



## Audit Quality and Earnings Per Share of Listed Insurance Companies in Nigeria

OYEDOKUN, Godwin Emmanuel<sup>1</sup>, IDOWU Afolasade Florence<sup>2</sup>, ABIODUN-AFOLABI Fadekemi Omogbonjubolanle<sup>3</sup>, ESO Ayoola Abimbola<sup>4</sup>

<sup>1</sup>Professor, Department of Management and Accounting, Lead City University, Ibadan, Nigeria.

<sup>2</sup>Department of Banking and Finance, Gateway (ICT) Polytechnic Saapade Ogun State, Nigeria.

<sup>3</sup>Osgoode Professional Development, Osgoode Law School, York University, Toronto, ON Canada.

<sup>4</sup>Department of Finance, Lagos State University of Science and Technology, Lagos, Nigeria.

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**Corresponding Author:**  
OYEDOKUN, Godwin Emmanuel

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### ABSTRACT

Financial performance is influenced by audit quality, which is essential for ensuring the accuracy and reliability of financial reports that is imperative for stakeholders' decision-making and corporate transparency. In the context of Nigeria's insurance sector, financial performance, particularly Earnings Per Share (EPS), has become a key measure of success. This study investigates the effect of audit quality on EPS in listed insurance companies, focusing on three primary components: audit fees, auditor independence, and audit firm size. The study adopts an ex-post facto research design, analyzing data from 22 listed insurance firms over a five-year period (2017-2021). Descriptive statistics, unit root tests, and multiple regression analysis were employed. Results from the unit root test confirm that all variables are stationary, allowing for time-series analysis. The findings show that audit fees have a significant positive impact on EPS ( $\beta = 5.61$ ,  $p < 0.05$ ;  $F = 5.10$ ,  $p < 0.05$ ), while auditor independence exhibits a negative but significant effect on EPS ( $\beta = -3.30$ ,  $p < 0.05$ ;  $F = 5.39$ ,  $p < 0.05$ ). Additionally, audit firm size positively influences EPS ( $\beta = 0.36$ ,  $p < 0.05$ ;  $F = 1.13$ ,  $p < 0.05$ ). The model's reliability is supported by Durbin-Watson statistics close to 2, indicating minimal autocorrelation. These findings underscore the importance of audit quality in shaping the financial performance of insurance companies in Nigeria, providing valuable insights for auditors, regulators, and stakeholders aiming to enhance financial transparency and performance.

### 1. INTRODUCTION

Businesses, including insurance firms, aim to increase profitability, improve performance, and generate higher returns for stakeholders. Financial performance is a key measure of success, essential for business survival, investor confidence, and stakeholder engagement. A diligent audit process enhances financial health, with companies benefiting from auditors who adhere to professional standards (Opeyemi, Popoola, & Yahaya, 2020; Oyedokun, Yunusa, & Adeyemo, 2018). Interest in corporate governance surged after major corporate failures like Enron and the Nigerian financial crisis. Weak governance is often linked to these collapses (Opeyemi et al., 2020). Only 20% of SMEs in Nigeria, including financial firms, survive, emphasizing the challenges of the business environment (Erinoso, & Oyedokun, 2022; Ahmad et al., 2019). The insurance sector plays a critical role in risk management and economic stability, contributing significantly to the economy (Erinoso, & Oyedokun, 2022; Gazi et al., 2021). Financial performance, measured by tools like Earnings Per Share (EPS), is crucial for assessing company efficiency and profitability, especially in the insurance industry (Nattarinee, 2018). Variations in Nigerian insurance profits suggest firm-specific factors influence performance, with the sector contributing 3.05% to Nigeria's GDP in 2016 (Abdullahi et al., 2020; Oyedokun, &

Yunusa, 2017). Understanding these performance determinants is key to supporting broader economic activities (Abdullahi et al., 2020).

insurance plays a crucial role in economic development by promoting resource allocation, reducing transaction costs, and providing liquidity for investments. It also supports risk management and offers long-term capital for infrastructure projects (Opeyemi, Popoola, & Yahaya, 2020). The profitability of insurance companies is a key indicator of industry performance, helping to assess how well they meet the expectations of the public (Ahmad et al., 2019).

Audit quality, defined by the diligence and accuracy applied in the audit process, enhances the credibility of financial reports by identifying and addressing material misstatements (Abdullahi et al., 2020). High-quality audits reduce financial risks and instill confidence in capital markets, ultimately lowering the cost of capital for firms (Owolabi & Babarinde, 2020; Dauda, Ojo, Oyedokun, & Ajayi-Owoeye, 2018). Auditors play a critical role in detecting fraud and ensuring compliance with regulations, which strengthens financial performance and supports overall business sustainability (Ahmeti, Kalimashi, & Ahmeti, 2022).

The financial statement audit helps reduce information asymmetry and protects stakeholders' interests by providing reasonable assurance that financial statements are free from material misstatements (Gazi et al., 2021). Investors rely on accurate financial data for decision-making, but for this data to be reliable, it must be of high quality. Since managers may have conflicts of interest and act opportunistically, external auditors are necessary to verify financial statements and ensure that the company's financial position is accurately represented (Arumona & Nev, 2021).

High-quality audits are associated with better financial performance, which is likely the case for insurance companies in Nigeria. Insurance companies require high-quality audits to assure stakeholders of the accuracy and reliability of their financial reports and to comply with regulatory requirements (Ahmad et al., 2019; Oyedokun, Okwuosa, & Isah, 2019). Regulatory bodies often mandate periodic audits to ensure industry compliance, making audit quality crucial in providing regulators with confidence that companies adhere to relevant laws and regulations (Owolabi & Babarinde, 2020).

The factors influencing audit quality can be examined from three perspectives: client firm characteristics (such as size, profitability, board composition, audit committee presence, ownership, and capital structure); auditor and audit firm characteristics (including auditor independence, firm size, tenure, fees, and reputation); and external factors (such as regulatory environment, external supervision, and the audit context) (Sari et al., 2019; Arumona & Nev, 2021). Among these, ownership structure is considered a determinant. However, for this study, audit quality metrics are focused on audit fees, independence, and firm size.

Audit firm size refers to the scale of the accounting firm conducting the audit. Firms range from small locals to large global entities. The "Big 4" firms in Nigeria, Akintola Williams Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG are used as the measure for firm audit size in this study (John & Abimbola, 2022; Oyedokun, Ojo, & Ugoh, 2020). Larger firms may influence the audit process, service level, and ultimately, the financial performance of the audited firm (Ahmeti et al., 2022).

Audit tenure, the duration of an auditor's engagement with a specific company, also impacts audit quality. Prior research often uses a three-year benchmark to assess short versus long audit tenure (John & Abimbola, 2022). However, the study reveals a negative but statistically insignificant relationship between audit firm tenure and financial performance (Ahmeti et al., 2022; John & Abimbola, 2022).

For this study, audit quality is assessed through audit fees, auditor independence, and the size of audit firms, with a particular focus on the Big 4 in Nigeria. The size and tenure of audit firms have varying impacts on audit outcomes, though prior studies indicate that while larger audit firms tend to provide higher service levels, longer audit tenures may have a negative yet statistically insignificant relationship with firm financial performance. These findings emphasize the importance of high-quality audits, particularly for compliance and regulatory confidence, which is essential for sectors such as the insurance industry in Nigeria.

The Nigerian insurance sector, significantly impacted by the global financial crisis, remains undercapitalized and underperforming, contributing only 2.83% to the nominal GDP in Q3 2022. Despite this, much of the research on audit quality in Nigeria has primarily focused on the banking sub-sector, leaving the insurance sector understudied, even though it represents nearly 50% of the companies listed in the financial sector of the Nigerian Exchange Group (NGX). Additionally, since the adoption of IFRS in 2012, the insurance sub-sector has witnessed more delisting compared to the banking sector, pointing to performance issues that require further investigation. While some studies suggest a direct correlation between audit quality and financial performance, the findings are inconsistent, creating a gap in understanding the relationship in the insurance industry. Moreover, previous research has often overlooked the interactive effects of key audit quality measures such as audit fees, auditor independence, and audit firm size on financial performance, specifically earnings per share (EPS). This study seeks to fill this gap by exploring these combined effects across all listed insurance companies in Nigeria, providing a comprehensive and generalizable understanding of how audit quality influences financial performance, thus offering valuable insights for investors, managers, and regulators.

### **Aim and Objectives of the Study**

This study investigated the effect of audit quality on financial performance (Earnings Per Share) of listed insurance companies in Nigeria. In order to achieve the aim of the study the following objectives are set to:

- i. investigate the effect of audit fees on the Earnings Per Share of listed insurance companies in Nigeria.
- ii. evaluate the effect of audit independence on the Earnings Per Share of listed insurance companies in Nigeria.

- iii. examine the effect of audit firm size on the Earnings Per Share of listed insurance companies in Nigeria

### Research Questions

Based on the stated objectives, the following research questions will be answered in this study:

1. To what extent will audit fees affect the Earnings Per Share of listed insurance companies in Nigeria?
2. In what way will audit independence affect the Earnings Per Share of listed insurance companies in Nigeria?
3. How does audit firm size affect the Earnings Per Share of listed insurance companies in Nigeria?

### Hypotheses

- H<sub>01</sub>: There is no significant effect of audit fees on Earnings Per Share of listed insurance companies in Nigeria  
 H<sub>02</sub>: There is no significant effect of audit independence on Earnings Per Share of listed insurance companies in Nigeria.  
 H<sub>03</sub>: There is no significant effect of audit firm size on Earnings Per Share of listed insurance companies in Nigeria

## 2. LITERATURE REVIEW

### 2.1 Financial Performance

High-quality financial reports are crucial for enhancing firm performance, as they boost confidence in capital markets and lower financing costs (Arumona & Nev, 2021). When investors trust the accuracy of financial statements, they are more likely to invest, leading to improved organizational outcomes (Sari et al., 2019). Financial statement audits play a vital role in reducing information asymmetry by assuring stakeholders that management's financial reports are free from material misstatements (Ado et al., 2020). Furthermore, auditors help mitigate the risks of significant misstatements and ensure compliance with established regulations, thus contributing positively to financial performance (Ahmeti et al., 2022). Financial performance reflects a firm's operational effectiveness and is essential for its success in today's competitive environment (John & Abimbola, 2022). It can be measured through various methods, including accounting-based and market-based metrics, with earnings per share (EPS) being a common measure for assessing firm performance (Ado et al., 2020; Sari et al., 2019). Ultimately, high-quality financial reporting is a critical component of achieving and sustaining strong firm performance.

### Earnings Per Share (EPS)

Earnings per share (EPS) is a widely recognized financial metric that measures a company's profitability on a per-share basis, defined as the net income allocated to each outstanding share of common stock (Sari et al., 2019). A higher EPS often signals greater financial success, as it indicates the firm is generating more profit for each share, making it a crucial measure for analysts and investors in stock valuation (Arumona & Nev, 2021). Research has demonstrated that EPS is a significant factor influencing stock prices in various sectors; for instance, it was identified as a key driver of stock prices in the Nigerian banking industry (Ahmeti et al., 2022) and had a notable positive impact on stock returns in the Jordanian banking sector (Ado et al., 2020). While investors focus on EPS as a signal of a company's profitability, they also consider other critical factors such as revenue growth, profit margins, return on equity, and debt-to-equity ratio (John & Abimbola, 2022). Furthermore, it has been observed that between 85% and 90% of relevant accounting information, including EPS, tends to be leaked to investors before formal announcements, influencing stock returns prior to earnings releases (Ball & Brown, 2020). This suggests that market participants respond to anticipated changes in earnings, reflecting the importance of EPS in predicting future stock performance. Therefore, while a higher EPS generally indicates stronger financial performance, it is essential for investors to evaluate additional elements to gain a comprehensive understanding of a company's market standing.

### Audit Quality

External auditors play a critical and challenging role in assuring the credibility of financial reports and ensuring the quality of audit exercises. In recent years, corporate accounting scandals and a growing demand for transparency and integrity in financial reporting have underscored the importance of external audits. These audits are essential in resolving complex accounting manipulations that often obscure the true nature of financial statements. Furthermore, the economic turbulence caused by the global financial crisis has highlighted the pressing need for trustworthy, high-quality, and reliable financial reporting systems. As a result, external audits are expected to significantly enhance and promote high-quality financial reporting among companies (Ojo, Oyedokun, & Fodio, 2020; Owolabi & Ijeoma, 2019).

Despite the inherent complexity in quantifying audit quality, researchers have developed various proxies to capture different facets of actual audit quality. These proxies aim to provide insights into the effectiveness and reliability of the audit process. Notable among these proxies are the probability of issuing a going concern opinion, auditor size, audit fees, and measures correlated with earnings management (DeAngelo, 1981; Tiamiyu, & Oyedokun, 2019). Audit quality is a multifaceted aspect of the auditing process, influenced by numerous factors that extend beyond traditional financial metrics. Key factors influencing audit quality include audit fees, non-audit fees, audit tenure, the presence of audit firm alumni, and the effectiveness of audit committees. In particular, the magnitude of audit fees plays a pivotal role in signaling the quality of an audit (Knechel et al., 2013).

**Audit Fee**

Fees represent the monetary compensation received by auditors for services rendered to their clients, typically based on the level of effort and risk involved in the audit engagement (Bakare, 2019). It is widely believed that high audit fees are indicative of high-quality audits, reflecting the extensive resources and diligence devoted to the engagement (Thisdaylive, 2022). In fact, audit fees have been used as a proxy for measuring audit quality, with research highlighting a significant relationship between audit fees and auditor size, particularly when comparing Big Eight auditors to non-Big Eight auditors (Bakare, 2019).

Given the common acceptance of auditor size as a measure of audit quality, audit fees emerge as a suitable proxy for determining the level of audit quality. Studies have shown that audit fees can offer greater explanatory power than auditor size in capturing variations in the quality of financial disclosure, especially in local government settings (Thisdaylive, 2022). This implies that fees paid for audit services are a strong indicator of the resources dedicated by audit firms, which directly influences the perceived quality of the audit.

Audit fees, defined as the total cost incurred by the client for audit services, are also an important factor in measuring the market share of audit firms. The total audit revenue collected by an audit firm reflects its market size, with larger audit suppliers typically commanding higher fees. As such, audit fees are not only a proxy for audit quality but also a reliable measure of market concentration, as they are sensitive to the population size of audit clients (Bakare, 2019). The sum of all audit fees charged to clients provides an accurate representation of the size of the audit market, reinforcing the importance of fees as a key indicator of both audit quality and market share.

**Auditor Size**

Audit firm size is positively associated with audit quality. The auditors' size has turned out to be a broadly used measure of audit quality (Bakare, 2019). Bigger audit firms have larger client base and thus generate more revenue from audit, higher reputation to keep, so, they have more inducement for provision of high-quality service delivery (Knechel et al., 2013). This assertion is corroborated by a large body of empirical studies, which also recognized the presence of a positive association between auditor size and audit quality (Knechel et al., 2013).

**Audit Fees**

The accounting literature generally agrees that audit fees reflect auditors' efforts due to the highly regulated nature of the audit market, which limits potential excess earnings (Thisdaylive, 2022). Firms often charge higher fees for more extensive reviews and closer supervision, suggesting a direct correlation between fees and audit work (Bakare, 2019). However, some studies argue that audit fees may not always accurately indicate the level of auditor effort, positing that fees create an economic bond that influences auditor behavior, complicating the relationship between fees and auditing efforts (Monametsi & Agasha, 2020).

**Audit Independence**

Auditing serves as a cornerstone in the financial landscape by providing an independent and critical review of financial information. A key objective of auditing is to evaluate the adequacy of internal control systems within organizations, which is essential for promoting transparency, accountability, and the integrity of financial reporting (Monametsi & Agasha, 2020). Over the years, there has been a notable evolution in auditing practices, characterized by a persistent quest for higher audit quality. This pursuit highlights the importance of ensuring auditors' independence, both in appearance and mindset (Farouk & Hassan, 2014; Abdullahi, 2020).

**2.2. Theoretical Framework****Resource Dependence Theory**

Resource Dependence Theory (RDT) characterizes the corporation as an open system that relies on the external environment for essential resources, such as capital, information, and expertise, necessary for survival and growth (Elms & Berman, 1997). This theoretical framework emphasizes that organizations are not self-sufficient; instead, they depend on external contingencies to achieve their objectives. RDT complements other theoretical frameworks in corporate governance by illustrating how a company's resource dependence influences its decision-making processes, including choices related to audit quality, which can ultimately impact financial performance (Yanti & Darmayanti, 2019).

**2.3 Review of Empirical Studies**

Relevant studies on audit quality and performance have been extensively conducted in Nigeria and other regions. Numerous empirical investigations have focused on the effects of audit quality on financial performance, income manipulation, and audit report lag. For instance, one study explored the impact of audit quality on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria, revealing that the size of the audit firm and joint audits positively influence return on assets (ROA), while audit fees had an insignificant effect (Ugwu et al., 2020). Conversely, research in Pakistan indicated that non-Big 4 audit firms performed higher quality audits than their Big 4 counterparts, with auditors providing lower quality services in exchange for higher fees.

Another investigation assessed the relationship between audit fees and quality within the consumer goods sector in Nigeria. This study concluded that while audit fees, client profitability, and financial leverage positively but insignificantly affected audit quality,

audit tenure and client size exhibited a significant positive effect. Additionally, a study focusing on industrial goods companies in Nigeria found that audit quality significantly affects audit report lag, while auditor independence did not.

Further research examined the impact of audit independence, tenure, and firm size on the financial performance of consumer goods companies in Nigeria. This descriptive and cross-sectional study utilized secondary data from annual reports of five quoted firms over five years, concluding that audit quality, as measured by independence and tenure, positively influences financial performance. However, the audit firm size was not found to be significant. Lastly, a study aimed at understanding how corporate ownership types affect audit quality in Jordan provided valuable insights applicable to similar developing countries. It found that family, bank, and government ownership positively influenced audit quality, whereas ownership by non-financial institutions and foreign entities did not. These empirical studies collectively enhance our understanding of the impact of audit quality on various facets of financial reporting in Nigeria and beyond.

### 2.4 Conceptual Model

The conceptual model of this study will examine the link between audit quality and financial performance of listed insurance companies in Nigeria. The study will focus on three determinants of audit quality, namely, audit fees, audit independence, and audit firm size. These factors will be used to examine their impact on two measures of financial performance, Earnings per share. The study will use Resource Dependence Theory as its theoretical framework to explain how external factors influence a company's decision-making process. The theory posits that companies are dependent on external resources such as capital, information, and technology to survive and thrive. Thus, companies need to manage their relationships with external stakeholders such as auditors, shareholders, and regulators to ensure access to these resources.

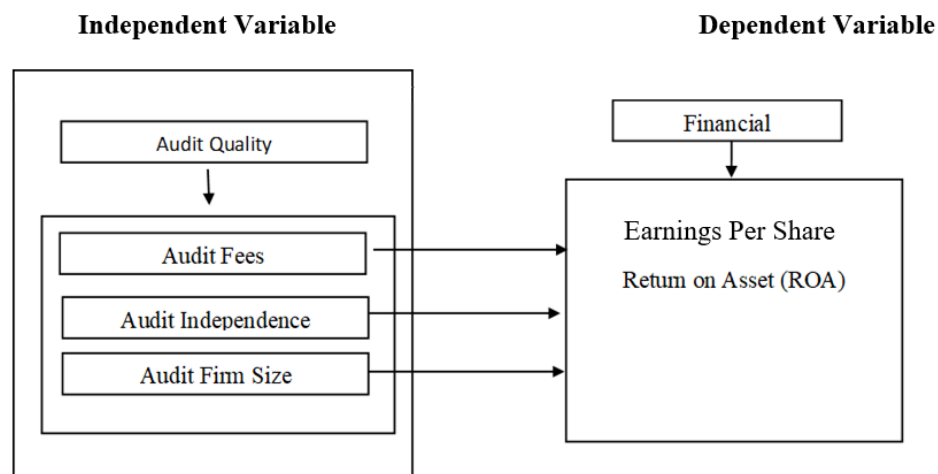


Figure 2.1 Conceptual Model of Audit quality and Financial Performance

## 3. METHODOLOGY

In this section, the study's methodology, research design, data sources, and model specifications are expounded upon, with particular emphasis on data analysis techniques, econometrics, and statistical standards.

### 3.1 Research Design

The research adopted an *ex-post facto* design, which uses past data to predict future trends and examines how an independent variable that existed prior to the study affects a dependent variable. This design is quasi-experimental, as it does not involve direct control over the independent variables, whose effects have already occurred and cannot be manipulated. Instead, the relationship between variables is inferred without intervening or varying the independent or dependent variable. The *ex-post facto* design was chosen as it allowed the researcher to examine the influence and relationship between variables that had already occurred, without the need for manipulation. Additionally, this design aligned with earlier studies in this area<sup>1</sup>.

### 3.2 Population of the Study

The population of this study consists of the insurance firms that are listed on the Nigerian Exchange Group (NGX) as of December 31st, 2017. At the time of the study, there will be 22 listed insurance firms in Nigeria<sup>2</sup>. The entire population will be included in the study, subject to the condition that the firms have complete data available in their published annual reports for the period between the years 2017 and 2021

### 3.3 Sample Size and Sampling Techniques

The study sample size consisted of the five (5) years of annual reports and financial statements from all twenty-two (22) listed insurance companies on the Nigerian stock exchange market, representing a total of one hundred and ten (110) reports. Since the number of listed insurance companies in Nigeria was small, the study utilized a census or total enumeration approach.

### 3.4 Description of the Research Instrument

The data for this study was collected from the annual financial statements of the 22 listed insurance companies on the Nigerian stock exchange market. Financial performance was measured by Return on Asset and Earnings per Share. Audit quality was measured by audit fees, audit independence, and audit firm size from 2017 to 2021.

### 3.7 Method of Data Collection

This study will depend on secondary data, namely yearly reports of listed insurance companies gathered from company websites and the Nigerian stock exchange market between 2017 and 2021.

### 3.8 Method of Data Analysis

Descriptive statistics and regression analysis will be employed as analysis techniques in this investigation. To explain the trend of the data obtained, descriptive statistics will be employed, defining its central tendency, variability, and dispersion. Multiple regression analysis will be used to evaluate the combined effect of independent factors on the dependent variable in order to identify the relationship between various metrics of audit quality, and financial performance. The Panel least Squares regression approach will be utilized for inferential statistics, which is widely used in economics and finance for data analysis and regression model estimate.

## 4. RESULTS AND DISCUSSION OF FINDINGS

This section encapsulates the outcomes and thoughtful discussions derived from the investigation. Grounded in alignment with the study's objectives, the findings unfold in response to the research questions and hypotheses meticulously formulated for the purpose of this research endeavor.

### Presentation of Diagnostic Tests

#### Unit Root Test

The table provides the results of a unit root test using the Levin, Lin & Chu  $t^*$  method for five variables, namely Return on Assets (ROA), Earning Per Share (EPS), Audit Fees (FEE), Independence of the Audit Committee (INDP), Audit Firm Size (Big4). The unit root test is used to determine whether the variables are stationary or not. The null hypothesis is that the variable has a unit root, which indicates non-stationarity, while the alternative hypothesis is that the variable is stationary.

**Table 1. Method Levin, Lin & Chu  $t^*$**

	Statistic	Prob.**
EPS*	5.36008	0.0000
FEE *	10.79157	0.0000
INDP*	7.92000	0.0000
BIG 4*	3.41147	0.0316

\*\* Probabilities are computed assuming asymptotic normality

Source: Field Result, 2023

The statistical analysis reveals significant findings for the variables examined. Earnings Per Share (EPS) has a statistic of  $t = 5.36008$  with a probability  $p < 0.0000$ , indicating strong statistical significance. Audit Fees (FEE) shows  $t = 10.79157$  and  $p < 0.0000$ , suggesting that the observed fee values are highly unlikely to have occurred by random variation. Audit Committee Independence (INDP) presents  $t = 7.92000$  and  $p < 0.0000$ , highlighting its significant impact on the outcomes. The Major Audit Firms Size (BIG 4) exhibits  $t = 3.41147$  with  $p = 0.0316$ , indicating a statistically significant, albeit less pronounced, relationship. Overall, all variables have  $t$ -statistic values below the critical threshold, leading to the rejection of the null hypothesis of a unit root at the 5% significance level. Thus, all variables are stationary and suitable for time-series analysis.

### Hypothesis One

**H<sub>01</sub>:** There is no significant effect of audit fees on financial performance of listed insurance companies in Nigeria

- **Audit Fees and Earning Per Share (EPS)**

**Table 2. Test Cross-Section Random Effects**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.684031	1	0.4082

Source: Field Result, 2023

The Hausman test probability (0.4082 > 0.05) in Table 2 indicates that the random effect estimator is more efficient than the fixed effect estimator. Consequently, the decision was made to adopt the random effect model for assessing the relationship between audit fees and the financial performance of listed insurance companies in Nigeria.

**Table 3. Audit Fees and Earning Per Share (EPS) of Listed Insurance Companies in Nigeria**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
<b>Audit Fees</b>	5.610249	0.205720	3.778967	0.0388
<b>C</b>	7.147519	2.066443	20.555311	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			1.504133	0.7703
Idiosyncratic random			0.821252	0.2297
Weighted Statistics				
R-squared	0.009352	Mean dependent var		0.119494
Adjusted R-squared	0.050658	S.D. dependent var		0.808367
S.E. of regression	0.810480	Sum squared resid		43.35391
F-statistic	5.103028	Durbin-Watson stat		1.987511
Prob(F-statistic)	0.032751			
Unweighted Statistics				
R-squared	-0.006512	Mean dependent var		0.440855
Sum squared resid	180.1243	Durbin-Watson stat		0.307483

Table 3 presents an analysis of the relationship between audit fees and Earnings Per Share (EPS) for listed insurance companies in Nigeria. The coefficient for audit fees is 5.610249 ( $P < 0.0000$ ), indicating a positive impact; a one-unit increase in audit fees corresponds to a 5.610249-unit increase in EPS. The constant term (C) has a coefficient of 7.147519, suggesting that a one-unit increase in C leads to a 7.147519-unit increase in EPS. In terms of effects specification, the random effects model shows a standard deviation (S.D.) for the cross-section random effect at 1.504133 and an estimated correlation (Rho) of 0.7703. The idiosyncratic random effect has an S.D. of 0.821252, with a Rho of 0.2297. Examining the model fit, the R-squared value is 0.009352, indicating that the model explains approximately 0.94% of the variance in audit fees related to EPS. However, the adjusted R-squared is 0.050658, suggesting that audit fees account for about 5% of the variability in EPS. The Durbin-Watson statistic is 1.987511, which is close to the ideal value of 2, indicating minimal autocorrelation in the residuals, thereby supporting the reliability of the model. In the specified regression model, where EPS is the dependent variable and audit fees and C are independent variables, the p-value for the F-statistic is 0.032751 ( $P < 0.05$ ), indicating that the overall impact of audit fees and the constant term on EPS is statistically significant, suggesting a meaningful relationship between these variables.

**Hypothesis Two**

**H02:** There is no significant effect of audit independence on financial performance of listed insurance companies in Nigeria.

- **Audit Independence and Earning per Share**

**Table 4. Test Cross-Section Random Effects**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.32824	1	0.8562

**Source: Field Result, 2023**

The Hausman test probability ( $0.32824 > 0.05$ ) in Table 4 indicates that the random effect estimator is more efficient than the fixed effect estimator. Consequently, the decision was made to adopt the random effect model for assessing the relationship between Audit Independence and the financial performance of listed insurance companies in Nigeria

**Table 5. Audit Independence and Earning per Share of Listed Insurance Companies in Nigeria**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INDP	-3.298374	2.844898	-6.159400	0.0005
C	0.849052	2.004047	-21.922659	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			1.482255	0.7653
Idiosyncratic random			0.820953	0.2347
Weighted Statistics				
R-squared	0.020569	Mean dependent var		0.121074
Adjusted R-squared	0.057290	S.D. dependent var		0.810958
S.E. of regression	0.808458	Sum squared resid		43.13793
F-statistic	5.386076	Durbin-Watson stat		1.943639
Prob(F-statistic)	0.003297			
Unweighted Statistics				
R-squared	0.007881	Mean dependent var		0.440855
Sum squared resid	177.5487	Durbin-Watson stat		0.302159

**Source: Field Result, 2023**

Table 5 illustrates the relationship between Audit Independence (LINDP) and Earnings per Share (EPS) in listed insurance companies in Nigeria. The coefficient for Audit Independence is  $-3.298374$  ( $P < 0.0000$ ), indicating that a one-unit increase in Audit Independence results in a decrease of 3.298374 units in EPS. The constant term (C) shows a coefficient of  $0.849052$  ( $P < 0.0000$ ), implying that a one-unit increase in C leads to a 0.849052-unit increase in EPS. The random effects model indicates a standard deviation for the cross-section random effect at 1.482255 ( $Rho = 0.7653$ ) and an idiosyncratic random effect with an S.D. of 0.820953 ( $Rho = 0.2347$ ). The R-squared value is 0.020569, meaning the model explains 2.06% of the variance in Audit Independence concerning EPS, while the adjusted R-squared is 0.05729, suggesting Audit Independence accounts for 50.6% of variability when controlling for other factors. The Durbin-Watson statistic is 1.943639, indicating minimal autocorrelation in the residuals and supporting model reliability. These results underscore the significance of the relationship between Audit Independence and EPS, emphasizing the necessity for insurance companies to prioritize audit independence to ensure high-quality audit services and favorable financial outcomes.

**H<sub>03</sub>:** There is no significant effect of audit firm size on financial performance of listed insurance companies in Nigeria

- **Audit Firm Size and Earning per Share**

**Table 6. Test Cross-Section Random Effects**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.549088	1	0.1104

**Source: Field Result, 2023**

The Hausman test probability ( $2.549088 > 0.05$ ) in Table 6 indicates that the random effect estimator is more efficient than the fixed effect estimator. Consequently, the decision was made to adopt the random effect model for assessing the relationship between Audit Firm Size and the financial performance of listed insurance companies in Nigeria



**Table 7. Audit Firm Size and Earning per Share of Listed Insurance Companies in Nigeria**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
<b>Audit Firm Size</b>	0.362901	0.334078	3.086277	0.0213
<b>C</b>	0.603344	0.341842	9.764977	0.0022
Effects Specification			S.D.	Rho
Cross-section random			1.248535	0.6928
Idiosyncratic random			0.831376	0.3072
Weighted Statistics				
R-squared	0.216880	Mean dependent var		0.142989
Adjusted R-squared	0.011984	S.D. dependent var		0.849426
S.E. of regression	0.848370	Sum squared resid		47.50224
F-statistic	1.133199	Durbin-Watson stat		1.917106
Prob(F-statistic)	0.020973			
Unweighted Statistics				
R-squared	0.078760	Mean dependent var		0.440855
Sum squared resid	164.8643	Durbin-Watson stat		0.321871

**Source: Field Result, 2023**

Table 7 presents the regression analysis examining the relationship between Audit Firm Size and Earnings per Share (EPS) in listed insurance companies in Nigeria. The coefficient for Audit Firm Size is 0.362901 ( $t = 3.086277$ ,  $P = 0.0213$ ), indicating a positive relationship where larger audit firms are associated with higher EPS. The constant term (C) has a coefficient of 0.603344 ( $t = 9.764977$ ,  $P = 0.0022$ ), suggesting a baseline positive impact on EPS even when Audit Firm Size is zero. The analysis incorporates both cross-section random and idiosyncratic random effects, with the cross-section random effect showing a standard deviation of 1.248535 ( $Rho = 0.6928$ ) and the idiosyncratic random effect having an S.D. of 0.831376 ( $Rho = 0.3072$ ). The R-squared value is 0.216880, indicating that the model explains 21.69% of the variance in EPS, while the adjusted R-squared is 0.011984, suggesting Audit Firm Size contributes 1.2% of the variability in Return on Assets (ROA). The Durbin-Watson statistic is 1.917106, indicating a moderate presence of autocorrelation in the residuals. The p-value for the F-statistics is 0.020973, falling below the significance level of 0.05, leading to the rejection of the null hypothesis. Thus, the impact of Audit Firm Size on EPS is statistically significant, underscoring its relevance in influencing the financial performance of listed insurance companies in Nigeria.

### Discussion of Findings

Based on the first objective of this study, it was found that audit fees significantly influence performance metrics, specifically Return on Assets (ROA) and Return on Investment (ROI). Therefore, insurance companies should consider paying fair audit fees, aligning with numerous studies that show a link between audit quality and improved financial performance. For instance, Ado et al. (2020) demonstrated that audit quality positively impacts financial performance even after controlling factors such as firm size and leverage. Abdullahi et al. (2020) also revealed that audit quality significantly affects the profitability of listed companies in Nigeria. Moreover, the findings indicate a statistically significant relationship between audit fees and Earnings Per Share (EPS) for listed insurance companies in Nigeria, suggesting that audit fees can meaningfully impact their financial performance. This is further supported by Babatunde et al. (2021), who emphasized that audit quality is crucial for the financial performance of banks. The empirical literature on audit quality and financial performance among quoted companies in Nigeria closely aligns with the findings of this study, reinforcing the connection between audit quality and financial outcomes.

Additionally, a comprehensive review of corporate finance theory and practice highlights the importance of audit independence in ensuring the accuracy and reliability of financial statements, suggesting that greater audit independence can lead to improved EPS (Ahmeti et al., 2022). It has also been noted that CEO characteristics significantly impact firm performance, implying that audit independence, which helps ensure CEOs act in shareholders' best interests—can contribute to enhanced EPS (Ahmeti et al., 2022).

## 5. CONCLUSION AND RECOMMENDATIONS

The positive relationship between Audit Firm Size and Earnings Per Share (EPS) indicates that larger audit firms correlate with higher EPS among listed insurance companies. This consistent influence underscores the importance of audit quality measures in explaining EPS variance. The significant impact of independent variables on EPS highlights a meaningful link between audit quality and financial performance. Overall, these findings emphasize the critical role of audit-related factors in enhancing the financial performance of listed insurance companies in Nigeria.

Based on the findings of the study, several inferred recommendations can be drawn for listed insurance companies in Nigeria:

By investigating why higher audit fees may coincide with improved financial outcomes, it endeavors to ascertain whether more expensive audits indeed lead to enhanced financial reporting quality. Moreover, the research seeks to explore potential mechanisms through which audit fees influence financial performance, including their potential role in deterring earnings management or enhancing risk assessment. Additionally, it will scrutinize whether there exists an optimal audit fee range that strikes a balance between cost and improved financial outcomes.

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