Auditor-related Factors and Their Effects on Stock Market Returns in Nigeria: Evidence From Listed Brewery Firms

[1]Sadiq Oshoke AKHOR & [2]Ndifreke Bassey ASUQUO

[1]Department of Accounting, Ambrose Alli University, Ekpoma
[2]Department of Financial Studies, National Open University of Nigeria, Abuja
Email: akhor.sadiq@aauekpoma.edu.ng

Abstract

The study investigated the effect of auditor-related factors on stock market returns in Nigeria taking into consideration the listed brewery firms. The aim of the study is to investigate the effect of audit quality, audit firm reputation, audit delay and audit risk on stock market returns in Nigeria listed brewery firms. The study employed ex-post facto research design while the population is made up of 5 brewery firms listed on the Nigerian Exchange Group (NGX) as at 31st December 2023 or the period of 2014 to 2023 which were extracted from published annual reports and accounts of the sampled firms. Descriptive, correlation and multiple regressions model were used to analyze the data at 5% significant level. The empirical result revealed that audit quality exert insignificant negative effect on stock market returns, audit firm reputation exerts insignificant positive effect on stock market returns, audit delay exerts an insignificant negative effect on stock market returns and audit risk exerts a significant positive effect on stock market returns at 1% level of significance The study recommended that corporate investors who wish to invest in high risk portfolios in respect of audit risk would expect higher stock market returns.

Keywords: Audit Delay, Audit firm reputation, Audit quality, Audit risk, Stock market returns.

Introduction

The stock market returns are concepts that deal with wealth maximization of shareholders' expectation (Iacobelli, 2018). Stock market return is the expectations of the brewery company can hardly be achieved given the tendency of management embracing earnings management, discretionary earnings, and insider trading at the expense of shareholder's interest (Udoka & Orok, 2017). The manipulation of earnings is a managerial activity that is aimed to restate current, as it would offer in exact firm value for the future earnings (Bédard & Schatt, 2020).

However, stock market performance is the amount of profit a company generates from the equity or internal capital and it is based on the management's level of efficiency and effectiveness in enhancing the value of the firm (Berman *et al*, 2013).

The presence of audit quality has been questioned due to numerous cases of corporate collapse and most especially the case of some U.S. giant companies and necessity the adoption of International Financial Reporting Standards (IFRS) (Sanyaolu *et al*., 2017). The Corporate scandals like Enron, Ahold, and WorldCom have again raised the questions about the audit quality, earnings management and corporate governance that dent the corporate image of the audit firm which in turns influence stock market return adversely (Bédard & Schatt, 2020).
Audit related factors were some of the fundamentals considered by potential investors as core factors of financial statements to make decisions on stock market performance. Tomomewo *et al* (2023) posited that potential investors normally consider audit related factors given the

professional skills and expertise of the auditors to present quality accounting information needed for improved stock market performance.

Bhuiyan and Man (2021) stressed that investment decision is prone to uncertainty that is highly characterized with audit firm risk. Therefore, the quality of accounting information is the basis of reducing the chances of uncertainty associated with portfolios investment. This study considered audit quality, audit firm reputation, audit delay and audit risk as variables that may affect stock market returns in Nigeria listed brewery firms. Hence, the motivation for this research is to investigate the effect of auditor-related factors on stock market returns in Nigeria listed brewery firms.

Research Objective

The main objective of the study is to investigate the effect of auditor-related factors on stock market returns in Nigeria listed brewery firms. Specifically, the objective is to:

i. investigate the effect of audit quality on stock market returns in Nigeria listed brewery firms.
ii. assess the effect of audit firm reputation on stock market returns in Nigeria listed brewery firms.
iii. examine the effect of audit delay on stock market returns in Nigeria listed brewery firms.
iv. investigate the effect of audit risk on stock market returns in Nigeria listed brewery firms.

Research Hypotheses

The formulated hypotheses were tested in null form:

H_{O1}: Audit quality has no significant effect on stock market returns in Nigeria listed brewery firms.

H_{O2}: Audit firm reputation has no significant effect on stock market returns in Nigeria listed brewery firms.

H_{O3}: Audit delay has no significant effect on stock market returns in Nigeria listed brewery firms.

H_{O4}: Audit risk has no significant effect on stock market returns in Nigeria listed brewery firms.

Conceptual Clarification

Stock Market Returns

The market value of a share is a good indication of investors' perceptions of its business prospects especially shareholder's wealth (Hamidu & Aliyu, 2015). Stakeholders' value from the organization can be increased through heavy investments on research and development and other issues in creativity capacity improvement. Tomomewo *et al* (2023) defined stock market returns as the earnings generated from investment in portfolios within a particular time period. However, companies experiencing bad financial performance and expect higher future value in the future; the directors tend to 'borrow' future returns for current use; in contrast, if they currently achieve good financial performance and expect worse upcoming financial performance, their directors tend to 'put aside' some present returns for potential future use According Lestari and Nuryatno (2018), stock market returns is the quotient between changes in stock prices (from period t-1 to period t) with the share price in the previous period (t-1). Khalil-Oliwa (2019) added that shareholder's maximization is a measure of stock market performance. The cost of capital is also regarded stock market returns which is the expected returns on company's common stock.

Audit Related Factors

Audit related factors are seen as audit attributes that provide the auditors the power to examine and assess the quality of financial information made available by the management and presented to various financial information users like investors, existing and potential shareholders, staff, customers, government agencies, payables, financial institutions and financial analysts (Niyonzima & Soetan, 2018). The audit related factors that might enhance stock market returns in this study are audit quality, audit firm reputation, audit delay and audit risk.

Audit Quality

Audit quality is a managerial tool for evaluating, approving or certifying activities related to quality, independence and systematic analysis to decide whether the quality of corporate activities is consistent with the strategic guidelines and procedures, and whether these strategic guidelines and procedures have been applied efficiently and appropriately to achieve the corporate goals and objectives (Kusumawati & Syamsudin, 2018). The essence of audit report is mainly to present relevant information regarding the reliability of audited financial report, which in turn will lower the degree of information asymmetry and limit managerial discretion in accounting estimates (PCAOB, 2016). Audit quality can be defined in several ways comprising, but not constrained to, the auditors' ability to discover and disclose any misstatements, meet legitimate and professional requirements, and meet investors' requirements (Pinatik, 2021). The audit quality assignment hinges basically on the degree of auditors' independence, competence, tenure, and reputation as the discovery of breaches in material matters relating to financial statements are determined by the auditors (Bédard & Schatt, 2020). According to Tomomewo *et al* (2023), the presence of audit quality has the potential of influencing stock market returns.

Audit Firm Reputation

Audit firm reputation has been echoed by researchers and scholars given its influence on market efficiency in relation to sustainable performance (Febra, et al., 2023). Audit firm reputation is a measure of public accounting firm's magnitude of the auditor's audit based on big-4 and non-big-4. Imade (2021) maintained that audit firms who are regarded as Certified Public Accounting (CPA) firms which are majority the Big-4 audit firms which are required of Nigeria U.S. corporations having stock that is publicly traded normally witness low level of audit time lag. Auditor's experience is a good will of audit reputation which is the ability to separate vital information and make decisions regarding the accounting information, and auditors attending regular training programme attain high level of experience and knowledge that are expected to witness improve stock market performance (Agevall *et al.*, 2018).

Audit Delay

The concept of audit delay is very fundamental to corporate investors who need timely accounting information to make decisions on the stock market returns. According to Chaker (2024), a lack of transparency, issues in financial reporting, and higher business risks are perceived by corporate investors as causes of audit delay due to information asymmetry. This is likened to the loss of accounting information for the intended users. Kalelkar and Xu (2023) defined audit delay or audit report lag as the number of days delayed between the end of a fiscal year and the audit report date. The audit delay was operationalized as the length of delay between the fiscal year end and the date of signing the auditor's report, while the reporting time lag is described as the lag between the dates of signing the auditor's report to the AGM date (Oladipupo & Izedonmi, 2013). However, the delay period of financial statement release to the users of accounting information has a great impact on the stock market returns.

Audit Risk

Audit risk is simply the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk occurred as a result of the inability of the auditor to reveal material misstatement in the financial statements of corporate organization that would lead to a wrong decision regarding the financial health of the firm (Nabeel, 2018). Audit risk is the existence of a potential possibility for the auditor to present a positive opinion on the audited financial statements either by mistake or on purpose. However, the risk of the audit process increases where there is a cordial relationship exists between management and audit client resulting to audit failures (Ketz, 2020). The risk of audit is of paramount interest to stakeholders concerning the timely financial reporting system in order to enhance stock market returns (Mangala & Kumari, 2017). The risk of audit arises from the inadequate or insufficient audit procedures in the testing of some transactions.

Previous studies like Chaker (2024) used a sample of 881 listed French companies for the period of 2008 to 2021 investigate the impact of external audit report lag on the cost of equity capital and how investors perceive audit report lag. The study made use of descriptive statistics, correlation matrix and multiple regressions technique to analyse the data gathered. The result showed that audit report lag has a significant positive impact on stock market returns proxied by cost of equity capital. This implies that the longer audit report lag, the higher cost of equity capital.

Febra *et al* (2023) used panel data collected from a sample of 156 firms listed in the New York Stock Exchange (NYSE) covering the period of 2009 to 2019 to examine the effect of corporate reputation on stock return and risk. The regression results show that corporate reputation has no significant differences on firms' abnormal returns and firms' systematic risk.

Kalelkar and Xu (2023) assessed investor perception of audit report lag in relation to cost of capital. The established findings from the regression results indicate that audit report lag exert a significant positive relationship with the cost of equity capital.
Tomomewo *et al* (2023) used ex-post facto research design to examine the effect of audit quality and enterprise risk management on stock returns of multinational manufacturing companies listed in Nigeria. The study purposive sampling technique to sample 32 multinational manufacturing companies listed on the Nigerian Exchange Group (NGX) for the time frame of 2007 to 2021 and analysed using descriptive and multiple regressions model statistics. The result showed that audit quality and enterprise risk management exert a significant effect on stock market returns.

Oroud *et al* (2023) used panel data to sampled 95 ASE-listed firms covering the period of 2013 to 2021 to investigate effect of audit quality as a moderating relationship between financial performance indicators and stock returns in Jordan. The result showed that audit quality has a significant and a moderating relationship between financial performance and stock return, auditor's fees exert a significant influence on the relationship between firm stock returns and earnings per share, book value dividend per share and operating cash flows, audit firm size has a moderating relationship between stock returns and earnings per share, book value dividend per share and operating cash flows while insignificant relationship with book value.
Sattar, Javeed and Latief (2020) used private and public manufacturing companies in Pakistan to investigate the effect of audit quality, transparency and accountability on shareholders' wealth maximization. The data collected were analysed using generalized method of moment while stock

market returns proxied by shareholders' wealth maximization. The study established that audit quality, transparency, and accountability exert a significant positive effect on shareholders' wealth maximization. This indicates that audit quality is a vital audit related factors that contributes immensely to stock market returns.

Lestari and Nuryatno (2018) employed secondary data to sample 20 listed companies in Indonesia stock exchange for the period of 2009 to 2015 to examine the factors influencing audit delay and its impact on abnormal return. Data collected were analysed using descriptive statistics, correlation analysis and regression technique. The result showed that audit delay has no significant impact on stock price fluctuations. It is also revealed that firm size, leverage and audit opinion exert a significant effect on audit delay while profitability and audit reputation exert no significant effect on audit delay.

Theoretical Framework

The foundation of this study is based on agency theory propounded by Jensen and Meckling in 1976. The theory postulates that the relationship between the separation of shareholding and managerial control. Tomomewo *et al* (2023) maintained that management undermining the goal of profit maximization in order to maximize its own wealth at expense of the shareholders' welfare in the long-term stock market performance. The central tenet of agency theory is that shareholders, as principals, appoint a board of directors to act as their agents, overseeing and ensuring that management decisions align with international best practices. Ajekwe and Ibiamke (2017) added that the spirit of self-interest is the main motivation of principals and the agents which is the core value of principal-agent relationship. The alignment of principals and the agents' interest is the basis for experiencing higher stock market returns. The underlying principle of the theory is the presence of conflict of interest between the owners and management. Aliyu, et al. (2016) emphasized that the theory holds the notion of information asymmetry given the fact that, the shareholders have to engage qualified managers for the good of achieving stock market returns. The agency theory helps to reduce the conflict of interest arising from the auditor (agent) and the principal (shareholder) for early disclosure of financial report the users of the accounting information in turns enhance higher stock market returns.

Methodology

Ex post facto research design was adopted for this study. The study population is made up of listed brewery firms in Nigeria Exchange Group (NGX) for the period of 2013 to 2022. The study used the simple random sampling technique to select four (4) out of five (5) brewery firms: Nigeria Brewery Plc, International Brewery Plc, Champion Brewery and Guinness Nigeria Plc. The data collected were analysed using descriptive statistics, correlation analysis and multiple regressions technique.

Model Specification and Measurement of Variables

In specifying the model of this study, a multiple regressions technique was adopted. The model is specified as:

$STKR = \beta 0 + \beta 1AUDQ + \beta 2AUDFR + \beta 3AUDD + \beta 4ARISK + \mu$ ……………….. (3.1)

Where;

STKR: Stock market returns. It was measured by December share price for the periods.

AUDQ: Audit Quality. It was measured by amount of money paid to the audit firm.

AUDFR: Audit Firm Reputation. It was measured by a Public Accounting Firm (KAP), which audited financial statements are measured using dummy variable “1” Big 4 [Deloitte, Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young and Pricewaterhouse coopers (PWC)] OTHERWISE “0”.
AUDD: Audit Delay. It was measured by the company‘s year-end (eg December 31st until the date of auditor sign the audited financial report (measured with number of days).
ARISK: Audit Risk. It was measured by inherent risk. It is computed by the sum of the firm's receivables and inventory divided by its total assets.

Findings of the Study
Descriptive Statistics

The descriptive statistics result revealed that stock market returns (SYKR) has an average value of N56.62, minimum value of N0.87, maximum value of N236.00 with a standard deviation value of 60.75. Audit quality (AUDQ) proxied by audit fees has an average value of N41773.64 million, minimum value of N8000 million, and a maximum value of N113863 million with a standard deviation value of 27268.93. Audit firm reputation (AUDFR) has an average value of 0.87 minimum value of 0.00, and a maximum value of 1.00 with a standard deviation value of 0.33. Audit delay (AUDD) has an average value of 84.05, minimum value of 0.00, and a maximum value of 371.00 with a standard deviation value of 69.70. Audit risk (ARISK) has an average value of 0.20, minimum value of 0.06, and a maximum value of 0.81 with a standard deviation value of 0.15. The Jarque-Bera coefficient affirmed that all the variables were normally distributed. The result of the descriptive statistics is presented in Table 1 as follows:

Table 1: Descriptive Statistics

	STKR	AUDQ	AUDFR	AUDD	ARISK
Mean	56.62564	41773.64	0.871795	84.05128	0.205785
Median	30.50000	35144.00	1.000000	62.00000	0.174500
Maximum	236.0000	113863.0	1.000000	371.0000	0.815800
Minimum	0.870000	8000.000	0.000000	0.000000	0.064300
Std. Dev.	60.75911	27268.93	0.338688	69.70991	0.151618
Skewness	1.166735	1.014698	-2.224198	2.679905	2.759366
Kurtosis	3.477811	3.287958	5.947059	10.55534	11.17805
Jarque-Bera	9.219252	6.827229	46.26926	139.4425	158.1724
Probability	0.009956	0.032922	0.000000	0.000000	0.000000
Sum	2208.400	1629172.	34.00000	3278.000	8.025600
Sum Sq. Dev.	140283.5	2.83E+10	4.358974	184659.9	0.873550
Observations	39	39	39	39	39

Source: EViews 9.0 Output (2024)

Correlation Analysis

The correlation matrix result showed that audit quality (AUDQ) is weakly and positively associated with stock market returns (STKR=0.0147). Audit firm reputation (AUDFR) is moderately and positively associated with stock market returns (STKR=0.1816). Audit delay (AUDD) is moderately and negatively associated with stock market returns (STKR-=0.2496). Audit risk (ARISK) is moderately and positively associated with stock market returns (STKR=0.3233). It was observed that a perfect correlation is found between audit firm reputation and audit delay with a coefficient high value of -0.7810. This indicates the existence of multicollinearity problem among the independent variables. The result is presented in Table 2 below.

Table 2: Correlation Analysis

	STKR	AUDQ	AUDFR	AUDD	ARISK
STKR	1.000000	0.014799	0.181678	-0.249656	0.323327
AUDQ	0.014799	1.000000	0.315043	-0.196864	-0.147049
AUDFR	0.181678	0.315043	1.000000	-0.781053	-0.298601
AUDD	-0.249656	-0.196864	-0.781053	1.000000	0.098373
ARISK	0.323327	-0.147049	-0.298601	0.098373	1.000000

Source: EViews 9.0 Output (2024)

Variance Inflation Factor

The resolve the issues of multicollinearity problem among the independent variables, a variance inflation factor (VIF) test is conducted. The result revealed that coefficient values of the center VIF of the each of the independent variable is < 0.10 (AUDQ =1.62, AUDFR =3.82, AUDD = 3.11, ARISK =1.11). This implies that there is absence of multicollinearity problem among the independent variables. The result is presented in Table 3.

Table 3: Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1212.936	20.87101	NA
AUDQ	7.82E-08	4.035820	1.626427
AUDFR	791.6235	8.653954	3.825117
AUDD	0.017997	8.810722	3.118481
ARISK	1623.405	2.179123	1.114990

Source: EViews 9.0 Output (2024)

Results of the Findings

The regression result is presented in Table 4

Table 4: Regression Result

Regressors	Coefficient	Std. Error	t-Statistic	Prob.
C	5.185470	34.82723	0.148891	0.8825
AUDQ	-3.66E-05	0.000280	-0.130968	0.8966
AUDFR	35.19831	28.13580	1.251015	0.2195
AUDD	-0.120556	0.134152	-0.898658	0.3752
ARISK	157.5310	40.29150	3.909783	0.0004

R-squared	0.197035	Mean dependent var	56.62564
Adjusted R-squared	0.102569	S.D. dependent var	60.75911
S.E. of regression	57.55884	Akaike info criterion	11.06270
Sum squared resid	112642.7	Schwarz criterion	11.27598
Log likelihood	-210.7227	Hannan-Quinn criter.	11.13922
F-statistic	2.085769	Durbin-Watson stat	0.984945
Prob(F-statistic)	0.104301	Wald F-statistic	9.041979
Prob (Wald F-statistic)	0.000044		

Source: EViews 9.0 Output (2024)

The regression result revealed that the R^2 value of 0.197035 accounted for about 20% variations in stock market returns which is jointly explained by audit quality, audit firm reputation, audit delay and audit risk leaving about 80% capture by error term. It is observed from the Wald F-statistic value of 9.041979 and it associated value of 0.000044 that a significant linear relationship exists between audit related factors and stock market returns.

Based on the t-statistics and probability value, it is observed that audit quality (AUDQ) exerts insignificant negative effect on stock market returns (STKR). The result is inconsistent with the ideas of past researchers that audit quality exerts a significant effect on stock market returns (Oroud, *et al*, 2023; Tomomewo *et al*, 2023). This indicates that audit quality is vital to audit related factors that contribute immensely to stock market returns according to past researchers which implies contrary to the result. This therefore means that the hypothesis is accepted that audit quality has no significant effect on stock market returns.

Audit firm reputation (AUDFR) exerts insignificant positive effect on stock market returns (STKR). The result is consistent with the ideas of past researchers that corporate reputation has no significant differences on firms' abnormal returns (Febra *et al*, 2023). This implies that audit firm reputation is not an audit related factors that influence stock market returns. However, it might affect stock market returns strongly overtime. This therefore means that the hypothesis is accepted that firm reputation has no significant effect on stock market returns.

Audit delay (AUDD) exerts an insignificant negative effect on stock market returns (STKR). The result is consistent with the ideas of past researchers that audit delay has no significant impact on stock price (Lestari & Nuryatno, 2018). The result is inconsistent with the findings of Kalelkar and Xu (2023) and Chaker (2024) that audit report lag shows a significant positive relationship with the cost of equity capital. This therefore means that the hypothesis is accepted that audit delay has no significant effect on stock market returns.

Audit risk (ARISK) exerts a significant positive effect on stock market returns (STKR) at 1% level of significance. The result is consistent with the ideas of past researchers that risk management exerts a significant effect on stock market returns (Tomomewo *et al*, 2023). This implies that high level of audit risk, the higher stock market price. This therefore means that the hypothesis is rejected that audit risk has a significant effect on stock market returns.

Post Estimation Results

The result of the heteroskedasticity test (p = 0.7754) and Ramsey RESET test (p = 0.9611) revealed that the model is free from heteroskedasticity issue but also there is no misspecification issue. The results are presented in Table 5 and 6.

Table 5: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.444683	Prob. F(4,34)	0.7754
Obs*R-squared	1.938878	Prob. Chi-Square(4)	0.7470
Scaled explained SS	2.283163	Prob. Chi-Square(4)	0.6838

Source: EViews 9.0 Output (2024)

Table 6: Ramsey RESET Test

	Value	df	Probability
t-statistic	0.049134	33	0.9611
F-statistic	0.002414	(1, 33)	0.9611
Likelihood ratio	0.002853	1	0.9574

Source: EViews 9.0 Output (2024)

Conclusion

The study investigated the effect of auditor-related factors on stock market returns in Nigeria listed brewery firms using multiple regressions model. Given the variables of audit related factors while only audit risk variable that statistically contributes to stock market returns positively. The lack of statistical significance for audit quality, audit firm reputation and audit delay indicate that these variables are not good predictors of stock market returns in the Nigerian context in relation to audit related factors.

Recommendations

The study recommended that corporate investors who wish to invest in high-risk portfolios in respect of audit risk would expect higher stock market returns. This is culminated with high cost of capital. Based on the positive coefficient of audit firm reputation, stakeholders' makers of brewery firms in Nigeria should engage reputable audit firms for the purpose of higher stock market returns overtime.

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