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Audit Firm Characteristics and Auditing Quality: The Nigerian Experience

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Abstract
This study examines the link between auditing quality and auditor independence, auditor experience, auditor accountability. Using a sample of 210 respondents made up of finance directors, auditors, shareholders, and financial analysts and employing structural equation modeling technique for data analysis, we find that auditor independence and auditor accountability have a significant relationship with audit quality. We find that auditor experience is not a factor affecting audit quality in Nigeria. We recommend auditors should consider audit risk before embarking upon an audit so as to be independent and accountability conscious.
Key words: auditing quality; audit evidence; structural equation modeling

1. Introduction

High-quality external auditing is a central component of well-functioning capital markets. Companies with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid capital market consequences of unreliable financial reporting (Hennes, Leone & Miller, 2012).
However the quality of an audit depends simultaneously on several audit firm characteristics such as auditor independence, auditor experience, and auditor accountability (Suyono, 2012). Auditors express their audit opinions on the financial statements presented to them based on audit evidence. The objective of the audit therefore is to plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report. Insufficient or inappropriate audit evidence would lead to wrong conclusions or opinion being drawn on the financial statements. The auditor may in fact report that the company is a going concern, when indeed it is not. Eventually the company may collapse and this may lead to litigation being brought against the company's auditors. Enron's auditor, Arthur Andersen, suffered huge cost of litigation, when Enron collapsed, which ultimately led to the demise of Andersen. Was it that Andersen was not independent, experienced, and accountability conscious in carrying out the audit of Enron? Is there a link between auditor independence, auditor experience, auditor accountability auditing quality?
The objective of this study therefore is to find the relationship between auditing quality and audit firm characteristics such as auditor independence, auditor experience, and auditor accountability.

2. Statement of the Problem

The literature has tried to establish the link between auditing quality and auditor independence, auditor experience, and auditor accountability. No doubt auditor independence, experience, and the awareness that the auditor would be held accountable would motivate the auditor to gather appropriate and sufficient audit evidence, which in turn would lead to audit quality. Many companies suffered corporate collapse due to poor audit quality. The poor audit quality was due to lack of appropriate and sufficient audit evidence. Enron's auditors, Arthur Andersen failed to gather sufficient audit evidence about the use of the 'special purpose entities' (SPEs) and their accounting treatment (Mallin, 2010). Could the poor audit quality work of Arthur Andersen have been due to lack of auditor independence, experience and accountability? Specifically, the research problem to be addressed in this study is: To what extent is auditing quality affected by auditor independence, auditor experience and auditor accountability in Nigeria?

3. Research Questions

i. To what extent does auditor independence lead to audit quality?
ii. To what extent does auditor experience lead to audit quality?
iii. To what extent does auditor accountability lead to audit quality?

4. Research Objectives

The main objective of this study is to investigate the role of audit firm characteristics in promoting auditing quality. The specific objectives of this study are:

i. To determine the relationship between auditing quality and independence in Nigeria.
ii. To determine the relationship between auditing quality and auditor experience in Nigeria.
iii. To determine the relationship between auditing quality and auditor accountability in Nigeria.

5. Literature Review and Hypotheses Development

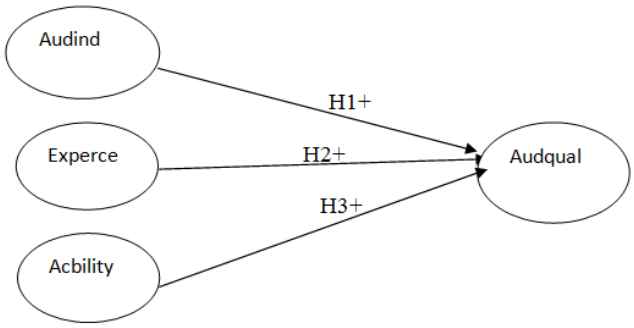
This section is organized as follows. First, we discuss what audit quality is. Next we discuss the social exchange theory, which provides the theoretical underpinning for this study. We then discuss the factors affecting audit quality and from these, develop hypotheses specifically examining auditor independence and audit quality, auditor experience and audit quality, and auditor accountability and audit quality.

Social Exchange Theory

Social exchange relationships are often described as subjective, relationship-oriented contracts between employees and organizations characterized by mutual exchange of socio-emotional benefits, cooperation, trust, and a long-term focus (Blau, 1964; Van Dyne, Graham, & Dienasch, 1994). Social exchange theory provides a useful framework for understanding how social interaction in the workplace influence employee relations to their jobs and participation in the organization. Social exchange relationships can therefore strengthen the motivation of employees to behave in a manner that would provide beneficial outcomes for the organization because of the strong obligation on the part of the employees to support the organization (Cropanzano & Mitchell, 2005).

However the current study is not about the relation between employees and their organizations but between audit client and the auditor. In a sense the auditor could be said to be an employee of the client. The principle of social exchange theory can therefore be applied in this study. Recent study indicates that audit clients prefer a relational (social exchange – based) approach with their auditors rather than a transactional (economic exchange – based) approach (Fontaine & Pilote, 2011, 2012). The current study involves the relationship between auditing quality and audit firm characteristics, which falls within the auditor – client setting. The quality of the audit service provided by the auditor is dependent on the social relational exchange between the auditor and the client. The discussion that follows adheres to the theoretical model shown in figure 1 below.

Figure 1. Hypothesized Model of Audit Quality Factors



Source: Developed for this study

Audit Quality

Audit quality is much debated but little understood. Despite more than two decades of research, there remains little consensus about how to define, let alone measure, audit quality. Many researchers define audit quality from different perspective. The widely used definition by DeAngelo (1981) defines audit quality as "the market assessed joint probability that a given auditor will both discover a breach in a client's accounting system, and report the breach". This definition considers the quality of an audit to be dependent on two factors. First, the auditor's ability to examine the accounts and identify errors or anomalies, i.e. their technical competence, and second, their objectivity, i.e. their independence. Auditing quality is the combined probability that the auditor will detect and report on defects in accounts (Watts and Zimmerman, 1986 p.8). The technical competence is easy to conceptualize , but independence is more problematic, being "difficult to prove and easy to challenge" (Mednick, 1990 p.6). DeAngelo sees independence as the auditor's willingness to report defects in audited financial statements. This concept can be thought of as independence in fact, which in itself is not directly observable.

Some researchers focus on defining "poor audit quality" by identifying adverse outcomes from an audit (Peecher and Piecey, 2008). Defining audit quality in terms of failure is appealing because it is easy to operationalize the definition. Casterella, Jensen, & Knechel (2009:716) state "… we believe poor audit quality is observable with hindsight if an engagement results in litigation or a claim of malpractice against the auditor firm". However, assessing audit quality from this perspective has not been too easy, because there are relatively few cases of detectable audit failures (Francis, 2011).

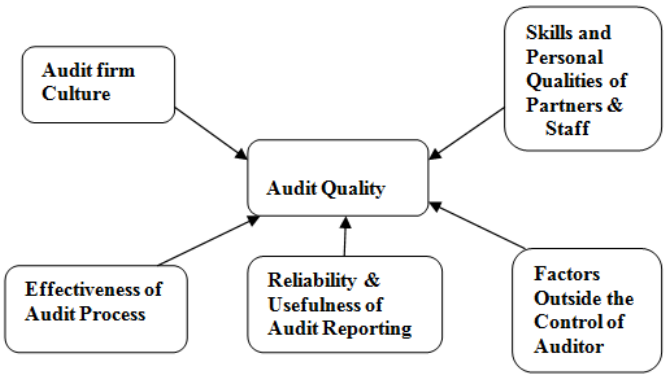
There are a number of definitions of audit quality in the literature that reference the responsibilities of the auditor in terms of the audit process or the goal of the audit. The Government Accountability Office (GAO 2003, p.13) defines audit quality as one performed "in accordance with Generally Accepted Accounting Standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in

accordance with Generally Accepted Accounting Principles (GAAP) and (2) are not materially misstated whether due to errors or fraud".

Thus in summary, there is currently no unified definition of audit quality. Therefore the best alternative is to develop a framework to gauge overall audit quality. A formal attempt to develop a framework was undertaken by U.K.'s Financial Reporting Council (FRC) in 2008. FRC (2008) identified five drivers of audit quality as shown in figure 2: (1) the culture within an audit firm; (2) the skills and personal qualities of audit partners and staff; (3) the effectiveness of an audit process; (4) the reliability of an audit process; (5) factors outside the controls of auditors affecting audit quality. For each driver, the FRC identified several potential indicators of audit quality.

Figure 2

UK's Financial Reporting Council: Audit Quality Framework (FRC 2008, 1)



Note: The figure above includes key drivers of audit quality as defined the U.K.'s Financial Reporting Council. Interested readers can refer to FRC (2008) for a listing of audit quality indicators specific to each driver.

Audit quality is very important. Audit quality is protected by both explicit and implicit contracting safeguards. In an explicit audit contract, if the auditor provides a defective audit this may result to litigation against the auditor, and if third parties found the audit to be defective this may require compensation to be paid to those injured third parties. Whereas in an implicit contract the auditor may be punished by existing or potential clients withdrawing their trust in the auditor. The collapse of the major firm Andersen could be attributed to the breach of an implicit contract.

Audit Firm Characteristics and Audit Quality

The literature abounds with several audit firm characteristics affecting audit quality. The paper dealt with the following: auditor independence, audit experience, and auditor accountability.

Auditor Independence

Auditor independence has been viewed as being very fundamental to the auditor's job and profession because, without it, audited financial statements would not have value in the perception of the end-users. Gul (1989) posited that the value of audited financial statements rests on the assumption that the auditor is independent of the client. According to the IAA (2010), auditor independence is an expected auditor behaviour that directs that an auditor does not have personal interest in doing his / her jobs, because it is contrary to integrity.

Mautz & Sharaf (1961) identified two aspects of independence. These are real independence and apparent independence. Real independence is the independence of the individual. This is the attitude which the individual auditor maintains in the conduct of his / her job that permits the provision of an opinion without being affected by influences that compromise judgment, allowing the individual to act with integrity and exercise objectivity and professional skepticism. Apparent independence has to do with the independence imputed to the auditor, as a result of the image of auditors he enjoys as a member of a professional group. The first aspect of independence shows that an auditor should not only be independent in appearance but should be independent in fact.

Millichamp (2004) identified the following that could impair the auditor's independence such as undue dependence on an audit client (audit fee represents more than 10% of the total fees of the auditor firm), family or other personal relationships, beneficial interest in shares or other investment, loan to and from the client, acceptance of goods and services, actual or threatened litigations, influences outside the practice, provision of other services, and receipts of reward from a third party other than the client.

Prior studies have shown that auditor independence affects audit quality. Alim, Trisni, & Lilik (2007) found a significant positive relationship between auditor independence and audit quality. DeAngelo (1981) found that auditor independence has positive effect on audit quality. It follows therefore that as auditor independence increases so too does audit quality increases. We therefore formulate the following hypotheses developed from the literature.

H1: There is a significant positive relationship between auditor independence and audit quality.

Auditor Experience

Experience is the knowledge and proficiency gained by someone with the passage of time. It is assumed that repeated work by an auditor over a long period of time would improve the quality of audit. Kolodner (1996) identified two dimensions of experience such as the tenure of the audit job (how long the auditor has been doing the audit job) and the frequency of carrying out the audit engagement. Auditor experience is very important to auditing firms because the auditing process is "primarily human endeavour and audit firms are very dependent upon the quality of their professionals, including competence and decision making skills" (Smith, Bedard, & Johnstone, 2009).

According to Suyono (2012), both experiences acquired through long working period, and through frequency of the audit engagement, affect audit quality. Long tenure of audit job leads to an auditor gaining more general professional experience, which in turn enables the auditor to acquire more competency. On the other hand, frequency of the audit work leads the auditor to amass client – specific experience. However client – specific experience can lead to two counteracting effects on audit quality. On the one hand it would enable an auditor to gain more specific knowledge of the client's business, systems, and risks, which in turn would lead to high audit quality (Knapp, 1991). However more client – specific experience can result to long auditor tenure which may bias an auditor's judgment and ultimately lead to lower audit quality (Suyono, 2012). In his empirical study, Carcello, Hermanson, & McGrath (1992) found that audit experience has a significant positive relationship with audit quality. We therefore formulate the following hypothesis.

H2: There is a significant positive relationship between auditor experience and audit quality.

Auditor Accountability

One of the fundamental principles of independent auditing is accountability. Auditors act in the best interests of primary shareholders, whilst having regard to wider public interest. Accountability makes an auditor answerable to shareholders and third parties, making the auditor feel obligated to carry out a thorough audit. According to Friedman & Grudin (1998) accountability plays a critical role in the development of trust during human interaction. Investors and financial market participants rely on audited financial statements for decision making. Accountability makes an auditor see his / her audit work as part of his / her social obligation to ensuring that financial statements are credible. Accountability also makes an auditor feel strongly committed and dedicated to his / her profession. An auditor would want to promote the image of his / her profession by doing quality audit work. Auditor accountability should therefore lead to good quality audit.

Auditor accountability would make an auditor to be held liable for negligence. An auditor's liability includes liability to clients and to third parties. Some cases in which an auditor was held liable for negligence are: Westminster Road Construction and Engineering Co Ltd 1932, Re Thomas Gerrard and Son Ltd 1967. These cases may involve very high cost of litigation for the auditor. One of the motivation to do a good quality work therefore, is the avoidance of the cost of litigation. Cloyd (1987) identified three dimensions of accountability i.e. social obligation, dedication to the profession, and motivation.

Prior studies (Yumerefendi & Chase, 2004; Friedman & Grudin, 1998; Cloyd, 1997) showed that there was a strong positive relationship between accountability and audit quality. We therefore posit the following hypothesis developed from the literature.

H3: There is a significant positive relationship between auditor accountability and audit quality.

6. Research Methodology

This section discusses the research design that was adopted for this study. It also discusses the sampling and data collection method, the variable measurement and the model formulation.

Research Design

This paper adopted a field survey research design because it is suitable for the qualitative research paradigm that underpins this study.

Sampling and Data Collection Method

This paper used primary data that was sourced through the medium of questionnaires. The final sample size was made up of 210 respondents. The sample size consisted of 40 finance directors of 40 quoted Nigerian companies; 60 auditors; 80 shareholders and 30 financial analysts. In choosing the sample size, we considered the suggestion of Descombe (2003), who suggested a sample size of not less than 30 subjects per group. The auditors consisted of firms of auditors of the 40 quoted companies and 20 other firms of auditors who were chosen by the simple random sampling technique. Stratified random sampling technique was used in choosing the 40 Nigerian quoted companies to ensure that all the industrial sectors were represented. Convenience sampling technique was used in selecting the shareholders. Two shareholders each were picked from the register of shareholders of the 40 quoted Nigerian companies. The questionnaires were mailed to the respondents. A total of 260 questionnaires were mailed out, but only 210 useable responses were returned, resulting in a response rate of 81.7%.

Variable Measurement

The main variables for this study are audit quality, auditor independence, auditor experience, auditor accountability and audit quality. To measure auditor independence, we adapted one item from Audit Quality Determinants Survey UH-Downtown (http://www.surveymonkey.com/s.aspx?sm) and formulated two other items based on our understanding of the literature. An example item is, "We have at no time made an audit assessment that was more reflective of our client's best interest than our professional objective opinion" (5 = strongly agree, 1 = strongly disagree). One item measuring auditor experience was adapted from Audit Quality Determinants Survey UH-Downtown and one other item formulated from the literature. Auditor experience was measured by the following: "How frequently do you carry out your audit duties?" (5 = very frequently, 1 = very infrequently); "Please enter your audit tenure (level of experience) as a full-time professional external auditor" (< 3 yrs 3-5 yrs 6-9 yrs 10-15 yrs > 15 yrs) (1 = < 3yrs, 2 = 3-5yrs, 3 = 6-9yrs, 4 =10-15yrs, 5 = >15yrs).

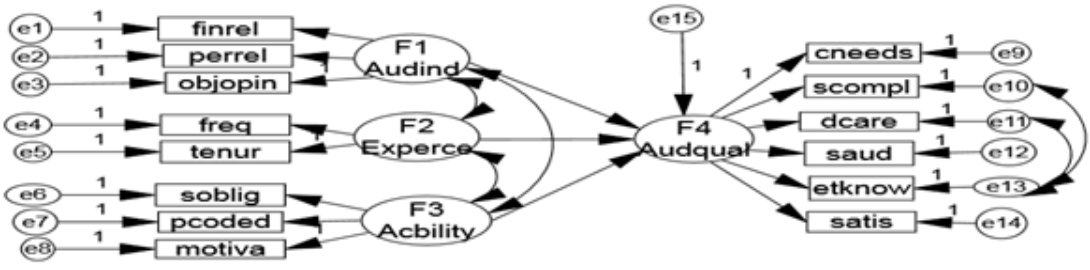
The criterion variable is Audit quality (Audqual). The level of audit quality was measured using six items adapted from Carcello, Hermanson, & McGrath (1992). These six items were directed to finance directors, shareholders and financial analysts. The items measuring audit quality used in this study are as follows: "The external auditor firm was responsive to company needs" (5 = strongly agree, 1 = strongly disagree); "The audit team members as a group complied with auditing standards (GAAP) in the audit of your company" (5 = strongly agree, 1 = strongly disagree); "The audit team members as a group always exercise due care throughout the engagement" (5 = strongly agree, 1 = strongly disagree); "Senior auditors (partners / managers) were actively engaged in the audit" (5 = strongly agree, 1 = strongly disagree); "The audit team members had high ethical standards and were very knowledgeable about accounting and auditing" (5 = strongly agree, 1 = strongly disagree); "How satisfied are you with the overall audit performance and the final audit report" (5 = very satisfied, 1 = very dissatisfied).

Confirmatory factor analysis (CFA) described in subsequent section provides evidence supporting the convergent validity of our constructs. All Cronbach's alpha coefficients are above the recommended minimum level of acceptability (Gliner & Morgan, 2000).

Model Formulation

The model specified in this study is the structural equation model that deals with path diagrams that specify causal relationships between latent (unobserved) variables. It has been exclusively used in the analysis of causal hypotheses on the basis of non-experimental data (Bagozzi, 1981; Bagozzi & Yi, 1988; Joreskog & Sorbom, 1993; Qiu, 1999). Employing the AMOS (Analysis of Moment Structure) program, the study presents the hypothesized full structural equation model in figure 2. The model combines both a measurement model and a structural model. The measurement model is that part of the combined model that specifies the causal paths from the factors (latent variables) to the manifest (observed) variables, and their error items. The structural model is part of the combined model that specifies the causal relationships between the latent constructs themselves. The constructs and the manifest variables are stated below:

Fig. 3 Hypothesized full model (measurement and structural models combined)



Source: Developed for the study

Constructs (latent variables): F1: Audind (Auditor independence); F2: Experce (Experience); F3: Acbility (Accountability); F4: Audqual (Audit quality).

Manifest (observed) variables: finrel (financial relationship); perrel (personal relationship); objopin (objective opinion); freq (frequency); tenur (tenure); soblig (social obligation); pcoded (personal commitment and dedication); motiva (motivation); cneeds (company needs; scompl (standard compliance); dcare (due care); saud (senior auditors); etknow (ethical standards and knowledge; satis (satisfaction).

7. Data Analysis

Results

Table 1 presents descriptive statistics, reliabilities, and correlations. On a five-point scale, the mean value of audit quality (Audqual) was 3.990 which is fairly high. However, the mean value for auditor independence (Audind), experience (Experce), and accountability (Acbility) are low. Cronbach alpha was used to assess the reliability of the scale. The result shows that all the scales had at least satisfactory internal consistency. Indices ranged from 0.785 for accountability to 0.928 for audit quality. As expected audit independence, audit experience, and accountability are all positively correlated with audit quality.

Structural equation modeling (SEM) was used to test the hypotheses. The primary analysis consisted of two parts. First, CFA was performed to determine whether the proposed measurement model reached an acceptable fit to the data. If an acceptable model was reached, then analysis would proceed to the structural model.

Table 1 Descriptive Statistics, Reliabilities, and Correlations (Pearson) among Variables (n = 210)

Variable	Mean	SD	Min	Max	1	2	3	4
Audqual	3.990	1.183	1.350	5.550	(0.928)			
Audind	2.794	0.734	1.010	3.970	0.843**	(0.854)		
Experce	2.638	0.780	0.890	4.160	0.593**	0.388**	(0.812)	
Acbility	2.721	0.733	0.770	3.710	0.831**	0.505**	0.324**	(0.785)

** Significant at the $p < 0.01$ levels (two-tailed)

Scale reliabilities (Cronbach's α) appear in parentheses.

Table 2 shows the properties of the measurement model after CFA had been performed. These includes factor loadings and variance extracted estimates. Convergent validity was assessed by reviewing the critical ratio (C.R) statistic for the measured variables and the latent constructs. As presented in table 2, all the factor loadings of the measured variable on the latent variable were all statistically significant at $p < 0.001$, supporting the convergent validity of those variables. Therefore all of the latent constructs appear to have been adequately measured by their respective indicators. Table 2 also provides the reliabilities of the indicators (the square of the factor loadings) along with the composite reliability for each construct. According to Fornell & Larcker (1981), composite reliability is a measure of internal consistency comparable to Cronbach's coefficient alpha. All five scales demonstrated acceptable levels of reliability, with coefficients in excess of .70. The final column of table two is the variance extracted estimate. This is a measure of the amount of variance captured by a construct, relative to the variable due to random measurement error (Fornell & Larcker, 1981).

The last column of table 2 are the variance extracted estimates which are all in excess of .50, the level recommended by Fornell & Larcker, (1981).

Table 2 Properties of the Measurement Model

Construc/ Indicators	Unstandardized factor loading	S.E.	C.R.	Standardized factor loading	Reliability	Error variance b	Variance extracted estimate
Audind (F1)					0.855[a]		0.663
finrel	1.136	0.087	12.989	0.795***	0.631	0.369	
perrel	1.075	0.077	13.890	0.834***	0.696	0.304	
objopin	1.000	-	-	0.814***	0.662	0.338	
Experce (F2)					0.813[a]		0.685
freq	1.106	0.124	8.912	0.844***	0.712	0.288	
tenur	1.000	-	-	0.812***	0.659	0.341	
Acbility (F3)					0.825[a]		0.620
soblig	1.330	0.419	8.919	0.892***	0.795	0.205	
pcoded	1.127	0.128	8.775	0.861***	0.741	0.259	
motiva	1.000	-	-	0.569***	0.323	0.677	
Audqual (F4)					0.935[a]		0.709
cneeds	1.000	-	-	0.891***	0.794	0.206	
scompl	0.693	0.042	16.400	0.820***	0.673	0.327	
dcare	0.839	0.045	18.831	0.876***	0.767	0.233	
Saud	0.573	0.060	9.573	0.583***	0.339	0.661	
etknow	0.725	0.040	18.332	0.866***	0.750	0.250	
satis	0.992	0.041	24.222	0.964***	0.929	0.071	

*** $p < 0.001$; a = denotes composite reliability; b = error variance, 1 – indicator reliability;
Source: Extracted from various AMOS 21 outputs

Table 3 presents various indices of the model fit. Using AMOS 21, the hypothesized model yielded overall, a good fit to the data (GFI = 0.951 > 0.95; CFI = 0.995 > 0.95; IFI = 0.995 > 0.95; RMSEA = 0.028 < 0.05). Having achieved an acceptable measurement model, we then proceeded to testing the hypothesized structural model (the model showing the path coefficients among the latent contructs) .

Table 3 Fit Indices of the full hypothesized structural model

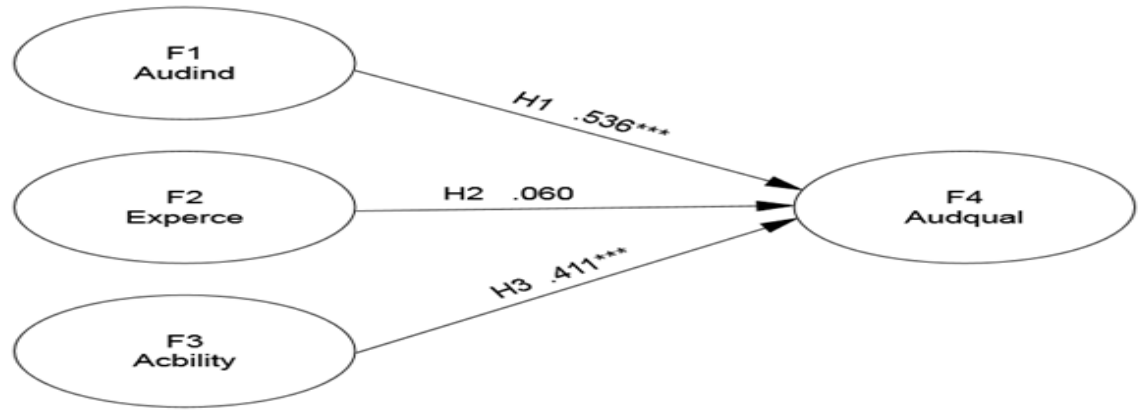
Assessment Measure	Estimate	Critical Value	Indication
$\chi 2 = 80.379$, df = 69	P = 0.165	> 0.05	Good fit
$\chi 2$/df	1.165	< 2.00	Good fit
GFI	0.951	> 0.90	Good fit
AGFI	0.925	> 0.80	Good fit
PGFI	0.625	> 0.50	Good fit
RMR	0.034	< 0.05	Good fit
NFI	0.967	> 0.95	Good fit
RFI	0.957	> 0.95	Good fit
IFI	0.995	> 0.95	Good fit
TLI	0.994	> 0.95	Good fit
CFI	0.995	> 0.95	Good fit
PRATIO	0.758	> 0.70	Good fit
PNFI	0.734	> 0.70	Good fit
PCFI	0.755	> 0.70	Good fit
RMSEA	0.028	< 0.05	Good fit

Source: Extracted from AMOS 21 Output.

Figure 3 presents the hypothesized structural model (path coefficients among the latent constructs) showing the standardized parameter estimates. The hypothesized structural model was arrived at by the maximum likelihood

method in Amos. The standardized parameter estimates shown in the figure provide evidence for the testing of our hypotheses. H1 predicts that auditor independence will be positively and statistically related to audit quality. Research question 1 (To what extent does independence of the auditor lead to audit quality?) is related to H1. The standardized path coefficient from audit independence to audit quality (0.536; $p < 0.001$) supports H1 and answers research question 1. Auditor independence to a large extent affects audit quality in Nigeria. H2 predicts that auditor experience will be positively and significantly related to audit quality. Research question 2 (To what extent does auditor experience lead to audit quality?) and H2 are related. The path coefficient from experience to

Fig. 4. Standardized path coefficients of the structural model (n = 210)



Chi2 = 80.379, (df = 69, p = 0.165); Chi2/df = 1.165; GFI = 0.951; AGFI = 0.925
PGFI = 0.625; NFI = 0.967; RFI = 0.957; CFI = 0.995; IFI = 0.995; TLI = 0.994;
RMSEA = 0.028

Source: AMOS 21 Output

to audit quality, though positively related to audit quality, is not significant (0.060; $p > 0.05$) and therefore does not support H2. This also answers research question 2. It follows that experience does not significantly affect audit quality in Nigeria. H3 predicts that auditor accountability will be positively and significantly related to audit quality. Research question 3 (To what extent does auditor accountability lead to audit quality?) and H3 are related. The standardized path coefficient from accountability to audit quality (0.411; $p < 0.001$) is significant and is of the a-priori sign, and support H3. This result answers research question 3. Auditor accountability to a large extent affects audit quality in Nigeria.

8. Discussion of Findings

The results of the analysis using structural equation modeling show that audit quality is infuenced by many factors simultaneously. The results of our analysis showed that auditor independence, experience and accountability are positively related to audit quality. However, it is ony auditor independence, and auditor accountability that are significantly related to audit quality.

The finding of this paper that show that auditor independence is positively and statistically related to audit quality agrees with prior studies such as Alim et al. (2007); Dang (2004); and Defond, Raghunandan, & Subramanyan (2002). This shows that as auditor independence improves so too audit quality improves.

Our findings on experience shows that experience, though positively related to audit quality, is not statistically significant. This shows that experience does not influence audit quality in Nigeria. Our finding is contrary to the postulations of Kolodner (1996), Defond & Francis (2005), Smith, Behard, & Johnstone (2009) and Wang, Chang, & Zao (2012). These authorities see experience as an important factor that improves the quality of an auditor's job. Our study is however in agreement with Ashton (1990) who postulated that experience is not related to audit quality because accounting and audit activities are difficult to learn within a short period.

Our study found out that accountability significantly affects audit quality in Nigeria. This is consistent with many studies (Yumerefendi & Chase, 2004; Tan & Kao, 1999; Friedman & Grudin, 1998) that see a positive significant relationship between high accountability and high quality audit. Thus an auditor who does his job with high accountability will improve the quality of audit.

9. Conclusion

We studied the relationship between audit firm characteristics and audit quality. Specifically we studied

the relationship between audit quality and auditor independence, auditor experience, and auditor accountability. The study found out that audit firm characteristics to a large extent affect audit quality. We find that auditor independence and auditor accountability leads to an increased level of audit quality. The result of this study has shown that auditors in Nigeria are excercising an independent behaviour in carry out their audit functions. We find a non-significant relationship between auditor experience and audit quality in Nigeria. This shows that experience is not a factor influencing audit quality in Nigeria. An auditor may be experienced but may not exercise due care and diligence in carry out his audit work.

Our study showed that accountability is a factor affecting audit quality in Nigeria. The lessons learnt from Enron's auditor, Arthur Andersen may still be very fresh in many auditors mind. Arthur Anderson held was liable and suffered huge cost of litigation when Enron collapsed. Also the recent cry for auditors to be held liable for not excercising due care and diligence has brought the accountability consciousness into the minds of Nigerian auditors. This has increased the quality of auditing in Nigeria.

10. Recommendation

Our findings have important practical implications. Our study indicates that auditor independence and auditor accountability can result in higher levels of audit quality. A good quality audit depends on both the client and the auditor. Client management should encourage members of the client organization to try to view auditors as valuable service providers as opposed to viewing them as necessary evils. Client management should not try to influence auditors so that auditors can carry out their functions with an independent mind. Client personnel should treat auditors with dignity and respect and make themselves available to meet auditors and provide them with all necessry documents and schedules in a timely manner, and provide necessary explanations to auditors questions.

The auditor should consider the audit risk before embarking on any audit. He should consider the consequences of a poor quality audit report on the continued existence of the company, its impact on the capital market, and the reputation of the auditor firm. This would enable him to carry out his audit work with an independent mind and with accountability consciousness. Consequently audit quality would be enhanced.

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Appendix 1Names of Sampled Companies

S/N	Names	Sector
1.	Okomu Oil Plc	Agriculture
2.	Nigerian Aviation Handling Co. Plc	Airline
3.	R.T. Briscoe Plc	Automobile & Tyre
4.	First Bank of Nigeria Plc	Banking
5.	Union Bank of Nigeria Plc	Banking
6.	United Bank for Africa Plc	Banking
7.	Zenith Bank Plc	Banking
8.	Diamond Bank Plc	Banking
9.	Nigerian Breweries Plc	Breweries
10.	Guinness Nig. Plc	Breweries
11.	Larfarge WAPCO Plc	Building Materials
12.	Dangote Cement Plc	Building Materials
13.	CAP Plc	Chemical & Paint
14.	IPWA Plc	Chemical & Paint
15.	Berger Paint Plc	Chemical & Paint
16.	UACN Plc	Conglomerates
17.	Unilever Plc	Conglomerates
18.	Paterson & Zochonis Plc	Conglomerates
19.	Julius Berger Plc	Construction
20.	Constain Plc	Construction
21.	Cutix Plc	Engineering Technology
22.	Nigeria Bottling Company Plc	Food / Beverages
23.	Cadbury Plc	Food / Beverages
24.	7-UP Bottling Company Plc	Food / Beverages
25.	Dangote Flour Mill Plc	Food / Beverages
26.	May & Baker Plc	Health Care
27.	Evans Medical Plc	Health Care
28.	Glaxo SmithKline Consumer Plc	Health Care
29.	Vitafoam Plc	Industrial / Domestic
30.	First Aluminium Nigeria Plc	Industrial / Domestic
31.	Vonoform Products Plc	Industrial / Domestic
32.	AIICO Insurance Plc	Insurance
33.	Niger Insurance Company Plc	Insurance
34.	Japaul Oil & Maritime Plc	Maritime
35.	Avon Crowncap Plc	Packaging
36.	Poly Products Plc	Packaging
37.	Total Plc	Petroleum Marketing
38.	Oando Plc	Petroleum Marketing
39.	Mobil Oil Plc	Petroleum Marketing
40.	United Nigeria Textiles Plc	Textiles

Source: The Nigerian Stock Exchange Factbook 2012.

Appendix 2 Questionnaires

ConfidentialYour answers to the questions and all other information you give us will be held in strictest confidence.

SECTION A: This section is to be completed by Finance Directors, Shareholders, and Financial Analysts.

Name of Company……

1. Tick one: □ Male □ Female
2. Position: □ Finance Director □ Shareholders □ Financial Analysts

Please evaluate the performance of the Audit firm that conducted the most recent audit of your company by ticking the appropriate response. Note the full meanings of the following abbreviations and please tick any of the boxes that seem appropriate to you in the questions below.

SA = Strongly Agree (5): A = Agree (4): N = Neutral (3): D = Disagree (2): SD = Strongly Disagree (1).

VS = Very Satisfied (5): S = Satisfied (4): N = Neither Satisfied Nor Dissatisfied (3): D = Dissatisfied (2): VD = Very Dissatisfied (1).
VF = Very Frequently (5): F = Frequently (4): N = Neither Frequently Nor Infrequently (3): I = Infrequently (2): VI = Very Infrequently (1).

AUDIT QUALITY

	SA	A	N	D	SD
1.The external auditor firm was responsive to company's needs	□	□	□	□	□
2.The audit team members as a group complied with auditing standard (GAAP) in the audit of your company	□	□	□	□	□
3 The audit team members as a group always exericise due care throughout the engagement	□	□	□	□	□
4 Senior auditors (partners / managers) were actively engaged in the audit	□	□	□	□	□
5 The audit team members had high ethical standards and were very knowledgeable about accounting and auditing	□	□	□	□	□
	VS	**S**	**N**	**D**	**VD**
6 How satisfied are you with the overall audit performance and the final audit report	□	□	□	□	□

AUDITOR INDEPENDENCE

10 We ensure that there is no financial relationship between the audited company and our audit team members that would compromise our independence	□	□	□	□	□
11 We ensure that there is no personal relationship with our client that would compromise our independence.	□	□	□	□	□
12 We have at no time made an audit assessment that was more reflective of our client's best interest than of our professional objective opinion	□	□	□	□	□

AUDITOR EXPERIENCE

	VF	F	N	I	VI
13 How frequently do you carry out your audit duties	□	□	□	□	□

14 Please enter your audit tenure (level of experience) as a full-time professional external auditor	**< 3yrs**	**3-5 yrs**	**6-9 yrs**	**10-15 yrs**	**>15yrs**

AUDITOR ACCOUNTABILITY

	SA	A	N	D	SD
15 We see our audit work as part of our social obligations to ensuring that investors and financial market participants rely on financial statements presented to them	□	□	□	□	□
16 We carry out quality audit work because of strong commitment and dedication to our profession	□	□	□	□	□
17 We are motivated to do a thorough audit work so as to avoid the cost of litigation	□	□	□	□	□

Thank you for filling this questionnaire.