2010). For auditors to be able to meet the expectations of the stakeholders who rely on the financial statement so reported upon, they must be seen to be independent. Independence in this case refers to a state of being free from undue influence, persuasion or bias in which the presence will greatly impair the value of the audit service and audit report.

The increasing interests from researchers about the quality of audit report in the recent past can be attributed to so many factors which include among others, the growing importance of corporate governance mechanism, the highly publicised corporate scandals in Nigeria in particular and the world at large, high risk of litigation associated with poor audit quality. Also, many Nigerian companies report of questionable accounting practices such as creative accounting and earnings management and these have brought the issue of auditor's independence to the forefront, and putting the credibility of auditing profession in doubt (Otusanya and Lauwo, 2010). Moreover, the collapse of some industry giants despite the clean bill issued by auditors has made users of financial statements to question the credibility of audit reports attested to by external auditors and this has been a major concern to business stakeholders because the quality of audit report is a signature for safeguarding their investments.

Prior studies have examined the factors affecting audit quality in Nigeria, such as engagement in non-audit services, length of audit tenure, audit rotation, and the size of the audit firm (Adeyemi, Okpala and Dabor, 2012). However, these studies focused mostly on financial institutions in general with little application in insurance firms.

With the wide spread scandal on auditor's report credibility, it behooves the profession to take rational steps in addressing the negative trend to salvage the loss of public confidence on its finished products- the financial reports. This study is motivated by this concern but with particular interest in the influence of auditors' independence on audit quality. Although the importance of auditor's independence is well documented in literature, the relationship between auditor's independence and audit quality is still a subject that requires further in-depth investigation, hence the need for this study. Extant literature indicates that very scanty work has been done on this subject in insurance sector and considering its importance to the socio-economic development of the economy, there is need to carry out this study in order to narrow the identified gap.

2. REVIEW OF RELATED LITERATURE

Conceptual review

Concept of auditing

Auditing is an independent examination of the records of financial transactions of an entity by a qualified and independent persons so assigned in line with the provisions of the law. Audit report is a written opinion expressed by the auditor regarding the financial statements of an entity. It is usually issued by the auditor after a thorough examination of the financial records of the firm. The report can be categorized into two: qualified and unqualified. A qualified audit report arises where there is limitation in the scope of work or adverse opinion where financial statements were obviously misstated. Unqualified opinion arises where the financial statements is adjudged to be free of any misstatement or limitation in scope.

The need for auditing stems from conflicts which may arise in the financial reports deliberately or otherwise. According to Ittonen (2010) two sources of conflict may arise. Firstly, the management may deliberately prepare and disclose biased information to pursue personal interest and secondly, unintentional bias may exist in the financial statement. He further maintains that the complexity of reporting process may also increase the risk of unintentional errors due to lack of knowledge of the preparer. Moreover, the average users of financial information is not knowledgeable enough to fully understand financial reports, much less detect possible intentional or unintentional errors. The auditors are hired to provide users an assessment of the quality of the information provided in the financial statement. The demand for auditing may arise due to the existence of conflict of interest between the preparers of financial statement and the users. This situation may lead to a biased report. This therefore may distort the quality of information and as such there is need for an independent review of the information.

Arising from this, Watts (1986), argues that auditing plays important role in monitoring contracts and reducing information risk. Without the verification by the auditor, managers would have an incentive to misrepresent the performance of the company and their management skills, since they could gain private benefits by such actions. Accordingly Wallace (2004) states that the demand for audit may be attributed to the significant economic, social or other consequences of users' erroneous decisions. Hence to increase the quality of their decision making, investors need reliable and complete information. To this extent, the audit function adds to the credibility of the available information and as a result, users may rely more on the information and make more accurate evaluations.

Audit quality

It is sometimes difficult to come by the true definition of audit quality. This is in view of the fact that it is barely visible in practice (Tobi, Osasrere & Uniamikogbo, 2016). However various authors have attempted to define audit quality in different ways. The most generally accepted and adopted definition is as given by De Angelo (1981) as the joint probability that an auditor will disclose a breach in the client's financial statement and report the breach. She went further to state that the probability for an auditor to discover a breach depends on the client's technological capabilities or audit procedures used on a given audit. Therefore the probability for an auditor to report a discovered breach is a sign of auditor's independence from the client's interference. The above definition of audit quality measures are indirect methods of measurement while on the other hand, most indicators used as proxy is discretionary accruals in financial statement.

Another school of thought on audit quality is concerned with the extent to which auditors comply with the auditing standards. In this case, audit quality indicators are evaluated in terms of how well audits reports have reduced lawsuits against auditors. The general objective of an audit is to obtain high quality financial reports which is also seen to comply with relevant standards (Tritschler, 2013). Financial Reporting Council of United Kingdom (2008) explains audit quality by identifying four main drivers of audit quality which include, the culture in an audit firm, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process, the reliability and usefulness of audit reporting. However Knechel (2011) criticized the Financial Reporting Council definition that the four drivers are vague and are subject to ambiguous interpretation.

In 2013, the chairman of the International Auditing and Assurance Standards Board developed audit quality framework which describes the input and output factors that contribute at engagement audit and final report levels. Also audit quality is influenced by factors such as inputs, outputs, interactions amongst key stakeholders and contextual factors. Measurement of audit quality varies. Discretionary accruals is often used as the proxy for audit quality. Discretionary accruals are accruals that are not related to the normal activities of an organization. This is achieved by capturing the probability that a firm's management influences their earnings in such a way that they do not fairly show their actual performance.

Auditors' independence

According to Sweeney (1994) audit independence is defined as unbiased attitude of an auditor in decision making in audit and financial reporting process. Independence means a state of being free from undue influence, persuasion or bias which presence will greatly impair the value of the audit service and audit report. De Angelo (1981) agrees with the above view by stating that auditor’s lack of independence increases the risk of not being objective. This implies that auditor may not disclose the discovered breach when the independence is under threat.

In the same vein, the United States of America Securities and Exchange Commission (US SEC) sees independence as state of objectivity and free from bias. Hope and Langli (2007) defines auditor independence as the auditor objectivity and ability to withstand pressure from client. This pressure includes monetary inducement and otherwise, provided it makes auditor comply with management desire rather than his professional judgment. The professional bodies also came up with code of ethics on auditor’s independence. For instance the International Federation of Accountants Committee (IFAC, 2000) and Institute of Chartered Accountants of Nigeria (ICAN, 2010) define independence as a state of not being manipulated by other people or things, such as monetary inducement. The code further states that auditor should carry out their work in an objective manner. An audit firm’s independence can be in the form of programming independence, investigative independence and reporting independence. They further recognize auditor’s independence as fundamental ethical principle and makes it mandatory for both accountants in business and in public practice with special emphasis on all professional persons exercising professional judgment.

Various factors have been found to threaten the independence of auditors. Previous studies revealed that high fees paid by an organization to its external auditor creates economic bond between the auditor and the client, therefore, fees may impair auditor’s independence (Frankel, Johnson and Nelson, 2005). Moreover, Okolie (2003) agrees by affirming that lack of auditor’s independence results in poor audit quality which allows for greater earnings management and that reduces earnings quality. When the auditors are seen to be independent the users of financial report will place reliance on such report. Thus the importance of independence of auditors in financial reporting cannot be over emphasized.

Auditors’ tenure

Audit tenure is expressed as the duration of the auditor relationship with the client. It is the period of time in which the auditor having been formally appointed by the client to carry out audit work and when the contract ceases to exist. It may span for more than one financial year. This implies that the contract is renewable until such a time that the client is not willing to continue with the relationship. Johnson, Khurana and Reynold (2002) see audit firms' tenure as the total time spent by auditor with their client or total number of successive years that auditor has audited the client. It is important to note that audit tenure could be classified into two: the tenure an individual is engaged in the audit work and the tenure in which the firm is engaged in the audit work. Each of the aspect has implication in the same way as threatening the independence through over familiarity.

It should however be noted that a rather too long association between the auditor and his client may constitute a threat to independence as a personal ties and familiarity may develop between the parties. This may lead to paying less attention on the part of the auditor and being considerate of the later towards the top managers of the entity. Aside from this threat to independence, there is familiarity threat in which the audit engagement may become mere routine over time, which may cause the auditor to dedicate less effort in identifying the weaknesses of internal control and sources of risk. It is in line with the above that Okolie (2014) averred that in Nigeria, it is professionally expected that audit tenure should not exceed three years, but this does not appear to be implemented.

Audit fees

Yuniarti (2011) defines audit fee as the fee paid to the auditor in exchange of the financial services performed. Auditor fee comprises of audit fees (from statutory audit services) and non-audit fees from non-statutory audit services provided by an auditor to a client. Audit fees can also be seen as the compensation paid to auditor for the services rendered to a client. Such audit services include statutory audit and non-statutory services also known as management consultancy services.

Most prior studies indicate that fees paid to auditors can affect audit quality (Carcello, Hermanson, Neal and Riley, 2002; Hoitash, Markelevich, and Barragato, 2007; Desender, Aguilera, Crespi-Cladera and Garcia-Cestona, 2009; Hamid and Abdullah, 2012). It is generally assumed that large audit firms are able to charge higher audit fees due to superior audit checking effort. Consequently, high audit fee is likely to be more effective in audit process and lead to higher audit quality. Yassin and Nelson (2012) found that a higher audit fees shows that auditors provide more effective audit services to the companies compared to lower audit fees. Also O'Sullivan and Diacon (2002) found that more audit hours and more specialized audit staff are required in order to arrive at a more comprehensive investigation and as such it is expected that when high audit fee is charged, it will indicate that higher quality audit will be carried out.

Studies conducted by Hoitash, et al (2007), Yuniarti (2011), Craswell, Stokes and Laughton, (2002), Palmrose (1986) indicate that the higher fees charged usually result in higher audit quality. Moreover, Elitzur and Falk (1996) and Lesage, Ratzinger-Sakel and Kettunen, (2012) in agreement with earlier findings suggested that when there is an increase audit fees there will likely be increase in audit quality.

Theoretical framework

The major theories that bear on the study are the agency theory and theory of inspired confidence.

Agency theory

The agency theory was developed by Meckling and Jensen in 1976 to explain the relationship between the principal (in this case the shareholders) and the agents (managers) (Nwaniki, 2013). The major issue in the agency theory lies in the conflict of interest between the principal and the agent which necessitated the employment of the auditor as an arbiter. The need for auditing arises as a result of seeming doubt on the financial statement prepared by the managers of capital provided by the owners of such capital. Generally the providers of funds are usually different from the managers and consequently, the managers are required to give account of their stewardship with regard to the resources entrusted to their care. The auditor is brought in as third party and independent person to examine the financial report presented by the managers of the resources. The auditor is expected to present his opinion whether the financial report is consistent with the actual transactions which took place within the period under consideration.

The auditor is brought in to ascertain that the interest of the agent (managers) do not overwhelm the interest of the principal (shareholders). Thus the auditors tend to align these varying interests to ensure there is trust among the two parties. In order for the auditors to properly carry out this function, they must not be partial or biased. This implies that the auditors must be independent. The independence of auditors in this context means that the auditor should be free of any entanglement with either of the parties that would make their views or opinion to be tilted towards one side. The independence of auditors is very crucial as it will create the desired confidence among the two parties on one hand and the users of financial report on the other.

Relating this to the subject of this study, the independence of the auditors is in focus if the auditors are to function effectively in the discharge of the responsibility in aligning the interest of the shareholders and the managers. The independence of the auditors would impact the quality of the opinion to be expressed by the auditors and this would invariably lead to confidence on the users of such report.

Theory of inspired confidence

Theory of inspired confidence which was developed by Limperg Institute in Netherlands in 1995 emphasized that the auditors as confidential agents, derive their brand function in the society from the need to give an expert and independent examinations of the financial statement sound judgement based on the outcome of the examination. This is born out of the fact that their scope of function is not restricted to the examination of financial statements of clients and issue of opinion that would be useful by the clients alone but would be used by the wide spectrum of the society. To that effect, it is required to understand that the users of their report extend beyond those who engage them to the general public.

The import of the theory of inspired confidence is that the third party (users of financial statements) have a stake on the audited report to such an extent that they rely on it for their actions. Thus the duties and responsibilities of the auditors are a derivation from the confidence that are bestowed by the public on the success of the audit process and the assurance of the process. Consequential upon the above, a faulty process would ultimately lead to the loss of confidence. In agreement with the above, Carmichael, (2004) posits that when the confidence that the society has in the effectiveness of the audit process and the audit report is misplaced, then the value relevance of the audit is destroyed.

Empirical review

Much have been written in extant literature on the relationship between auditors' independence and quality of audit report. Tobi, Osasrere and Emmanuel (2016) found a strong relationship between leverage and audit quality on one hand and a significant strong positive correlation between the company size and audit quality. Also Rahmina and Agoes (2014) found that auditor independence which is proxied by audit tenure and audit fee have positive influence on audit quality. In the same vein, Augustine, Efanyena and Edegware (2014) conducted a research to ascertain the relationship between audit quality and audit independence proxied by auditor experience and auditor accountability and found that auditor independence proxied by auditors accountability have significant relationship with audit quality. Albeksh (2017) examined the factors which affect the independence of the external auditors. He classified factors having great effect on auditing profession into two: objective factors and personal factors. The study reached the conclusion that auditing standards and professional behaviour are the most important factor impacting on auditor independence.

Zayol, Kukeng and Iortule (2017) carried out the review of related literature on auditor independence and how it affects audit quality. Evidence from the review revealed a strong relationship between auditor independence and audit quality. Adeyemi, Okpala and Dabor (2012) carried out a study to investigate the factors which affects audit quality in Nigeria. Their findings indicate amongst others that multiple directorship is the major factor affecting audit quality in Nigeria. They also discovered that provision of non- audit services would likely affect audit quality significantly. They however did not find audit rotation to have any significant effect on audit quality.

Kammenga (2016) examined how audit quality is affected by the implementation of mandatory audit firm rotation. The results did not provide evidence of an association between a firm switching and the amount of both discretionary accruals and abnormal working capital accruals. Okolie (2014) conducted a study to determine how audit tenure and auditor independence affect the earnings management in Nigeria and the results indicate that audit tenure and auditors independence showed significant relationship with the amount of discretional accruals of quoted companies in Nigeria. Adeniyi and Mieseigha (2013) conducted a study on the relationship between audit tenure and audit quality in Nigeria and found the existence of a negative relationship between audit tenure and audit quality. Abdul-Rahman, Benjamin and Olayinka (2017) conducted a study to determine the effect of audit fee, audit tenure, client size and leverage ratio on audit quality in Nigeria. The results of the study showed that the continued effect of audit fee, audit tenure, client size and leverage ratio exhibited a joint significant relationship with audit quality.

Moraes and Martinez (2015) studied how audit fees and audit quality are related using the Brazilian capital market. The results of the analysis were in the affirmative. This implies that abnormal audit fees would result abnormal discretionary accruals in the Brazilian capital market. Rezaei and Shabani (2014) carried out investigation to determine the effect of audit size and audit age on the quality of audit work. Their findings suggests that the approach to establish audit institutions and the number of auditing personnel have respective significant effect on audit quality. Enofe, Mgbame, Okpako and Atube (2013) conducted a study on the reality of audit firm age and auditor independence and found that auditors' independence proxied by audit firm age significantly affects audit quality.

Hypotheses development

In conducting this study, the following null hypotheses were postulated and tested:

Hypothesis 1

Ho_1: Auditor's tenure does not significantly influence audit quality.

This hypothesis seeks to establish the extent to which audit tenure affect the audit quality. This is premised on the fact that when the auditors stay more than required there will be over familiarity and this will affect their independence.

Hypothesis 2

Ho_2: There is no significant relationship between Audit fees and audit quality.

This hypothesis attempts to establish whether the fees charged by auditors have any influence on the independence of auditors. The basic assumption here is that the independence of auditors could be influenced by the fees paid to them.

Hypothesis 3

Ho_3: Auditor's tenure and audit fees do not jointly influence the audit quality.

This seeks to establish whether these two factors jointly affect the quality of audit services.

Methodology

The study adopted the ex-post facto research design. A descriptive statistics, tables, percentages and regression analysis formed part of the analytical design. The population of this study consisted of seventeen (17) insurance companies quoted on the floor of the Nigerian Stock Exchange (NSE) as at 2018. The data for the study were obtained from secondary sources, specifically, the published financial statements of the selected insurance companies from 2010-2018. Content analysis was used to extract relevant data from the financial statement, and computation was also carried out to obtain the required data.

The study is concerned with how the audit quality is affected by auditor's independence. Thus, the functional relationship is expressed as:

$$AQ = f(AUI) \quad - \quad - \quad - \quad - \quad - \quad \text{(Equation 1)}$$

Where AQ = Audit Quality

AUI = Auditors' Independence.

$$AUI = f(AUT, AUFES) \quad - \quad - \quad - \quad - \quad \text{(Equation 2}$$

Thus, the relationship is extended as follows:

$$AQ = \beta_0 + \beta_1 AUT + \beta_2 AFES + \varepsilon \quad - \quad - \quad \text{(Equation 3)}$$

Where: AQ = Audit quality

AUT = Auditor tenure

AUFES =Audit fees

ε = Stochastic Error term.

β_0, β_1 and β_2 are regression coefficients with unknown values which are to be determined.

The various hypotheses earlier stated will be tested using regression analysis. The data were analyzed using the Statistical Packages for Social Science (SPSS 20.0 version). The decision rule is that the null hypotheses will be accepted if the calculated 'F' and 't'- Statistic is lower than the critical or table value at 5% Significance level. The reverse will be the case if F and t-Statistic is greater than the Critical or Table value.

Presentation and analysis of results

The descriptive statistics of the data used for the analysis is given in table below:

Table 1 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AUDIT TENURE	136	0.00	1.00	0.4926	0.50176
AUDIT FEES	136	₦ 1,000,000.00	₦ 103,000,000.00	₦ 9,687.1250	₦ 10104.63123
AUDIT QUALITY	136	₦ 2,951,000.00	₦ 261,194,799.00	₦ 9196624.5897	₦ 39611433.05404
Valid N (listwise)	136				

Source: Researchers' computation.

Table 1 shows the descriptive statistics of the variables. The Statistics are minimum, maximum, mean and standard deviation. The mean shows the average and standard deviation represent the degree of dispersion. Auditor tenure was proxied by 0 and 1 which means 0 for an auditor who has spent less than 3 years with the company and 1 represents the tenure of an auditor who has spent 3 years and above as the auditor of the firm.

Correlation analysis shows the association between different variables considered in the study. This sought to establish the relationship between the independent variables, and the dependent variable, audit quality as depicted by accruals using Pearson Correlation analysis. The results are as shown in Table 2.

Table 2 Correlation Matrix of Audit Quality and Independent Variables

		AUDIT QUALITY	AUDIT FEES	AUDIT TENURE
AUDIT QUALITY	Pearson Correlation	1	.200*	.050
	Sig. (2-tailed)		.019	.566
	N	136	136	136
AUDIT FEES	Pearson Correlation	.200*	1	.041
	Sig. (2-tailed)	.019		.634
	N	136	136	136
AUDIT TENURE	Pearson Correlation	.050	.041	1
	Sig. (2-tailed)	.566	.634	
	N	136	136	136

Source: Researchers' computation.

Table 2 shows that, there is a positive relationship between audit tenure and audit quality of Insurance companies in Nigeria. It also indicates a positive but weak relationship between audit fees and audit quality.

Test of research hypotheses

The null hypothesis one states that Auditor tenure does not significantly influence audit quality of insurance companies in Nigeria. The test of hypothesis was done with multiple regressions and the result is shown in Table 3.

Table 3 Coefficients for Hypotheses One and Two

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.843	.835		4.599	.000
	AUDIT FEES	.504	.216	.199	2.338	.021
	AUDIT TENURE	.232	.475	.041	.488	.627

a. Dependent Variable: AUDIT QUALITY

Source: Researchers' computation.

In line with the decision rule of the study which states that null hypothesis will be accepted if the calculated 'F' and't'- Statistic is lower than the critical or table value at 5% Significance level. Hypothesis one is accepted because the calculated t-value of 0.488 is lower than the critical value of 1.977 and the alternate rejected.

The null hypothesis two states that there is no significant influence of Audit fees on audit quality of insurance companies in Nigeria. The test of hypothesis was done with linear regression and the result is shown in Table 3. In line with the decision rule of the study which states that null hypothesis will be accepted if the calculated 'F' and't'- Statistic is lower than the critical or table value at 5% Significance level. Hypothesis two is rejected because the calculated t-value of 2.338 is greater than the critical value of 1.977 and the alternate accepted.

The null hypothesis three states that auditors' tenure and audit fee do not jointly influence the audit quality of insurance companies in Nigeria. The test of hypothesis was done with linear regression and the result is shown in Table 4.

Table 4 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.205[a]	.042	.027	.83336	1.125

a. Predictors: (Constant), AUDIT FEES, AUDIT TENURE
b. Dependent Variable: AUDIT QUALITY

Source: Researchers' computation.

Table 5 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	4.035	2	2.017	2.905	.058[b]
1	Residual	92.367	133	.694		
	Total	96.402	135			

a. Dependent Variable: AUDIT QUALITY

b. Predictors: (Constant), AUDIT FEES, AUDIT TENURE

Source: Researchers' computation.

In line with the decision rule of the study which states that null hypothesis will be accepted if the calculated 'F' and 't'- Statistic is lower than the critical or table value at 5% Significance level. Hypothesis three is accepted because the calculated F-value of 2.905 is lower than the critical value of 3.064 and the alternate rejected.

Discussion of findings

The result of the analysis shows that some of auditors conducted audit of some insurance companies for more than three years, while some audited for less than three years. The analysis also showed a positive correlation between audit tenure and audit quality. This was indicated by the correlation coefficient of 0.050 (as shown in Table 2) at 0.566 level of significance. The relationship was not significant as the p-value was greater than 0.05. Assessing the influence of audit tenure on audit quality, the coefficient of the regression model was used. The analysis revealed a beta coefficient of 0.041 or 4.1% (as shown in Table 3) at 0.627 level of significance. This result means that 4.1% of the variation in audit quality is accounted for by audit tenure. It therefore implies that auditors' tenure does significantly influence audit quality of insurance companies in Nigeria. The result is in agreement with the findings of Okolie (2014) who asserted that audit tenure affects audit quality.

The result of the correlation analysis was that there is a positive relationship between audit fees and audit quality. The correlation coefficient was 0.200 at 0.019 level of significance (as shown in Table 2). This suggests that the higher the audit fees paid to auditors, the higher the audit quality of the companies. On the other hand, the influence of audit fees on audit quality was assessed by the beta coefficient which is shown in Table 3 to be 0.199 or 19.9% at 0.021 level of significance. The beta coefficient implies that 19.9% of the variation in audit quality of insurance companies is accounted for by audit fees. The analysis therefore proves that there is a significant influence of Audit fees on audit quality of insurance companies in Nigeria. The implication being that more fee could increase the quality of personnel employed by an auditor thus affecting the audit quality of the firm. Earlier researches have proven this to be true. Abdul-Rahman, Benjamin and Olayinka (2017) in their study of the listed cement companies found out that audit fee have a positive impact on audit quality.

The joint influence of audit fees and audit tenure on audit quality was assessed. The result of the analysis as shown in the model summary reveals that 2.7% of the variation in audit quality is jointly accounted for by audit tenure and audit fees (this is shown in Table 4). The implication of this analysis is that the composite impact of audit fees and audit tenure on audit quality is not significant as the p-value of 0.058 was greater than 0.05.

The model estimate is shown thus:

$AQ = \beta_0 + \beta_1 AUT + \beta_2 AUFES + £$

$AQ = 3.843 + \beta_1 0.41 + \beta_2 0.199 + 0.835$

The model estimate reveal a constant value of 3.843 which is the value that audit quality will assume if all other independent variable are held constant.

Conclusion

The results of the study revealed that audit Fees have a positive and significant influence on Audit Quality of quoted insurance firms in Nigeria. It also indicated that auditors' tenure has a positive but insignificant impact on Audit Quality of insurance firms in Nigeria. The business implication of this study is that insurance firms will be better informed on the need to compensate their external auditors adequately, thus preventing the possibility of poor audit quality and ultimately protecting investors' interest in the company.

Recommendations

The findings of this study indicate that audit fee is found to have significant effect on audit quality. Consequently, it is recommended that the management of Insurance Companies in Nigeria should pay the auditors adequate fees which will motivate them to carry quality audit services. Also audit tenure was found to influence audit quality insignificantly, it is therefore recommended that regulatory authorities should enforce auditor rotation within the stipulated time.

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