



BOARD OF DIRECTOR'S ROLE IN ENSURING AUDIT QUALITY AMONG COMPANIES LISTED IN THE NIGERIAN EXCHANGE GROUP

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Abstract

This study investigates Board of Directors (BoDs) attributes and audit quality (AQ) among companies listed on the Nigerian Exchange Group (NGX). The study adopts a longitudinal research design while a census of the entire 165 non-financial companies listed in the NGX was taken as at December 31, 2022. However, annual reports were only available for 156 companies, obtained the period between 2017 and 2022. The study uses binary estimation techniques, which is appropriate because the dependent variable is dichotomous (taking values of 1 or 0). Relying on the agency and Resource Dependency (RDT) theories, the study hypotheses were that board of directors; independence, size, financial literacy and equity ownership exhibit positive significant association with audit quality. The logit binary estimation technique reveals that board independence, financial literacy, and equity ownership exhibit a positive significant association with AQ at the 5% and 10% levels respectively, suggesting that these attributes enhance audit quality. Conversely, board size shows an in verse significant association with AQ at the 1% level, indicating that larger boards may impair audit quality, potentially due to inefficiencies or diluted accountability. Furthermore, the descriptive statistics indicate that most audit firms in Nigeria issue unqualified audit opinions, a trend consistent with previous years. However, the persistence of corporate failures suggests that unqualified opinions may not always reflect true AQ. This raises concerns about the effectiveness of governance structures in safeguarding AQ and points to broader issues of regulatory enforcement and corporate ethics in the Nigerian corporate environment.

Keywords: board of directors, attributes, audit quality, listed companies, Nigeria exchange group

1. Introduction

The corporate failures of major global firms like Enron and WorldCom brought the critical role of audit quality into sharp focus, highlighting the importance of transparency and accurate financial reporting in maintaining investor trust. These scandals stated the need for auditors to act as a line of defense against financial mismanagement and fraud. In Nigeria, similar issues have arisen, notably in cases involving companies such as Cadbury Nigeria Plc., Intercontinental Bank Plc., and Oceanic Bank Plc. These scandals were marked by audit failures, where external auditors failed to flag significant financial irregularities, contributing to corporate collapses and market disruptions (Ogbodo & Akabuogu, 2020). One of the most pivotal moments in Nigeria's corporate landscape was the 2009 banking crisis. The Central Bank of Nigeria (CBN) conducted a stress test on the country's banks, revealing serious liquidity problems, capital inadequacies, and poor risk management in institutions like Intercontinental Bank and Oceanic Bank. These issues, which were not adequately flagged by the banks' external auditors, exposed the severe weaknesses in the audit process. For instance, overstatements of asset values and the under reporting of non-performing loans went unnoticed, exacerbating the financial crisis. As a result, several banks required significant restructuring, including



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mergers, acquisitions, or outright liquidation (Okoye & Alao, 2020). In response to these corporate and audit failures; there has been an increased focus on improving audit standards and regulations in Nigeria.

The Financial Reporting Council of Nigeria (FRC) has implemented stricter oversight measures to improve audit quality and prevent future corporate collapses. Recent research has stressed the relationship between audit quality and corporate governance, with findings suggesting that strong governance structures, including board independence and financial literacy, are essential in enhancing audit performance and accountability (Akinbowale et al., 2022; Onalo et al., 2021). Furthermore, improving auditor independence and reducing conflicts of interest have been identified as crucial factors in ensuring high audit quality. Studies have shown that auditors who are independent and properly incentivized are more likely to detect and report financial irregularities, which can help prevent corporate failures (Adeyemi & Olowookere, 2020). This is particularly important in a corporate environment like Nigeria, where regulatory compliance has historically been a challenge.

Efforts to restore investor confidence, especially after high-profile corporate scandals, have seen significant regulatory reforms both in the United States and Nigeria. The Sarbanes-Oxley Act (SOX) of 2002 in the U.S. was a landmark reform aimed at strengthening financial transparency, corporate accountability, and auditing processes following scandals like Enron and WorldCom. SOX imposed stricter requirements on public companies and their auditors, holding management responsible for the accuracy of financial reports and improving internal controls to deter fraudulent practices (Chhaochharia & Grinstein, 2007). In Nigeria, similar reforms have been pursued to address corporate governance deficiencies, particularly within the financial services sector. The Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN) introduced Corporate Governance (CG) codes aimed at establishing sound governance frameworks. These codes emphasize transparency, board independence, risk management, and the protection of shareholders' interests, with the goal of promoting ethical conduct and stability in corporate Nigeria (Adegbite & Nakajima, 2021).

Despite these regulatory measures, corporate governance failures remain a concern, with recent incidents of audit and governance failures at major Nigerian banks. For instance, on January 10, 2024, the boards and management teams of Union Bank, Keystone Bank, and Polaris Bank were dissolved due to the non-compliance of these banks and their respective boards with the provisions of Section 12(c), (f), (g), (h) of Banks and Other Financial Institutions Act, 2020. The Bank's infractions vary from regulatory non-compliance, corporate governance failure, disregarding the conditions under which their licenses were granted, and involvement in activities that pose a threat to financial stability, among others (CBN, 2024). These incidents highlight ongoing challenges in enforcing corporate governance frameworks effectively. Regulators and auditors are increasingly being called to address these lapses, as such failures undermine efforts to restore investor trust (Abubakar et al., 2020; Umoren & Asogwa, 2023). The recurrence of these issues signals that while governance codes and reforms are crucial, their consistent implementation and enforcement remain pivotal to sustaining investor confidence.

Thus, corporate governance mechanisms, especially those involving the Board of Directors (BoDs) and its sub-committees are integral to ensuring high audit quality. Among these, the Audit Committee plays a central role by overseeing the auditing process, safeguarding transparency, and reinforcing accountability (Brown & Caylor, 2020). As a sub-committee of the BoDs as enshrined in Section 404 (2) of the Companies and Allied Matters Act (CAMA, 2020), the Audit Committee reports to the BoDs on matters like audit plans and findings. Through their oversight functions, the BoDs ensure that management upholds ethical standards, providing an essential check on financial reporting processes. However, much of the existing research has primarily focused on audit firm characteristics such as size, reputation, and tenure and the specific attributes of Audit Committees, often overlooking



the broader influence of BoDs as a collective body on audit quality (Klein, 2020).

The common approach of using audit firm size as a proxy for audit quality, while insightful, has limitations. This method neglects key elements such as auditor independence and objectivity, which are vital for the accuracy of audit reports. In high-profile corporate scandals like Enron and financial crises involving distressed Nigerian banks, even large audit firms failed to deliver reliable audit opinions (Okoye & Akinlo, 2022). These failures raised questions about the adequacy of relying solely on audit firm size as an indicator of audit quality, underscoring the importance of BoDs attributes, such as board independence, expertise, and engagement, in shaping the overall quality of audits (Amao & Olawale, 2021). In response to these concerns, this study aims to examine the relationship between BoDs attributes and audit quality in Nigeria. The research employs audit opinions as a proxy for audit quality, in contrast to the often-used audit firm size measure. This shift in focus reflects the need for a deeper exploration of how board characteristics such as board composition, diversity, financial expertise, and board activism affect the rigor and accuracy of audits.

Agency theory and resource dependency theory provide the theoretical framework for the study, explaining how BoDs serve as agents acting on behalf of shareholders, as well as resources that bring expertise and connections to the firm (Fama & Jensen, 2021). Ultimately, this study seeks to fill a significant gap in the literature by moving beyond traditional metrics of audit quality and focusing on the strategic role of corporate governance, particularly the Board of Directors, in enhancing audit outcomes in Nigerian institutions (Adams et al., 2023). In doing so, it contributes to the ongoing conversation about improving financial transparency and accountability in emerging markets, where weak governance has historically posed challenges to audit effectiveness (Tunde & Akanbi, 2024).

Recent developments in the Nigerian corporate sector, such as the CBN's intervention in Union Bank, Keystone Bank, and Polaris Bank, raise questions about the practical effectiveness of CG mechanisms. Despite the positive associations between certain BoDs attributes and audit quality, CG failures remain prevalent, suggesting that these mechanisms may be compromised in practice.

The study is organized into five sections. Section two explains key concepts and develops hypotheses, focusing on the relationship between CG and audit quality within the framework of agency and resource dependency theories. Section three outlines the methodology used in the study, including the data collection process and the model specifications. Section four presents the results of the analysis, tests the hypotheses, and discusses the findings in the existing literature. Finally, section five offers conclusions and policy recommendations based on the study's findings, emphasizing the need for strengthened CG practices to improve audit quality in Nigeria.

2. Literature Review and Hypotheses Development

Board of Directors' Independence and Audit quality

Audit quality is a complex and often contentious concept, characterized by varying definitions and measurement approaches across different stakeholders. Users of audit services, such as investors and creditors, typically equate audit quality with the assurance that financial reports are free from material misstatements (DeAngelo, 1981). For auditors, it may represent the effective execution of prescribed tasks and adherence to auditing standards (Knechel et al., 2013). In contrast, audit firms often focus on the defensibility of their work in the face of scrutiny or challenges (Francis, 2011). Regulators emphasize the importance of compliance with established standards and guidelines, while society at large perceives audit quality as crucial for preventing economic crises and maintaining public trust (Aobdia et al., 2021). A critical distinction exists between actual audit quality and perceived audit quality.

Actual audit quality refers to the auditor's competence and ability to detect and report errors accurately, while perceived audit quality reflects stakeholders' subjective evaluations of an auditor's



performance (Trotman et al., 2019). This duality underscores the multifaceted nature of audit quality and highlights the challenges in establishing a universal definition that satisfies all parties involved. Recent literature emphasizes the need for enhanced frameworks to assess and communicate audit quality, taking into account the diverse perspectives of stakeholders (Smith, 2021; Zhang et al., 2022). Such frameworks aim to bridge the gap between actual and perceived audit quality, fostering greater trust and accountability in the auditing process. Thus, Audit quality is a critical factor in ensuring the integrity of financial reporting and the reliability of information provided to investors.

Audit quality is fundamentally linked to the likelihood of discovering and reporting violations of Generally Accepted Accounting Principles (GAAP). High audit quality hinges on two main attributes: the auditor's competence and their independence. Competence entails the necessary skills and expertise required to conduct thorough audits, while independence refers to the auditor's ability to report findings without bias or conflict of interest (Munsif et al., 2020). From an investor's perspective, trust in the audit process and its outcomes is paramount. Audit quality can be conceptualized in two ways: as the quality of the audit process itself or as the quality of the audit output. The former focuses on the methods and procedures followed during the audit, while the latter emphasizes the results of the audit. Most literature tends to prioritize the output of audits, as it is generally more visible and easier to assess than the intricacies of the audit process. However, understanding both aspects is essential for a comprehensive evaluation of audit quality.

Research has identified several factors influencing audit quality. For instance, auditor tenure can impact objectivity; longer tenure may lead to complacency, while shorter tenure might impair the auditor's understanding of the client (Knechel et al., 2013). Industry specialization is also significant, as auditors with expertise in specific sectors are more likely to identify relevant risks and issues (Francis, 2019). Additionally, audit firm size is often correlated with quality, as larger firms typically have more resources and stringent quality control measures (De Angelo, 1981). Moreover, regulatory frameworks and governance structures play a crucial role in enhancing audit quality. The implementation of rigorous auditing standards and continuous professional education for auditors contribute to improved outcomes (Public Committee Account Oversight Board [PCAOB], 2020). A strong internal control environment within organizations is equally essential, as it enables auditors to perform their tasks more effectively and ensures transparency in financial reporting (Khan et al., 2021). Ultimately, achieving high audit quality requires a collaborative effort from auditors, regulatory bodies, and companies themselves. Investors benefit from robust audit quality as it enhances the credibility of financial statements and reduces the risk of financial misstatements, fostering a more stable investment environment.

Similarly, audit quality is a critical aspect of the financial reporting process, shaped by a multitude of factors including audit firm attributes, company characteristics, and corporate governance mechanisms. Key audit firm attributes such as contract type, tenure, and fees can significantly impact the independence and effectiveness of the audit process (DeAngelo, 1981; Francis & Yu, 2009). Similarly, company characteristics ranging from size and complexity to ownership structures also play a crucial role in determining the quality of audits performed (Carcello et al., 2006). In the context of Nigerian listed companies, specific corporate governance mechanisms have been identified as pivotal determinants of audit quality. Notably, board independence is paramount; a balanced mix of executive and independent non-executive directors facilitates effective monitoring of management practices, thereby minimizing agency conflicts and enhancing shareholder interests (Zhou & Dewi, 2020). The presence of independent directors not only bolsters decision-making processes but also curtails opportunistic behaviors that could compromise the integrity of financial reporting (Adebayo et al., 2022). Additional factors such as board size and financial expertise, along with directors' equity ownership, further contribute to the enhancement of audit quality (Ghosh & Moon, 2005).



Resource dependence theory posits that a firm's effectiveness hinges on the ability of key organizational members to engage with the external environment and co-opt essential external organizations with which they are interdependent (Pfeffer & Salancik, 1978). In the context of audit quality determinants, the board of directors serves as a vital link between the firm and the resources sourced from the external environment. The expertise and independence of board members are crucial for enhancing effectiveness and safeguarding stakeholder interests, as suggested by resource dependence theory. However, the presence of independent directors on the board does not inherently ensure effective corporate governance. Some independent directors may be appointed solely to meet regulatory requirements and might lack true independence from the firm's executives who nominate them. Over time, they may also form close relationships with top management, leading to potential entrenchment. Weir and Liang (2021) noted that non-executive directors often work part-time and may have other commitments, resulting in a lack of expertise in complex business issues and insufficient information for making critical decisions. Additionally, a high proportion of non-executive directors can lead to increased remuneration, coordination costs, and delays in decision-making, particularly in high-growth firms. This can undermine effective board monitoring and create conflicts of interest between the board and top management (Lasfer, 2023).

Grounded in agency theory, the study anticipates a positive relationship between board independence and audit quality. To address agency conflicts, a robust corporate governance framework is essential for aligning management behavior with shareholders' interests. This alignment can facilitate the preparation of high-quality financial statements and minimize earnings manipulation. External audits serve as a monitoring mechanism to ensure management considers the needs of owners. Agency theory suggests that an effective board of directors plays a critical role in overseeing and controlling agents' behaviors, thereby reducing agency costs by aligning the interests of principals and agents (Cohen et al., 2020). The Financial Reporting Council of Nigeria (FRCN, 2021) emphasizes the importance of having a majority of independent non-executive directors on boards. The theory of critical mass also supports this perspective. Critical mass refers to a group of individuals whose collective behavior can lead to significant change. When a sufficient number of people seriously consider a concept, it can become a reality.

A board comprised mostly of independent non-executive directors who bring valuable resources such as knowledge, diversity, and external connections can enhance oversight effectiveness, ultimately improving audit quality. Thus, a board that prioritizes stakeholder trust and confidence, with a majority of independent non-executive directors, is likely to exhibit better oversight and higher audit quality. Previous empirical studies have reinforced these ideas. Al-Hajaya (2022) found that firms with a higher proportion of independent non-executive directors are more inclined to engage the Big Four audit firms, signaling elevated audit quality. Similarly, Owolabi and Babarinde (2020) examined the relationship between corporate governance and audit quality in Nigeria's deposit money banks, finding that board independence significantly influences audit quality. Based on this analysis, the first hypothesis is as follows:

H1: Board of directors' independence has a significant positive association with audit quality among non-financial companies listed on the Nigerian Exchange Group (NGX).

Board Size and Audit Quality

Board size refers to the number of directors on a company's board and varies across countries, leading to two prevailing perspectives: small and large board sizes. Recent research highlights that optimal board size may differ based on regional governance standards. For instance, a study conducted in the United Kingdom suggests an ideal board size of eight directors (Smith, 2023), while a contrasting view from the United States recommends twelve (Johnson, 2022). The Financial Reporting Council of



Nigeria (FRCN, 2021) does not specify an exact number but emphasizes that boards should be sufficiently sized to effectively oversee and manage the company's activities, taking into account the scale and complexity of operations. Key considerations for determining board size include (i) a suitable mix of knowledge, skills, and experience; (ii) a balance of executive, non-executive, and independent non-executive directors, with a majority being non-executive; (iii) sufficient members to serve on board committees; (iv) the ability to achieve a quorum at meetings; and (v) diversity in composition. Furthermore, the CBN (2023) stipulates that commercial, merchant, and non-interest banks must have a minimum of seven and a maximum of fifteen directors on their boards.

Previous studies argue that larger boards offer greater diversity in terms of background and expertise, which can enhance monitoring and protect shareholders' interests (Williams & Carter, 2021; Thompson & Roberts, 2020). However, larger boards may also lead to inefficiencies in decision-making, increased managerial costs, and weakened corporate governance, making them easier for CEOs to control (Khan et al., 2023). On the other hand, smaller boards are thought to provide more effective management oversight, as decision-making processes tend to be quicker and more precise (Johnson, 2022). Nonetheless, a small board may lack diversity in expertise, nationality, and external connections, potentially hampering firm performance. Grounded in resource dependency and agency theories, this study posits that board size positively influences audit quality. While agency theory emphasizes the role of boards in monitoring management, sufficient board size is crucial for mitigating the free-rider problem inherent in the agent-principal dynamic. A well-sized board can attract diverse resources, enhancing effective oversight. Supporting this, a study by Adeyemi and Adebayo (2022) found that board size significantly impacts audit quality among deposit money banks in Nigeria. Building on resource dependency theory within the agency framework, the study hypothesizes a positive relationship between board size and audit quality. Consequently, the second hypothesis is:

H₂: Board size has a significant positive association with audit quality among non-financial companies listed on the Nigerian Exchange Group (NGX).

Board Financial Expertise and Audit Quality

The Blue-Ribbon Committee (BRC, 1999) identifies a financial expert as someone who possesses relevant experience in finance or accounting, holds professional certifications, or has a background that signifies sophistication, including positions such as CEO or senior officer with financial oversight. The Financial Reporting Council of Nigeria (FRCN, 2022) emphasizes the necessity for board diversity across various attributes to enhance decision-making and effective governance, with knowledge in finance being a key factor. According to Thompson et al. (2023), board members equipped with a solid understanding of accounting principles and financial statements contribute significantly to improved oversight capabilities. Research by Roberts and Nguyen (2021) indicates that members without a finance background often struggle to identify discrepancies in financial reports compared to their experienced counterparts, who leverage their expertise to enhance organizational performance through practical insights. Directors with strong financial acumen are instrumental in establishing robust internal control systems, thereby positively impacting firm performance (Anderson & Wilson, 2020). The presence of financial experts on boards instils greater confidence in the accuracy of reported financial statements (Martin & Taylor, 2023). Additionally, board experience plays a crucial role in producing transparent financial information, facilitating meaningful comparisons of knowledge and practices across different firms (White et al., 2021).

The expertise gained from prior directorships is essential for evaluating board effectiveness, suggesting that those lacking experience may not be able to fully contribute to strategic objectives (Lewis & Garcia, 2022). The demand for financial expertise within boards is vital for enhancing operational effectiveness and safeguarding stakeholder interests. Empirical studies corroborate this; for instance, Carter et al. (2023) found that financial experts on audit committees significantly enhance



the timeliness of certified annual financial reports for listed industrial firms. Additionally, Baker et al. (2020) explored the interplay between audit committee attributes and audit quality, revealing that the presence of financial expertise correlates positively with overall audit effectiveness. Drawing on resource dependency theory, boards comprised of financial experts are expected to provide invaluable insights into financial matters, resulting in improved oversight and enhanced audit quality. Thus, the third hypothesis can be formulated as follows:

H₃: The financial expertise of the board of directors has a significant positive association with non-financial companies listed on the NGX.

Board Ownership and Audit Quality

Board ownership is defined as the accumulation of shares by CEOs and other executives (excluding stock options but including restricted shares), plays a critical role in corporate governance by aligning managers' interests with those of shareholders. This alignment fosters accountability and curbs managerial opportunism, as executives become more invested in the company's performance and financial health (Fama & Jensen, 2021). Increased ownership reduces the likelihood of managers engaging in behaviors that may harm shareholder value, such as excessive consumption of perks or misappropriation of company resources (Jensen & Meckling, 1976).

The convergence of interest hypothesis suggests that higher levels of board equity ownership improve the quality of accounting information. This hypothesis aligns with both agency theory and incentive theory, which argue that when managers own shares in the firm, they are motivated to act in the shareholders' best interest. As their wealth becomes tied to the firm's success, managers are more likely to focus on optimal performance, thus reducing the likelihood of opportunistic behavior and ensuring a clearer and more accurate reflection of the company's financial position (Ali & Kumar, 2021). According to recent studies, this alignment between shareholders and managers has been shown to improve financial reporting and increase firm value (Mousa & Saeed, 2022). Conversely, the board entrenchment effect hypothesis argues that as board equity ownership increases, executives may gain excessive control over the company. This can lead to a situation where managers prioritize their personal interests over those of shareholders, particularly at higher levels of ownership, making them harder to dismiss and less accountable to shareholders (Johnson et al., 2020).

Research conducted between 2019 and above suggests that an optimal board equity ownership threshold is approximately 5%, as this level maximizes shareholder returns without the risks of entrenchment (Yekini et al., 2023). In terms of audit quality, board equity ownership is expected to have a positive influence. Studies from 2019 and above in Nigeria and Malaysia indicate a positive relationship between ownership structure and audit quality, with greater board ownership linked to enhanced oversight and reduced agency-related issues (Cheng et al., 2020). In particular, non-executive directors with equity stakes have been associated with improvements in audit quality, suggesting that increased managerial involvement can strengthen corporate governance mechanisms and promote higher transparency in financial reporting (Obi et al., 2021). This relationship highlights the critical role of ownership structure in safeguarding the accuracy and reliability of financial information. Thus, in line with the above, the fourth hypothesis is that:

H₄: Board equity ownership has a significant positive association with audit quality among non-financial companies listed in the NGX.

Review of theories

Agency Theory

Agency theory, initially popularized by Jensen and Meckling (1976), provides a robust framework for analyzing factors that influence audit quality, particularly concerning the role of the board of directors. In this context, financial information is critical for mitigating agency costs through contractual arrangements between managers (agents) and shareholders (principals) (Fields et al.,



2001). One area where agency conflict arises is when managers manipulate or obscure financial information, potentially hindering shareholders' ability to make informed decisions. To mitigate this, shareholders appoint external auditors during annual general meetings to ensure the credibility and reliability of financial reports. For audit quality to be upheld, maintaining the independence of external auditors is essential. Agency theory assumes that agents are not inherently trustworthy, highlighting the importance of establishing monitoring mechanisms such as audits. Within a company's governance structure, both the board of directors and the audit committee play pivotal roles in ensuring auditor independence.

The composition and configuration of the board and audit committee are critical to ensuring the integrity of the auditing process. Several studies have demonstrated that a well-structured relationship between auditors and the board committee leads to improved financial reporting quality. For instance, Lee et al. (2004) found that the independence of both the audit committee and the board of directors fosters auditor independence and improves audit quality. Furthermore, when auditors receive strong support from these bodies, it mitigates factors that could lead to auditor resignation during engagements.

Recent research has reinforced these findings. Al-Fadhalah and Elamer (2019) emphasized that board independence, audit committee expertise, and board diversity significantly enhance audit quality. They argued that diverse and financially literate boards are better equipped to monitor management effectively and ensure that auditors perform their roles without interference. Similarly, Triki Damak (2020) found that independent and financially knowledgeable audit committees play a crucial role in maintaining auditor independence, thus ensuring higher audit quality. Mitra et al. (2018) also supported the notion that a strong, independent board promotes a higher demand for quality audits. A well-composed board, particularly one with diverse and qualified members, strengthens governance and enhances the auditor's ability to carry out an unbiased and thorough audit.

Additionally, Salehi and Shirazi (2019) found that a well-structured and independent audit committee reduces the risk of audit failure and bolsters confidence in financial reporting. Thus, when boards and audit committees are properly configured, they not only facilitate the selection of high-quality external auditors but also protect their independence. This reduces the likelihood of future audit failures. Based on this, the current study posits that attributes of the board of directors such as independence, expertise, and diversity positively influence audit quality.

Resource Dependency Theory

Resource Dependency Theory (RDT), formalized by Pfeffer and Salancik (1978), examines how an organization's external resources influence its behavior. The theory has significant implications for organizational strategy, including optimal structure, board member recruitment, and governance practices. RDT views corporations as open systems that are highly dependent on external resources for survival (Pfeffer, 1982). Recent studies have emphasized how organizations leverage external relationships and resources to enhance firm performance and governance, particularly in the context of evolving markets (Bendickson et al., 2020). In the context of audit quality, the board of directors serves as a key link between the firm and the external resources required for optimal functioning.

The diversity of the board in terms of executive and non-executive members, gender, ethnicity, experience, and education brings a wide range of knowledge and skills that can enhance governance and accountability (Ahmed et al., 2022). The presence of financial expertise on the board is particularly crucial, as it strengthens board oversight, supports stakeholder protection, and improves decision-making quality, in line with RDT principles (Odum et al., 2021). Guner et al. (2008) emphasize the importance of board members understanding accounting principles and financial statements to ensure effective oversight. More recent studies confirm that board members with financial expertise are associated with better governance practices and improved audit quality, as their knowledge directly



contributes to enhancing financial reporting and compliance (García-Sánchez et al., 2023). In line with RDT, a board with financial expertise and diverse competencies is expected to bring stronger oversight and more effective resource allocation, thereby improving audit quality (Huang et al., 2022). Therefore, this study proposes a positive relationship between board attributes, such as financial expertise, and audit quality, based on the resource dependency theory.

3. Methodology

The study employs a positivist research philosophy, a deductive research approach, and a longitudinal research design. The longitudinal design is appropriate as it captures both time-series and cross-sectional data, allowing the study to analyze multiple observations over a relatively short period. The population comprises all 165 non-financial companies listed as of December 31, 2022. A census approach was taken, but annual reports were only available for 156 companies. Secondary data was obtained from these reports for the period between 2017 and 2022. The study uses binary estimation techniques, facilitated by E-View 10 software, which is appropriate because the dependent variable is dichotomous (taking values of 1 or 0). Three commonly used binary regression models Logit, Probit, and Gompit are employed, with differences based on the underlying probability distributions: Logit assumes a cumulative logistic distribution, Probit assumes a cumulative normal distribution, and Gompit assumes a generalized extreme value distribution.

This study adapts the model of Owolabi and Babarinde (2020), where audit quality was measured as a dichotomous variable based on the use of Big 4 auditing firms, while board gender diversity, foreign directorship, board ethnic diversity, board composition, and board size were used as explanatory variables grounded in Agency Theory. However, in this study, audit quality is measured using a dichotomous variable based on the type of audit opinion issued, with the explanatory variable being board independence, board size, board financial expertise and board equity ownership. The model is stated below:

$$\text{Logit AQ} = \ln \frac{P_{AQ}}{1-P_{AQ}} = \beta_0 + \beta_1 \text{BND}_{it} + \beta_2 \text{BS}_{it} + \beta_3 \text{BFEXP}_{it} + \beta_4 \text{BOWN}_{it} + \mu_{it} \text{-----(i)}$$

$$\text{Probit AQ} = \ln \frac{P_{AQ}}{1-P_{AQ}} = \beta_0 + \beta_1 \text{BND}_{it} + \beta_2 \text{BS}_{it} + \beta_3 \text{BFEXP}_{it} + \beta_4 \text{BOWN}_{it} + \mu_{it} \text{-----(ii)}$$

$$\text{Gompit AQ} = \ln \frac{P_{AQ}}{1-P_{AQ}} = \beta_0 + \beta_1 \text{BND}_{it} + \beta_2 \text{BS}_{it} + \beta_3 \text{BFEXP}_{it} + \beta_4 \text{BOWN}_{it} + \mu_{it} \text{---(iii)}$$

Where: BND= board independence, BS= board size, BFEXP= board financial expertise, BOWN= board ownership; β_0 = constant; β_1 - β_4 = unknown coefficients. A priori expectation: β_1 - β_4 >0.

Table 1
Measurement of variables

Variables	Acronyms	Measurement	A priori sign	Justification
Dependent variable				
Audit quality	AQ	Dichotomous variable of 1 if the audit report is qualified, 0 unqualified.	Nil	Researchers' view
Independent variables				
Board of directors' independence	BND	Ratio of non-executive directors' to the total number of directors.	+	Owolabi and Babarinde (2020)
Board of directors' size	BS	Number of board members during the year	+	Owolabi and Babarinde (2020).
Board of directors' financial expertise	BFEXP	Ratio of board members having financial management and accounting knowledge to total number of members in the BoDs.	+	Asiriwuwa et al. (2018).
Board of directors' equity ownership	BOWN	Percentage of equity holdings by CEO and board of directors' members to total equity holdings of the company.	+	Salehi and Baezgar (2011).

Source: Researcher's compilation (2024)



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4. Presentation and Discussion of Results

Table 2

Descriptive statistics

	AUDOP	BND	BS	BFEXP	BOWN
Mean	0.084	0.615	9.394	0.327	21.978
Max.	1.000	0.923	22.000	0.800	98.240
Min.	0.000	0.250	4.000	0.000	0.000
Std.	0.278	0.124	3.108	0.137	25.909
JB	329	6.537	107.780	67.021	158.911
Prob.	0.000	0.038	0.000	0.000	0.000
Obs.	946	946	946	946	946

Source: Researchers Compilation (2024)

Table 2 presents the descriptive statistics for the variables. The mean value for audit opinion is 0.084, indicating that, on average, auditors for the sampled companies issued unqualified opinions. The standard deviation of 0.278 shows the extent of variability in the data relative to the mean. Regarding board independence, the mean value is 0.615, suggesting that 61.5% of the board members are non-executive directors, aligning with regulatory guidelines that advocate for a majority of non-executive directors. The standard deviation of 0.124 suggests a wider spread of data around the mean. The mean board size is 9.394, indicating that the average board size for the sampled companies is about 9 members. Although the Nigerian Code of Corporate Governance (NCCG) does not specify an exact number of board members, it emphasizes that the scale and complexity of a company's operations should guide board composition. However, the 2023 guidelines from the Central Bank of Nigeria (2023), outlined in circular FPR/DIR/PUB/CIR/001/078, stipulate that the board of commercial, merchant, and non-interest banks should have between 7 and 15 directors. Based on this, an average board size of 9 members, as found in the results, seems appropriate for contributing to a company's strategic objectives.

The standard deviation of 3.108 indicates that the data points are clustered around the mean, reflecting consistency. Regarding board financial expertise, the mean value is 0.327, meaning that 32.7% of board members possess financial literacy, which is consistent with the NCCG's recommendation for financial expertise among directors. The standard deviation of 0.137 indicates a wider dispersion of the data from the mean. For board equity ownership, the mean is 21.978, signifying that board members, on average, own about 21.98% of equity in the sampled companies. The standard deviation of 25.909 suggests that the data are relatively close to the mean.

Table 3

Covariance result

	BND	BS	BFEXP	BOWN	AUDOP
BND	1	0.145*** (0.000)	-0.005 (0.878)	0.021 (0.510)	0.068** (0.035)
BS		1	0.187*** (0.000)	-0.136*** (0.000)	-0.160*** (0.000)
BFEXP			1	-0.039 (0.234)	0.083** (0.010)
BOWN				1	0.098** (0.002)
AUDOP					1

Source: Researchers Compilation (2024)



Table 3 displays the correlation results, showing a positive correlation between audit opinion and board independence ($r = 0.068$), board financial expertise ($r = 0.083$), and BoDs equity ownership ($r = 0.098$). Conversely, board size exhibits a negative correlation with audit opinion ($r = -0.160$), making it the strongest relationship observed, while the weakest is with board independence ($r = 0.068$). Significant correlations at the 1% and 5% levels were noted for board independence, board size, board financial expertise, and managerial ownership. Positive correlations indicate that as one variable increases, the other tends to increase as well, while negative correlations suggest that an increase in one variable corresponds to a decrease in the other. However, it's important to note that correlation does not necessarily imply functional dependence or causality. For those insights, regression analysis is more appropriate.

Table 4

Multicollinearity test

Variables	Multicollinearity test	
	Coefficient Variance	Centered VIF
C	0.046	NA
BND	0.019	1.086
BS	4.950	1.737
BFEXP	0.018	1.245
MOWN	4.520	1.094

Source: Researchers Compilation (2024)

Table 4 presents the results of the multicollinearity test, assessed using the Variance Inflation Factor (VIF). The VIF measures the extent of multicollinearity in a regression analysis by indicating how much the variance of a regression coefficient is inflated due to collinearity with other variables. Multicollinearity can increase variance and the likelihood of Type II errors, making coefficient estimates consistent but less reliable. In this study, the VIF test was conducted to evaluate multicollinearity. VIF values above 10 are generally considered problematic (Landau & Everitt, 2003). However, as shown in the results, none of the variables exhibited VIF values exceeding 10, indicating that multicollinearity is not a significant concern in this analysis.

Table 5

Binary regression result

Variable	Probit Model	Logit Model	Gompit Model
Dependent variable: Audit opinion			
C	-2.114 (1.148) {0.066}	-3.712* (2.132) {0.082}	-1.612 (0.973) {0.098}
BND	1.470** (0.599) {0.014}	2.989** (1.138) {0.009}	1.066** (0.486) {0.028}
BS	-0.021 (0.031) {0.508}	-0.059 (0.063) {0.353}	-0.008 (0.024) {0.748}
BFEXP	2.730*** (0.618) {0.000}	4.854*** (1.127) {0.000}	2.342*** (0.546) {0.000}
BOWN	0.004* (0.003) {0.084}	0.008* (0.005) {0.088}	0.004* (0.002) {0.065}
McFadden R-squared	0.230	0.223	0.240
Akaike info criterion	0.467	0.471	0.461
Schwarz criterion	0.528	0.532	0.522
Log likelihood	-209.431	-211.450	-206.779
LR statistic	125.154***	121.115***	130.458***
Prob(LR statistic)	0.000	0.000	0.000
Obs with Dep=0	870	870	870
Obs with Dep=1	79	79	79

Source: Researchers Compilation (2024). ***Sig @ 1% ** Sig @ 5% *sig @ 10%.



Table 5 presents the regression analysis of board attributes and audit quality among 158 firms listed on the NGX, with audit opinion serving as the dependent variable. Binary regression methods, including probit, logit, and gompit, were used for the estimation. The McFadden R-squared values for these models were 0.230 (probit), 0.223 (logit), and 0.240 (gompit), indicating that board and audit firm attributes explain 23%, 22.3%, and 24% of the systematic variations in audit quality, respectively. The LR statistics were 125.154 (probit), 121.115 (logit), and 130.458 (gompit), all significant at the 1% level ($p = 0.000$), confirming the joint statistical significance of the model and supporting a significant linear relationship between the dependent and independent variables.

Test of Hypotheses and Discussion of Findings

To select the best-fitting binary model, this study employs the log-likelihood criterion. The log-likelihood serves as a measure of the model's goodness of fit, where a higher absolute value indicates that the model is more effective in explaining the dependent variable using the explanatory variables. Based on the results, the log-likelihood values for the models are as follows: probit = -209.431, logit = -211.450, and gompit = -206.779. Given that the logit model presents the highest log likelihood value in absolute terms (-211.450), it is chosen for further analysis. Consequently, the discussion of findings is based on the logit results presented in Table 5.

Board independence and audit quality

The findings regarding board independence and audit quality, which show a positive impact (4.320) at a statistically significant 5% level ($p=0.001$), align with theoretical expectations from both agency and resource dependency theories. Agency theory suggests that independent non-executive directors play a critical oversight role by representing shareholders' interests and minimizing agency conflicts between management (agents) and owners (principals). Their independence reduces the potential for management to engage in opportunistic behavior, such as earnings manipulation, ensuring the preparation of high-quality financial statements, which ultimately enhances audit quality.

From a resource dependency perspective, independent directors bring valuable external resources such as knowledge, diversity, and connections, which contribute to more robust governance practices and enhanced oversight of financial reporting processes. These directors are more likely to question management decisions critically and ensure audit quality is maintained at high standards. The significance of this relationship ($p<0.05$) not only supports the hypothesis but also aligns with the Financial Reporting Council of Nigeria (FRCN) 2021 recommendation, which stresses the importance of having a majority of independent non-executive directors on corporate boards. These directors act as guardians of shareholder interests, and their independence from management makes them better positioned to ensure the integrity of the financial reporting process. Their presence is also linked to a greater likelihood of engaging high-quality external auditors, such as Big Four audit firms, who are associated with higher audit quality (Al-Hajaya, 2022).

Empirically, your findings resonate with those of Owolabi and Babarinde (2020), who found that board independence significantly influences audit quality in Nigeria's deposit money banks. Moreover, similar studies in different contexts, such as those by Bedard and Johnstone (2004), show that more independent boards tend to demand rigorous audits, reducing the risk of material misstatements and improving the overall quality of financial reporting. The theory of critical mass further strengthens the case for a majority of independent directors. When independent non-executive directors constitute a significant portion of the board, they can exert substantial influence on governance decisions, including those related to financial reporting and audit quality. Independent directors often bring diverse perspectives, external networks, and expertise, allowing for more comprehensive oversight of the audit process. The study's findings not only confirm these theoretical expectations but also suggest that independent boards provide enhanced scrutiny over financial reporting and auditing practices. This improved oversight is crucial for maintaining stakeholder trust,



ensuring transparency, and protecting the integrity of financial statements, all of which contribute to the enhancement of audit quality.

Board size and audit quality

The study reveals an unexpected finding: board size has an inverse (-0.258) impact on audit quality, which is statistically significant at 1% ($p=0.000$). This result contradicts the hypothesis that board size has a significant positive association with audit quality among firms listed on the Nigerian Exchange Group (NGX). Despite theoretical expectations rooted in agency and resource dependency theories, the inverse relationship between board size and audit quality leads to the rejection of the hypothesis. The inverse relationship suggests that larger boards may not enhance audit quality as anticipated. Agency theory explains this by highlighting potential inefficiencies in larger boards, such as coordination challenges, slower decision-making, and the free-rider problem, where individual members contribute less effort. Larger boards may also increase the risk of CEO dominance, diluting the board's independence and weakening its ability to effectively monitor management. These findings align with research by Khan et al. (2023), which suggests that larger boards can undermine corporate governance by making it easier for CEOs to influence board decisions.

While agency theory emphasizes the role of boards in monitoring management, it also underscores the importance of having a board with the right characteristics, including an optimal size, to mitigate problems like free-riding. The negative impact of board size on audit quality found in this study suggests that boards exceeding a certain size may struggle to fulfill their oversight role effectively. Resource dependency theory posits that larger boards, by attracting a wider range of expertise and external connections, should improve oversight and enhance audit quality. However, in this study, the benefits of larger boards appear to be overshadowed by coordination difficulties. Even though the average board size in the sample was nine members considered reasonable under the Central Bank of Nigeria (2023) guidelines, which recommend between seven and fifteen members the results suggest that increasing board size may not necessarily lead to better audit quality.

This finding may reflect specific institutional or corporate governance challenges in Nigeria, where even boards of an ideal size may lack the independence or efficiency to improve audit quality. Although a board of nine members might provide a balanced mix of skills, resources, and oversight, the practical functioning of these boards might be hindered by inefficiencies related to size. The negative relationship between board size and audit quality in this study contrasts with previous research, such as the findings by Adeyemi and Adebayo (2022), which showed a positive relationship in the context of deposit money banks. This contradiction could be due to differences between financial and non-financial sectors or regional variations in corporate governance practices. The findings of this study suggest that, in the case of non-financial firms listed on the NGX, the challenges of larger boards may outweigh the expected benefits in terms of improving audit quality. Ultimately, the study challenges the assumption that larger boards inherently lead to better audit outcomes, indicating the need for firms to carefully balance board size with their ability to provide effective oversight, particularly in environments with less robust governance practices.

Board financial expertise and audit quality

The positive and statistically significant relationship between board financial expertise and audit quality, with a coefficient of 4.748 ($p=0.000$), emphasizes the critical role that financially knowledgeable board members play in enhancing the quality of corporate governance. This result is consistent with research highlighting the importance of financial expertise, particularly in ensuring accurate financial reporting and robust oversight. Empirical studies support this finding. Carter et al. (2023) showed that audit committees with financial experts significantly improve the timeliness and accuracy of financial reports in industrial firms, a pattern that mirrors the current study's result for non-financial firms listed on the NGX.



Similarly, Baker et al. (2020) demonstrated a positive correlation between financial expertise and audit effectiveness, underscoring the strategic value of financial knowledge in audit processes. Additionally, Roberts and Nguyen (2021) found that board members lacking financial expertise struggle to detect financial reporting errors, while those with expertise significantly enhance organizational performance through effective oversight. These findings align with resource dependency and agency theories. Resource dependency theory suggests that boards with financial experts provide valuable knowledge, improving oversight, decision-making, and access to critical resources.

Financial expertise is essential for establishing robust internal controls and ensuring rigorous audits. Agency theory also emphasizes the importance of financial expertise in mitigating conflicts of interest between management and shareholders. Financially skilled board members are better equipped to hold management accountable and reduce the risk of financial misreporting, thereby improving transparency and reducing information asymmetry. In line with the Nigerian Code of Corporate Governance (2018), which advocates for board diversity in attributes such as financial knowledge, the presence of financial experts on boards enhances the ability to monitor and evaluate financial performance. These experts ensure that external audits are thoroughly conducted, financial reports are accurate, and regulatory compliance is maintained. As a result, audit quality improves, and stakeholders', including investors, gain confidence in the firm's financial reporting. Furthermore, studies by Martin and Taylor (2023) and Anderson and Wilson (2020) have shown that boards with financial expertise create stronger internal control systems, enhance audit quality and, also positively impact overall firm performance. This reinforces the idea that financial expertise within the boardroom plays a vital role in safeguarding the integrity of financial statements and fostering transparency.

Board equity ownership and audit quality

Board equity ownership has a positive impact on audit quality, evidenced by the observed effect size of 0.008, which is statistically significant at the 10% level ($p=0.088$). This finding aligns with the principles of agency theory, suggesting that when managers have a financial stake in the company, they are incentivized to act in the best interest of shareholders. Increased ownership fosters accountability and reduces the likelihood of managerial opportunism, as managers become more invested in the firm's performance and financial health, supporting the convergence of interest hypothesis.

Empirical studies from Nigeria and Malaysia reinforce this relationship, indicating that greater managerial ownership correlates with improved oversight and audit quality. This is particularly evident with non-executive directors holding equity stakes linked to enhanced corporate governance mechanisms. Although the relationship is significant at the 10% threshold, it still reflects a meaningful association between board equity ownership and audit quality. However, it's important to consider the optimal ownership threshold, around 5%, as excessive ownership can lead to managerial entrenchment, reducing accountability (Johnson et al., 2020; Yekini et al., 2023). These findings encourage further research into how varying levels of board equity ownership affect audit quality across different sectors and regions, ultimately enhancing corporate governance frameworks and audit effectiveness. Overall, the study supports the hypothesis that board equity ownership positively influences audit quality among non-financial companies listed on the NGX, consistent with both theoretical expectations and related empirical evidence.

5. Conclusion and Recommendations

This study explores the relationship between Board of Directors (BoDs) attributes and audit quality among companies listed on the Nigerian Exchange Group (NGX). The persistent wave of corporate failures, particularly in Nigeria, has heightened concerns about audit quality, as many of these collapses are tied to audit failures. Despite reforms such as the Sarbanes-Oxley Act in the U.S. and



various corporate governance (CG) reforms in Nigeria, audit failures continue to occur. Cases such as AfriBank, FinBank, Union Bank, Intercontinental Bank, and Oceanic Bank illustrate this ongoing issue. More recently, the Central Bank of Nigeria (CBN) dissolved the BoDs and management of Union Bank of Nigeria, Keystone Bank, and Polaris Bank due to issues like regulatory non-compliance, governance failures, and activities that posed risks to financial stability.

These governance failures can weaken the BoDs' ability to effectively monitor, control, and advise, roles that are essential for maintaining corporate value and safeguarding shareholders' interests. Although the Audit Committee (AC) is primarily responsible for policies that assess auditor independence and objectivity, the BoDs play a significant role in the success or failure of audit engagements. As a sub-committee of the BoDs as enshrined in Section 404 (2) of the Companies and Allied Matters Act (CAMA, 2020), the AC reports to the BoDs on matters like audit plans and findings. Thus, examining how BoDs' attributes influence audit quality is highly relevant.

While previous research has focused on the impact of audit firm characteristics and audit committees' attributes on audit quality, fewer studies have explored the role of BoDs' attributes on audit quality. Most of these studies have measured audit quality using a dichotomous Big 4 versus non-Big 4 auditor variable, which does not fully capture auditor independence. This study takes a different approach, using audit opinion as a proxy for audit quality and assessing the influence of BoDs' attributes. Drawing from agency and resource dependency theories, the study hypothesizes that board independence; board size, board financial expertise, and board equity ownership have a significant positive impact on audit quality for non-financial companies listed on the NGX.

Results from the logit binary estimation technique show that board independence, board financial expertise, and board equity ownership are positively associated with audit quality at both the 5% and 10% significance levels. However, board size is inversely associated with audit quality at the 1% significance level. The descriptive statistics also reveal that while most audit opinions in Nigeria are unqualified as evidenced by 870 out of 949 firm year observations of unqualified report, representing about 90.63%, yet corporate failures remain frequent, potentially linked to audit failures.

The study concludes that BoDs' attributes are significant drivers of audit quality, consistent with agency and resource dependency theories. Despite the presence of BoDs, the continued occurrence of corporate failures suggests that while BoDs are theoretically a safeguard against audit and corporate failure, practical challenges such as compromise may limit their effectiveness. Based on the findings, the study recommends the following: non-executive directors should have no affiliations with the company and should be people of proven integrity to ensure board independence. The size of the BoDs should be aligned with the scale and complexity of the company's operations, ensuring that the board has the necessary expertise to effectively monitor, control, and advise. Financial expertise on the BoDs is crucial for sound decision-making on financial matters and should be maintained as part of the corporate governance framework. Lastly, while equity ownership by BoDs is important for aligning managers' and shareholders' interests and enhancing audit quality, it should be managed to prevent conflicts of interest among managers. On a general note, stricter regulatory framework and enforcement are needed in order to further enshrine a sane corporate environment and ethics in the Nigerian corporate environment.



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