

AUDIT QUALITY AND FIRM VALUE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract: Industrial growth is a major factor for the economic survival of any country, and this growth is achieved by the successful operation of companies in other to maximize firm value. However, doubt in the mind of investors regarding the credibility of the financial statement slow down the motivation to invest in shares, hence the need for the credible and reliable audited financial report. This study investigates the impact of audit quality on firm value of listed deposit money banks in Nigeria. Firm value was the dependent variable proxy by Tobin's Q and audit quality the independent variable proxy by audit size and industry specialized audit. The study adopted correlational research design and data were extracted from the published annual reports and accounts of the 13 banks that represent the sample of the study for the period of 6 years covering 2013 to 2018. The study employed pool multiple regression as a technique of data analysis. The result shows that industry specialized auditor has a significant positive influence on firm value of listed deposit money banks in Nigeria. On the other hand, audit size has no significant influence on firm value of the banks. This finding implies that the more deposit money banks in Nigeria are audited by industry specialize auditor the higher the firm value of the banks. Therefore the study conclude that industry specialized auditors have better understanding of the complexity in the banking industry thereby improving the firm value by providing quality audit service, The study recommends that the managers of deposit money banks in Nigeria should employ more service of industry specialized audit in other to increase investors' confidence and thereby improve the firm value.

1. INTRODUCTIONS

Industrial growth is a significant factor for the economic survival of any country, and this growth is achieved by the successful operation of companies in maximizing the value of a firm. Shareholders and investors always desire a positive return on their investment, in other to pursue the interest of the shareholders. The Board of directors has the responsibility to ensure the smooth operation of the firms (Afza & Nazir, 2014). However, the corporate accounting scandals involving well-respected companies around the globe have place significant importance to the high-quality financial report. The responsibility of ensuring that companies prepare high quality financial reports depend on the external auditors as they have the

capability of detecting and preventing errors in the financial statement. The collapse of companies shortly after the external auditor has given a clean opinion on its financial report have brought a heated debate amongst auditors, regulators and the public in general and this has dampen the confidence of shareholders and potential investors in on the managers of companies (Matoke & Omwenga, 2016).Hence this brought about the need of an effective corporate governance mechanism.

Auditing is one of the corporate governance monitoring mechanisms employed to reduce information mismatch and protects the interests of all stakeholders. High-quality audits report implies lower risks on misstatements thereby increasing confidence in the capital market, which in turn reduce the cost of capital and enhancing performance (Alina & Ioan, 2015; Hassan & Farouk, 2014). The role play by auditors with high-quality auditing standard can encourage entities to implement accounting standards to ensure that their financial reports are credible and reliable. Audit quality help buttress strong corporate governance, capital management techniques and Reduce debt-service interest hence improve firm value (Sayyar, Basiruddin, Abdul Rasid & Elhabib 2015).

The ability of auditors to ensure that managers present high-quality financial reports depends on the quality of the auditor. Audit quality is a function of two characteristics, one is the strength of the auditor to detect errors which is competence issue and the other is the ability of the auditors to report the mistakes which is independence issue. As such, auditors have to give an objective opinion regarding the preparation and presentation of the financial reports which has the capacity of building the confidence of the investors in the business environment especially in those sectors that are facing a lot of challenges.

The banking industry is one of the sectors that has suffered numerous financial crisis over the years, some of the banks affected include; Cooperative and Commerce Bank (CCB), African Continental Bank (ACB), Orient Bank and many others which all took place in the 1990s, and also Afribank Nigeria Plc in 2009 and Oceanic banks Nigeria 2011(Ajani, 2012). Most recently sky bank Nigeria in 2018 and diamond bank 2019 was also declared weak. These failures have significantly increases the demand for quality financial report in the banking sector because of It sensitivity, as most investors look up to the yearly report, which provides precise and accurate value to the company. Hassan and Farouk (2014) opines that the supposed increase in the relevance of audited financial statement is not commensurate with the decline in the assumed reliability of the audited financial statement.

Previous researchers have given considerable attention on the impact of audit quality on financial performance both in development and in the developing countries notable among this studies include; Hassan & Farouk (2014), Sayyar *et al.*, (2015) and Elewa & El-Haddad (2019). Few researches have been done on the

relationship of audit quality and firm value, for example, Challen and Siregar (2012), (Afza & Nazir, 2014), (Yaseen *et al.*, 2018) and Wijaya (2019), this studies found that audit quality has an impact on firm value of organizations. A such, importance of audit quality on the value of the firm in organizations necessitated this study in Nigeria as little, or no evidence was found on the impact of audit quality on the firm value in Nigerian literature. Therefore this study inquires if audit quality affects on firm value of listed deposit money banks in Nigeria.

Consequently, the main objective of the study is to determine the impact of audit quality on firm value of listed deposit money banks in Nigeria. Specifically, the study is set to achieve the following:

- (i) To determine the effect of audit size on the firm value of deposit money banks in Nigeria.
- (ii) To identify the impact of industry specialized audit on the firm value of deposit money banks in Nigeria.

In view of the objectives of the study, the following hypotheses have been formulated in null form:

H₀₁ Audit size has no significant impact on firm value of listed deposit money banks in Nigeria.

H₀₂ Industry specialized audit has no significant impact on firm value of deposit money banks in Nigeria.

This study is of great assistance to a country like Nigeria, which has faced several financial scandals and organizations are struggling to gain credibility in order to attract investors. This study will be useful by future researchers in the area of audit quality and firm value.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The most crucial aspect of companies' financial health is the value of the firm. The higher the value of a firm, the better its financial position as well as the projection of prospective investors. Investor perception of Firms value is often associated with stock price, which is very important in investment decision.

Moeljadi (2014) revealed that an increase in firm value could attract investors to invest more with a hope of earning a higher return. Many literatures have made use of Market capitalization as a proxy for Firm's value which is determined by multiplying number of shares and the market price of one share (Meka & Sri, 2018). Previous literature showed that employing the service of external auditors can play a significant role in building the confidence of investors by minimizing the agency conflicts, protecting shareholder's right and in turn, maximizing the firm value.

Research on audit quality has been widely conducted; however, there is no one agreed definition of audit quality. (Bedard *et al.*, 2010) postulated that even seasoned researchers on audit quality have difficulty agreeing on a standard definition. The most broadly used definition of the quality of audit services is that of (DeAngelo 1981) who state that the quality of audit services is defined to be the market-assessed joint probability of (a) auditors ability to discover any errors in the client financial statement which is competence issue and (b) auditors ability to report the errors which are independence issue. Researches on audit quality have made use of various surrogates which include audit firm size, audit tenure, audit fees, joint audit, audit rotation, audit opinion and Recently industry specialize audit have been used by researchers and found to be more consistent and produce reliable results.

The theoretical analysis of DeAngelo (1981) on audit quality and audit size opines that large audit firm has more to lose in the event of a loss of reputation. He also states that larger audit firms could not be financially dependent on the fees of a particular client as such they are less likely to compromise in the event of discovering accounting irregularities as such the size of an audit firm is an important characteristic that reflects auditor independence. Ndubuisi and Ezechukwu (2017) opine that the issue of maintaining auditor independence is more crucial for smaller firms than big firms as they can easily be persuaded to overlook some unethical practices. In recent years the empirical studies have support for the use of audit firm size as a proxy for audit quality.

Industry specialized audit is a situation where an auditor or audit firm have a deep understanding (awareness) and experience of the client's specific business, industry operations and specific accounting and auditing guidance which are required for doing a high-quality audit. Industry specialize audit is the ability of an auditor to understand the complexities in the financial reports and to minimized material misstatements in the financial reports (Krishnan, 2003). Rittenberg, Johnston and Gramling (2010) opines that firms that engage the services of specialized audit will not face the problem of a misstatement as the auditor will be able to select and implement audit procedures that are more precise and effective than the non-specialized auditor. Financial expertise of external auditors as a measure for specialization has been argued by researchers to be a distortion of specialization since hardly can any reputed auditor be inexperienced in financial reporting process, as such, Researchers have come up with substitute measure which measure specialization as any auditor that audit one-third of firms in an industry is regarded as a specialist, as used by (Abubakar, 2014). However, Omidfar and Moradi (2015) stated that there is no single criterion to measure audit industry specialist however two criteria have been identify in the measurement of audit industry specialist- the market share approach and profitable share approach.

2.1. Audit size and firm value

Challen and Siregar (2012) conducted a study on audit quality on earnings management and firm value; the study used 912 listed firms on the Indonesian Stock Exchange from 2006 to 2009. The study found a negative relationship between audit firm size and price to book value ratio on listed Indonesian firms. However, Afza and Nazir (2014) conducted a study on Audit Quality and Firm Value in non-financial firms in Pakistan for the period of 2004 – 2011. The study use panel regression and found that audit firm size has a significance impact on non-financial firms in Pakistan.

In the study of Hassan and Farouk (2014) on audit quality and financial performance covering the period of 2007 – 2011, which employed correlational and ex-post-facto designs with data from the quoted cement firms in Nigeria. The findings of reveals that audit size significant impacts on the financial performance of quoted cement firms in Nigeria.

(Yaseen *et al.*, 2018) conducted a study on international diversification, audit quality and firm value on financial and non-financial firms listed on the Amman Stock Exchange in 2016. The study found that big 4 significantly influence financial diversified firms while big4 insignificantly influence on non-financial diversified Jordanian listed firm.

Wijaya (2019) conducted a study on The Effect of Audit Quality on Firm Value in Indonesian Manufacturing Firm from 2013 – 2017. Multiple regression was used to analyze the data of the study and found that audit firm size has a significant positive effect on firm value in Indonesian manufacturing firms. However, the study of Elewa and El-Haddad (2019) on the effect of audit quality on firm performance in non-financial industries in Egypt for the period of 2010 to 2014 which used panel data approach, to access the impact of big4 audit firm and audit rotation on firm performance, found an insignificant relationship.

2.2. Industry Specialized Audit and Firm value

Challen and Siregar (2012) conducted a study on audit quality on earnings management and firm value; the study used 912 firms listed on the Indonesian Stock Exchange from 2006 to 2009. The study found insignificant relationship between industry specialize audit and price to book value ratio on listed Indonesian firms. However, (Elder, Lowensohn and Reck, 2015) examined the relationship of audit firm rotation, auditor specialization, and audit quality in a government audit market in Florida, The data they collected from 453 Florida cities shows that audit rotation provides low-quality audit while industry specialized audit provided high audit quality.

Matoke and Omwenga (2016) conducted a study on Audit Quality, and financial performance of Companies Listed in Nairobi Securities Exchange, the sample size

of the study constitutes 9 listed companies in Kenya. The study used primary and secondary data and multiple linear regression analysis were adopted. The finding of the study indicates that there is a positive significant relationship between auditor's expertise and financial performance of listed companies in Kenya. HavasiI and Darabi (2016) examined the relationship between Auditor's Industry Specialization on the Quality of Financial Reporting in 119 listed companies for the period of 7 years 2008 to 2014. The finding of the study suggests that auditor's expertise in the industry has a direct impact on the quality of corporate financial reporting of companies in Tehran, Iran.

There has been a considerable number of studies on the measures of audit quality and financial performance in developed and developing countries, however, few studies have been conducted on the impact of the variable of audit quality and those of firm value in developing economies, little or no study have been conducted in Nigeria. This study is expected to fill the gap in knowledge by examining the impact of audit quality and the firm value of listed deposit money bank in Nigeria.

The agency theory is based on the relationship between the owners (principal) and the Managers (agent) which arises as a result of the separation of owners from managers. Eisenhardt (1989) stated that agency relationship is an agreement under which principal(s) employs an agent to render some service on behalf of the principal who delegates some decision-making authority to the agent. In the event of a conflict of interest between the principal and the agent, the agent may act in his interest, not the principal's. Jensen and Meckling (1976) opined that in agency theory, agents have more information than principals and this information asymmetry negatively affects the principals' ability to monitor whether or not the agents are adequately serving the interests of the owners.

To reduce the likelihood of the ethical hazard, principals and agents engage in a contract to achieve optimality which including the establishment of monitoring processes such as auditing of the financial report. The quality of the auditors that are employed as monitor's mechanism determines how effective they can detect and report material misstatements or omissions in the financial statements. Hence, high-quality information should be positively correlated to high quality auditor, because of their ability to reduce misstatement to the barest minimum.

Watts (1998) stated that auditing is regarded as a bonding cost paid by agents to a third party to satisfy the principals' demand for accountability. Similar to any other cost of running the business, the cost of auditing is borne by principals to protect their economic interests. Defond (1992), highlight the importance of the separation of ownership from control. He opines that the more diffused the ownership, the more the divergence in owners and manager's interest, and the higher the need for observation and control of agents by the principals. Thus, as the diffusion of ownership increases, so makes the demand for monitoring

mechanisms such as the audit of a financial report. Agency theory, therefore, is a useful economic theory of accountability, which helps to explain the development of audit quality. Base on this theory, the study examined the impact of audit quality on the firm value of listed deposit money banks in Nigeria.

3. METHODOLOGY AND VARIABLE MEASUREMENT

The study examines the impact of Audit Quality on Firm value of listed deposit money banks (DMBs) in Nigeria for five (6) from 20013 to 2018. The basis for selecting this period is due to the several financial crises in Nigeria from 2009 through the period covered by study which has led to the clamor for quality audit in Nigeria. The Correlational research design was adopted for the study; this design is appropriate because it assists in determining the impact of one variable on another. The study used secondary data from the sampled firm's annual reports and accounts. The population of the study is fifteen (15) listed DMBs in Nigeria as at 2018. After application of some criteria one bank that was not listed before 2013 and one bank whose report was not incomplete which were filtered and 13 banks was arrived at as the sample size.

3.1. Variables and Measurement

<i>Variables</i>	<i>Type</i>	<i>Measurements</i>	<i>Source(s)</i>
Firm Value measured by Tobin's Q	Dependent variable	Tobinsq is calculated by the ratio of the market value of the firm divided by the book value of its assets	Afza and Nazir (2014) and
Audit Size (big4)	Independent	If the bank has been audit by any the big4 audit firm 1 if otherwise 0 (Akintola Williams Delloite, Price Water House Coopers, Ernst and Young and KPMG).	Hassan and Farouk (2014)
Industry Specialized Auditor (ISA)	Independent	If an audit firm audit 1/3 and above of the entire firms in the industry or 15% is dichotomized as '1' and if less '0'	Challen and Siregar (2012) Abubakar (2014)
Firm Size (FS)	Control variable	Is measured as the natural log of the book value of the total assets	Wijaya (2019)

3.2. Model Specification

A pool OLS regression equation was selected to investigate the hypothesized relationships between the dependent variable, the two independent variables and the control variable in this study. The econometric form of the equation is given as:

$$\text{Tobinsq} = \beta_0 + \beta_1 (\text{big4})_{it} + \beta_2 (\text{ISA})_{it} + \beta_4 (\text{FS})_{it} + e_{it}$$

Where Tobinsq = measure of firm value (Dependent Variable)

Big4 = Audit size (Independent Variable)

ISA = Industry Specialized Audit (Independent Variable)

FS = Firm Size (Control Variable)

e = Error Term

4. RESULT AND DISCUSSIONS

In section result of the empirical study on the data collected is presented, analyzed and discussed. This section also makes a conclusion and recommendations based on the findings of the study. The descriptive statistic, correlation matrices and regression result are as follows:

Table 4.1.1
Descriptive statistic

Variable	Obs	Mean	std. dev	Min	Max
Tobins Q	78	0.434868	0.9111661	0.0013	4.5486
Big4	78	0.9230769	0.2681941	0	1
ISA	78	0.6923077	0.4645258	0	1
FS	78	27.42829	1.19197	25.0461	29.2315

Source: Stata output of descriptive statistics

Table 4.1.1 shows that the mean of Tobin's Q, Big4, and industry specialized audit and firm size are 0.434868, 0.9230769, 0.6923077 and 27.42827, respectively. A comparison of the mean with the maximum values for each of the variables indicates that the value of the deposit money banks as measure by Tobin's Q is currently 43 percent, auditor size (big4) is at 92 percent which shows that over 90% of the banks are audited by big4 audit firms, industry specialize audit is at 69 per cent which also shows that more than half of the banks employ the service of audit specialist and firm size is at 27.42829. The value firm size suggested that the findings of the study would have been distorted if firm size had not been controlled as a variable. One significant thing to note is that while auditor size and industry specialize audits has a mean value higher than that of its respective standard deviations, Tobin's Q has a mean value is lower than the value of its standard deviation. Therefore, it implies that the level of auditor size and industry specialize

audit in the banking industry is high, while Tobin’s q for the industry can still be improved.

4.1. Correlation Matrix

The correlation between the dependent and independent variables of the study is determined by the correlation matrix. The table 4.1.2 represents the correlation matrix.

Table 4.1.2
Descriptive statistic

<i>Variable</i>	<i>TobinsQ</i>	<i>Big4</i>	<i>ISA</i>	<i>FS</i>
TobinsQ	1.0000			
Big4	0.1163	1.0000		
ISA	0.2743	0.4330	1.0000	
FS	-0.5686	0.2191	0.1526	1.0000

Source: STATA OUTPUT

Table 4.1.2 indicates that there is a positive correlation between Tobin’s q and auditor size, and industry specialized audit, while there is a negative correlation Tobin’s q, and firm size. The negative correlations between firm size and Tobin’s q mean correlation is not strong. The correlation between auditor size and industry specialize audit and firm value is positive; this can be explained by the fact that firms audited by Big 4 audit firms are likely to have large asset and such firms are likely to be audit specialist. The correlation matrix is essential as excessive correlation can distort the standard error of estimates and thus incorrect conclusion. The correlation coefficient reveals that there are no high correlations among explained and explanatory variable. It has been establish by Gujirati (2004) that all variables that have less than 0.80 correlation coefficients are considered safe and can be included in the same regression model. The study also tests for the existence of multicollinearity using the VIF and tolerance. Since none of the value of VIF in is study is above10 and Tolerance value of less than 0.1, there is no presence of multicollinearity. The full results are contained in the appendix.

Table 4.1.3
Regression Result

<i>Variable</i>	<i>coefficient</i>	<i>Std.Error</i>	<i>t.value</i>	<i>Prob</i>
Big4	0.4015056	0.3244587	1.24	0.220
ISA	0.6302356	0.1849374	3.41	0.001
FS	-0.4919428	0.0665838	-7.39	0.000
_cons	13.12108	1.787974	7.34	0.000
R-Square	0.4678			
F.Stat	21.68			
Prob >F	0.0000			

Source: STATA OUTPUT

Table 4.1.3 shows that audit size (Big 4) has a coefficient of 0.4015056 and with a P-value of 0.220, which is not significant at all levels of significance which implies that big4 has no impact on firm value of listed deposit money banks in Nigeria. Therefore, based on this evidence, the study failed to reject the null hypothesis one (H01) which states that audit size (Big4) has no significant impact on firm value of listed deposit money banks in Nigeria.

However, Industry specialized audit (ISA) has a significant positive impact in improving firm value (Tobin's q) of deposit money banks in Nigeria, with a coefficient of 0.6302356 and a P-value of 0.001 which is significant at 0.1%. Based on this result, the study rejects the null hypothesis two (H02), which states that industry specialized audit has no significant impact on the firm value of listed deposit money bank in Nigeria. Control variable, firm size is included in the regression model, controlling this variable is an essential factor to analyze the impact of audit quality on firm value accurately.

4.2. Discussions of findings

From the tests conducted on the data collected and the analyses of the results of this study, the R-square (overall) of 0.4678 means that audit quality as measured by audit firm size and industry specialized audit explains the firm value as measured by tobin's q to the tune of 47%. And the F-statistics of 21.68, which is significant at 1% (0.000), this is an indication that the model is well fitted and the findings from the study can be relied upon.

The main objective of this study is to assess the influence of audit quality on firm value of listed deposit money banks in Nigeria. Tobin's Q is considered to be the best measure of firm value, while auditor size as measured by any firm audited by any of the big4 audit firm and industry specialized audit measured as any audit firm that audit up to 15% of firms in a particular industry these two variables made up the concept of audit quality in this study. When both concepts are correlated, a change in one concept leads to a change in the other concept that is changes in audit quality should correspond with changes in firm value.

The study revealed that one of the independent variables under consideration, namely; industry specialized audit is statistically significant at 1%. This finding suggest that, the more specialized the audit firms are in an industry by auditing not less than one-third of its firms, the higher the firm value of the banks. This finding is in line with the result found in the study of Matoke and Omwenga (2016) even though his study was in relation of industry specialize audit and financial performance. Similarly, Havasi1 & Darabi (2016) also found a positive significant relationship between industry specialized audit and financial reporting quality. However, Challen and Siregar (2012) found an insignificance relationship between industry specialized audit and firm value of listed Indonesian firms. The positive

significant impact of industry specialized audit in this study is consistent with previous researchers such as (Al-Khaddash, Al-Nawas & Ramadan 2013; Kusumah & Manurung 2017; Matoke & Omwenga, 2016; Sarwoko & Agoes, 2014) whose studies found that industry specialized audit enhance audit quality, since the auditors have better understanding of the financial reporting of firms in an industry. Quality audit improves investor's confidence and motivate more investment thereby increasing profitability which is a key determinant of higher share price.

Again, the study found an insignificant relationship between audit size as measured by Big4 and firm value of listed deposit money banks in Nigeria during the period under study. This finding implies that big4 audit firm does not influence firm value either upward or downward. This finding supports the result of Challen and Siregar (2012); Yaseen *et al.*, (2018) who examine the impact of big4 audit firm on firm value, and Elewa and El- Haddad (2019) who examine the impact of Big4 audit firm on financial performance in non-financial firms in Egypt. However, the findings of this study contradict the result of Afza and Nazir (2014) and Wajaya (2019) whose studies recorded a significance relationship between big4 audit firm and firm value. Contrary to findings of previous researchers some of which include (Ismail, Zakaria & Sata 2015; Jiang Wang & Wang 2019; Mokoaleli-Mokoteli & Iatridis, 2017; Hassan & Farouk 2014) who used big4 as a surrogate for audit quality and found that big4 audit firm provides higher-quality audits and thereafter improves profitability. The insignificant impact of big4 audit on firm value of listed deposit money banks in Nigeria is contrary to previous expectation since big4 audit firms are expected to have larger resources, wider experience and higher reputation to provide better audit service which will result to positive firm value however, this findings should be applied with caution as big4 for audit firm can be significant when test in relation to other measures of performance.

5. CONCLUSION AND RECOMMENDATIONS

The study is an empirical examination of the relationship between audit quality proxies and firm value as measured by Tobins Q of listed deposit money banks in Nigeria. The study used pool ordinary least square regression to analyze the secondary data collected from the sample banks from 2013 to 2018. Concepts, principles and contrasting views of scholars were discussed, and literature, were reviewed on auditor's size, industry specialize audit and firm value.

The surrogates investigated in this study are all correlated because auditor size and industry specialized audit have a positive coefficient with a firm value under the correlation matrix.

The most critical surrogate by regression analysis is the industry specialize audit, which is positive and significant which implies that the more specialized the

audit firm the greater the tendency of an increase in the firm value. However, the impact of auditor size is insignificant, which means no impact on firm value.

A positive relationship between ISA and firm value indicate a better understanding of the complexity in the client business by auditing most of the firms in an industry which leads to more commitment and monitoring by the audit firm. Thereby decreasing the tendencies of an organization to incur losses through non-compliance with the statutory reporting requirement, accounting principles and misuse of funds by management. Employing the service of specialized auditor enhances the company's reputation in the capital markets which thereby attracting investors to the company.

The insignificance impact of auditor size cannot be ignored because it is not expected as it is an essential factor for determining audit quality. It would be nearly impossible to get a Big 4 audit firm to condole any unethical auditing practices because it has a reputation to protect. However, the insignificance impact on firm value in this study could be that beyond being a big4 audit firm, there is a need to be an audit specialist in the industry.

In sequence to the various findings of this study, the researcher recommended that the following measure should be put in place in other to enhance audit quality and firm value of listed deposit money bank in Nigeria. Managers of deposit money banks in Nigeria can improve it firm value by employing the service of audit firm who are specialist in the industry as they have a better understanding of the complexity of the business of firms in a particular industry thereby improving investor's confidence. Also, we recommended that managers should employ the service of big4 audit firms who audit at least one-third of the banks in the industry.

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