



# IMPACT OF AUDIT QUALITY ON PROFITABILITY OF LISTED COMPANIES IN NIGERIA: A FOCUS ON THE MANUFACTURING SECTOR

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## ABSTRACT

*Private manufacturing companies in Nigeria have increasingly faced challenges associated with poor-quality audit reports, which have weakened stakeholders' confidence in financial statements and discouraged both local and international investment. Since reliable financial reporting is essential for sound decision-making and improved corporate performance, audit quality remains a critical factor in determining the profitability of firms. This study examined the impact of audit quality on the profitability of listed manufacturing companies in Nigeria. Specifically, the study investigated the effect of audit committee independence, audit fee, and audit committee size on return on assets (ROA) as a proxy for profitability. The study adopted an ex-post facto research design and made use of secondary data obtained from the annual reports and audited financial statements of 10 selected listed manufacturing companies in Nigeria for the period 2015 to 2024. Correlation analysis and panel data multiple regression analysis were employed to analyse the data at a 5% level of significance using EViews 12 statistical software. The findings revealed that audit committee independence has a significant negative effect on profitability, indicating that excessive independence may reduce operational flexibility and timely decision-making. Audit fee and audit committee size were found to have negative but statistically insignificant effects on profitability, suggesting that their influence on firm performance is weak within the study period. Overall, the results indicate that audit quality significantly affects the financial performance of listed manufacturing companies in Nigeria, particularly through audit committee independence. The study concludes that audit quality is an important determinant of profitability in the Nigerian manufacturing sector and should be properly managed to enhance firm performance. The study recommends that manufacturing companies should maintain adequate audit fees that support quality assurance without reducing profitability, ensure an optimal audit committee size for effective oversight, and strengthen audit committee independence in a way that promotes both accountability and operational efficiency.*

**Keywords:** Audit quality, audit committee independence, audit fee, audit committee size, profitability, return on assets

**JEL Classification Code:**

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## 1.0 Introduction

Globally, the growth of business finances while maintaining favourable expenses remains extremely important to every company. Profitability stands as a paramount factor for any company, representing a key measure of its worth and aligning with the objective of enhancing stakeholders' wealth (Yahaya, 2026). It signifies a company's capacity to derive profits from its various business activities, highlighting how effectively management can harness market resources to generate revenue above the costs of doing business. More importantly, a company's profitability influences the value it provides to its stakeholders. A reliable and dependable financial statement of a company further strengthens the trust of

stakeholders and reduces agency conflict (Orjinta & Okoli, 2023). In financial reporting across global markets, the significance of audit quality has come to the forefront, especially among large corporations, attracting the attention of stakeholders who seek to understand the auditing process and its influence on company performance (Izuchukwu et al., 2025). Quality audits are anticipated to improve the reliability and integrity of financial statements, consequently enhancing businesses' profitability and stakeholder valuation.

Audit quality plays a major role in ensuring an efficient market environment globally; an independent quality audit boosts confidence in the credibility and integrity of financial statements, which is important for well-functioning markets and improved profitability (Abiloru et al., 2025). Audit quality can influence profitability indirectly by providing assurance to stakeholders regarding the accuracy of financial statements. Reliable financial statements, verified through high-quality audits, instill confidence in investors, creditors, and other stakeholders. This confidence can lead to increased investment, improved access to capital, and ultimately enhanced profitability (Daniel, 2026). There are certain indicators inherent in the audit process that point to audit quality. These indicators, according to Bako (2024) and Oladejo et al. (2025), include but are not limited to audit firm size, audit committee size, audit committee independence and composition, and auditors' tenure.

Providing the audit committee with a certain level of independence (audit committee independence) ensures that they carry out their monitoring of the financial health of corporations without undue influence from management, which according to stakeholder theory enhances their functions. In addition, the amount spent by corporations on the auditing process (audit fees), according to agency theory, determines the extent of the quality of the auditing exercise that will be performed. Similarly, the number of audit experts (audit committee size) can determine the quality and reliability of the financial statements that satisfy stakeholders. Based on the agency-stakeholder theories, the larger the audit committee size, the better the performance of the committee, thereby enhancing the profitability of companies.

In Africa, and particularly in emerging economies, the manufacturing sector remains highly dependent on credible financial reporting due to increasing investor sensitivity and regulatory expectations. Manufacturing firms often operate in highly competitive and capital-intensive environments where access to finance, investor confidence, and regulatory compliance are essential for survival. As such, audit quality becomes a strategic mechanism for sustaining operational efficiency and profitability. Poor audit quality in many developing economies has contributed to weak investor confidence, financial reporting scandals, and declining firm performance.

In Nigeria, manufacturing companies are among the corporations operating under strict regulatory frameworks that require the preparation and presentation of annual audited financial statements. This is not only because of the strategic roles they play in national economic development but also because of the frequent corporate failures recorded in the sector owing to inconsistencies between financial statements and business realities. This has led to widely reported instances of corporate scandals such as those involving Cadbury Nigeria Plc, Unilever Brothers Plc, African Petroleum Plc, among others (Yahaya, 2026).

Audit quality is therefore an essential element in maintaining the confidence, integrity, and credibility of financial reports, which is extremely important for efficient-functioning markets and improved profitability. Corporate failures, especially in the manufacturing sector in Nigeria, have prompted profound introspection into audit quality and the integrity of auditors (Abdullahi et al., 2022). Private manufacturing firms in Nigeria, in particular, have grappled with subpar audit reports, hampering international investment and eroding trust in

financial statements (Orjinta et al., 2026). The suboptimal quality of audit reports has been unequivocally shown to undermine the confidence of financial statement users, thereby influencing the profitability of corporations (Yahaya, 2026).

Previous studies have drawn attention to divergent findings on the relationship between audit quality and business profitability (Abiloro et al., 2025; Daniel, 2025; Orjinta et al., 2026; Yahaya, 2026). Nevertheless, the results of these previous studies are not conclusive. For instance, while some studies reported consistently positive effects (Okafor et al., 2025; Oladejo et al., 2025; Shina & John-Akamelu, 2024), others showed mixed results, reflecting contextual variations (Atokpe & Jeroh, 2024; Yahaya, 2026). In order to resolve this inconsistency in literature and establish the relationship between audit quality and profitability from the perspectives of agency and stakeholder theories, this study therefore explores the impact of audit quality on the profitability of listed manufacturing companies in Nigeria.

Consequent upon the above, this study seeks to achieve the following objectives:

- i. To analyse the impact of audit committee independence on profitability of listed manufacturing companies in Nigeria.
- ii. To find out the impact of audit fees on profitability of listed manufacturing companies in Nigeria.
- iii. To evaluate the impact of audit committee size on profitability of listed manufacturing companies in Nigeria.

By achieving these objectives, this study contributes to the literature in three ways. First, it provides theory-grounded evidence on how audit quality affects profitability of manufacturing companies in Nigeria. Second, it integrates two complementary theoretical frameworks to explain behavioural dimensions of corporate stakeholders such as principals, agents, and customers. Third, it offers actionable implications for manufacturing companies' audit quality management practices that guarantee high profitability.

## 2.0 Literature

The literature review of this study is presented under the following headings: conceptual review, where the conceptual framework of the study is discussed through both the dependent and independent variables; theoretical review, where relevant theories such as agency theory and stakeholder theory are examined in relation to audit quality and profitability; and empirical review, where previous studies related to audit quality and profitability are reviewed.

### 2.1 Conceptual Review

#### Profitability

Profitability is a fundamental measure of a company's financial performance and value (Ekundayo et al., 2018). It reflects a firm's ability to generate earnings from its core business activities and serves as a critical component in achieving the objective of maximizing shareholders' wealth. Njire (2012 as cited in Esegbuyota & Edirin, 2024) defines profitability as the capacity of an enterprise to generate profits from its operations, emphasizing its importance in assessing business success. It signifies that investments in current assets are only undertaken if they yield acceptable returns. This implies that profitability is not only a measure of past performance but also a forward-looking indicator of a company's ability to generate future returns for its shareholders.

In the context of manufacturing companies, profitability is of particular importance because the sector often involves significant capital investments, high production costs, inventory management complexities, and extensive supply chain operations. As such, assessing and improving profitability is crucial for sustaining and growing manufacturing businesses. Profitability determines the capacity of firms to remain competitive, attract investors, expand production, and survive in volatile economic conditions.

Profitability ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are commonly used to evaluate a company's financial performance because they provide insights into how efficiently a company utilizes its resources to generate earnings (Qeshta et al., 2021). However, this study adopts Return on Assets (ROA) as the proxy for profitability. ROA measures the ability of a firm to generate profit from its total assets and is particularly relevant in manufacturing companies where asset utilization is central to operational efficiency and business sustainability.

### **Return on Assets (ROA)**

Return on Assets (ROA) is one of the most widely used indicators of profitability and financial performance. It measures the extent to which management efficiently utilizes the company's total assets to generate earnings. ROA is calculated as net income divided by total assets, and it provides a clear indication of how productive a company's asset base is in generating profits.

According to Abiloro et al. (2025), ROA is an important indicator of corporate efficiency because it reflects the effectiveness of managerial decisions regarding investment, operations, and financial control. A higher ROA indicates better asset utilization and stronger profitability performance, while a lower ROA may suggest inefficiency in managing available resources. Onwubiko and Nwankwo (2024) also argue that ROA is particularly suitable for studies involving audit quality because audit mechanisms are expected to improve the reliability of financial reporting, strengthen internal controls, and ultimately improve operational efficiency and profitability.

For manufacturing firms, where heavy investments are made in plants, machinery, and working capital, ROA becomes a more appropriate profitability measure than other ratios. This is because it directly captures how effectively these assets contribute to earnings generation. Consequently, this study uses ROA as the dependent variable for measuring profitability.

### **Audit Quality**

Audit quality refers to the probability that an auditor will both discover material misstatements in financial statements and report them appropriately. Auditors' capacity to detect errors is proportional to their competence and expertise, while their willingness to report such errors depends largely on their level of independence. This relationship forms the basis of audit quality.

Alwardat (2019) simplifies audit quality as the ability to recognize inaccuracies in financial statements, while Altass (2023) highlights the importance of auditor attributes in determining the quality of audit and, by extension, the quality of financial reporting. Esegbuyota and Edirin (2024) define audit quality as the market-estimated joint probability that a specific auditor will detect and report violations in a client's accounting system.

Audit quality can be assessed by examining the extent to which auditors verify the correctness of financial information presented to investors by management. It can also be measured by

the extent to which auditors are able to detect and eliminate earnings manipulation, financial misstatements, and window dressing practices in corporate reports. High audit quality improves confidence in financial statements, reduces information asymmetry, and strengthens stakeholders' trust in management.

In this study, audit quality is examined through three major dimensions: audit committee independence, audit fee, and audit committee size. These variables are considered important indicators because they directly influence the effectiveness, credibility, and reliability of the audit process.

### **Audit Committee Independence**

Audit committee independence refers to the extent to which members of the audit committee are free from management influence and are able to perform oversight responsibilities objectively. It is commonly measured by the proportion of non-executive or independent directors on the audit committee.

Independent audit committee members are expected to enhance monitoring effectiveness because they are less likely to be influenced by management interests. According to Bako (2024), audit committee independence improves financial reporting quality by ensuring transparency, accountability, and unbiased oversight of corporate financial activities. A highly independent audit committee strengthens internal control systems and reduces the likelihood of financial manipulation, thereby improving profitability.

### **Audit Fee**

Audit fee refers to the amount paid by a company to external auditors for audit services rendered. It reflects the level of audit effort, scope of work, and complexity involved in examining the financial statements of a firm.

According to Daniel (2026), audit fees are often associated with audit quality because higher fees may indicate more rigorous audit procedures, increased auditor commitment, and better-quality assurance. However, excessively high audit fees may also reduce profitability by increasing operational costs. Therefore, audit fees are considered a significant determinant of both audit quality and firm performance.

### **Audit Committee Size**

Audit committee size refers to the total number of members serving on the audit committee of a company. It reflects the level of expertise, diversity, and monitoring capacity available within the committee.

Qeshta et al. (2021) argue that a larger audit committee may improve financial reporting quality because it increases the pool of knowledge, experience, and professional judgment available for oversight. However, excessively large committees may lead to coordination problems and reduced decision-making efficiency. Therefore, the effectiveness of audit committee size depends on maintaining an optimal balance between expertise and efficiency.

In manufacturing firms, where financial reporting complexity is high, audit committee size becomes important for ensuring effective monitoring and enhancing profitability through stronger governance mechanisms.

## 2.2 Theoretical review

This study reviewed both Agency and Stakeholders' theories. The study is therefore premises on the combination of these theories.

### Agency theory

Agency theory has been broadly used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). According to agency theory, a company is made up of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are entrusted with using and controlling these resources (Bakare, 2022). Jensen and Meckling (1976), states that in agency theory, agents have more information than principals and this information asymmetry negatively affect the principals' ability to monitor whether or not their interests are being properly covered by the agents consequently, agents may face the dilemma of acting against the interests of their principals. To reduce the possibility of this moral hazard, principals and agents engage in contracting to achieve optimality, including the institution of monitoring processes (auditing). In so doing, the principals place their trust in their agents to act in the principals' best interests (Martnez-Ferrero, 2016).

Since the quality of audits may possibly have a link with the quality of what companies' agents (management) may report in financial statements for use by their principals (shareholders), the agency theory is therefore considered appropriate to drive this study. The agency theory provides a theoretical foundation for understanding the relationship between audit quality and profitability. According to agency theory, auditing serves as a mechanism to mitigate agency conflicts and reduce information asymmetry between managers and shareholders. Therefore, high-quality audits can enhance corporate governance, increase transparency, and align the interests of managers with those of shareholders, thereby positively impacting profitability.

### Stakeholders' theory

This study also hinges on the stakeholders theory. The stakeholder theory explains the tripartite relationship that exists between the principal (owner of a firm), agent (managers/board of directors) and stakeholders (suppliers, local community, investors and the public) (Aifuwa, et al., 2018). The theory addresses the expectations of specific stakeholder groups in society and considers the effect of their expectation on information disclosure, bearing in mind the existence of more powerful stakeholders (Font, et al., 2016; Ngu & Amran, 2018). Therefore, the survival and profitability of a firm's business hugely depends on the support of the stakeholders; hence, they must adjust their business model to address stakeholders' concerns and needs. To achieve this, manufacturing firms must ensure audit quality to address the concerns of their stakeholders.

Together, these theories highlight the role of audit quality in aligning internal governance (agency theory) and meeting external stakeholder expectations (stakeholder theory). In Nigeria's manufacturing sector, where market competitiveness depends on trust and transparency, audit fees, audit committee size, and auditor committee independence influence return on assets by reducing information asymmetry and enhancing stakeholder confidence (Shina & John-Akamelu, 2024). These frameworks underscore the study's focus on how audit quality drives profitability in a volatile economic environment like Nigeria. Based on these theories, this study proposes that an improvement in audit quality will increase the extent of profitability of the manufacturing companies.

### 2.3 Empirical review

From the review of empirical studies, it is evident that audit quality remains an important determinant of corporate financial performance across different sectors in Nigeria. Most of the reviewed studies established that variables such as audit fee, audit committee independence, audit committee size, audit firm size, and auditor tenure significantly influence profitability and financial reporting quality, although the direction and magnitude of such influence vary across sectors and methodologies.

Daniel (2026) found that audit fees have a significant positive relationship with listed deposit money banks in Nigeria and concluded that audit firm size significantly determines audit fees, although the study did not specifically examine how audit quality affects profitability. Orjinta et al. (2026) reported that audit fee and audit size have significant positive effects on financial performance in the consumer goods sector, while auditor committee showed no significant effect. Similarly, Yahaya (2026) found that audit quality exerts a statistically significant positive effect on the reliability of Sustainable Development Goals (SDG)-related disclosures among listed Nigerian firms, reinforcing the importance of high-quality audit assurance.

Furthermore, Izuchukwu et al. (2025) revealed that audit firm size and auditor tenure significantly influence firms' profitability, while audit committee size showed a negative but insignificant effect. Abiloro et al. (2025) also found that audit committee independence significantly and negatively affects financial statement fraud likelihood, suggesting its indirect influence on profitability through improved reporting quality. Ekundayo et al. (2024) specifically focused on manufacturing companies and reported a significant positive relationship between audit quality and profitability, emphasizing that competent auditors and auditor independence improve financial reporting and enhance firm performance. Onwubiko and Nwankwo (2024) found that audit tenure significantly affects return on assets, while audit size and audit fee showed no significant effects. Likewise, Bako (2024) established that audit committee independence has a positive and statistically significant relationship with financial performance in oil and gas companies.

Despite these contributions, the findings of previous studies remain inconclusive due to differences in sectoral focus, measurement variables, study periods, and methodological approaches. While some studies reported positive and significant relationships between audit quality and profitability (Orjinta et al., 2026; Ekundayo et al., 2024; Bako, 2024), others found mixed or insignificant effects (Izuchukwu et al., 2025; Onwubiko & Nwankwo, 2024). In addition, most previous studies concentrated on deposit money banks, consumer goods firms, conglomerates, and oil and gas companies, with limited attention given specifically to listed manufacturing companies in Nigeria using audit committee independence, audit fee, and audit committee size as core explanatory variables.

More importantly, some studies measured financial performance using earnings per share, gross profit margin, or net profit margin, while few adopted return on assets (ROA), which provides a stronger indication of asset utilization efficiency in manufacturing firms. Also, several studies examined audit quality from the perspective of fraud likelihood and disclosure reliability rather than direct profitability outcomes.

Therefore, the major gap this study seeks to fill is the need for a focused investigation of the impact of audit quality on profitability of listed manufacturing companies in Nigeria using return on assets (ROA) as the dependent variable and audit committee independence, audit fee, and audit committee size as explanatory variables. This study also contributes by providing more recent evidence covering the period 2015 to 2024 and by integrating both

agency theory and stakeholder theory to explain the relationship between audit quality and profitability in the Nigerian manufacturing sector.

### 3.0 Methodology

#### 3.1 Research Design

This study used quantitative research design. Specifically, it used the ex-post facto research design was adopted involving data obtained from the annual reports and audited accounts of the manufacturing companies under assessment from 2015 to 2024. This study focuses on the impact of audit quality on profitability of quoted manufacturing companies in Nigeria.

#### 3.2 Source of data

The sources of data for this study is mainly secondary source collected from the financial report of some selected manufacturing companies. In addition, secondary sources were also used in the literature which includes journals, textbooks and internet materials.

#### 3.3 Methods of Data Collection

The data for the dependent variable (Return on asset) and; independent variables (Audit committee independence, audit fees and, Audit committee size) were obtained from the financial statement of the manufacturing companies. Consequently, this study adopts the model of Onwubiko and Nwankwo (2024) with a little modification to fit the variables considered by this study. Hence the measurement variables are defined in Table 3.1.

Table 3.1: Variable’s Definition and Measurement

Variable definition	Variable measurement and Source	Apriori
<i>Dependent</i>		
Return on asset (ROA)	<u>Total Earnings</u> Total assets (Abilioro, et al., 2025; Onwubiko & Nwankwo 2024)	
<i>Independent</i>		
Audit committee independence (AudComInd)	<u>Non-executive director of audit committee</u> Total number of audit committee member (Qeshta, et al., 2021)	$\beta_1 > 0$
Audit fee (AudFee)	Natural log of the amount for audit fees (Ahmed, et al., 2023)	$\beta_2 > 0$
Audit committee size (AudComSiz)	Total number of audit committee member (Qeshta, et al., 2021)	$\beta_3 > 0$

Source: Researchers Computation, (2026)

$$Profitability = f(Audit\ quality) \tag{1}$$

The equation based on the function in equation 1 is presented in equation 2:

$$ROA = f(AudComInd, AudFee, AudComSiz) \tag{2}$$

The econometric model for this study functionally becomes as shown in equation 3

$$ROA_{it} = \beta_0 + \beta_1 \text{AudComIndit} + \beta_2 \text{AudFeeit} + \beta_3 \text{AudComSizit} + \varepsilon \quad (3)$$

Where:  $\beta_0$  = Constant parameter;  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  = Coefficients of independent variables;  $\varepsilon$  = Error term;  $i$  = 5 manufacturing companies;  $t$  = time dimension of the variables (10 years).

Based on the model specification, the following hypotheses stated in the null forms are raised for this study:

**H<sub>01</sub>:** Audit committee independence has no significant impact on profitability of listed manufacturing companies in Nigeria

**H<sub>02</sub>:** Audit fee has no significant impact on profitability of listed manufacturing companies in Nigeria

**H<sub>03</sub>:** Audit committee size has no significant impact on profitability of listed manufacturing companies in Nigeria

### 3.4 Population and Sample Size

The population of this study comprises all listed manufacturing companies quoted on the Nigerian Exchange Group (NGX) as at 31st December, 2025. Since the study specifically focuses on the manufacturing sector, it is more appropriate to restrict the population to firms operating within this sector rather than all 151 listed companies on the Nigerian Exchange Group. Manufacturing firms were considered because of their significant contribution to economic growth, industrial development, employment generation, and their strict regulatory requirement for annual audited financial reporting.

From this population, five listed manufacturing companies were purposively selected, namely Cadbury Nigeria Plc, Dangote Plc, GlaxoSmithKline Consumer Nigeria Plc, May & Baker Nigeria Plc, and Unilever Nigeria Plc. These firms were selected because they have maintained consistent availability of audited annual financial statements throughout the study period and possess complete data on the variables of interest, namely return on assets, audit committee independence, audit fee, and audit committee size.

The selected companies also represent major subsectors within the manufacturing industry, including food and beverages, industrial production, pharmaceuticals, healthcare products, and consumer goods. This diversity improves the representativeness of the sample and strengthens the generalizability of the findings within the broader manufacturing sector. In addition, these firms are among the most established and actively traded manufacturing companies in Nigeria, making them suitable for empirical investigation.

The study covers a ten-year period from 2015 to 2024, resulting in a balanced panel dataset. The choice of this period was informed by the need to capture recent trends in audit quality practices and profitability performance over a sufficiently long period for reliable panel regression analysis.

Purposive sampling technique was adopted because the study required firms with accessible, complete, and consistent financial reports across the entire study period. This method is appropriate in ex-post facto studies where the availability and reliability of secondary data are critical for valid statistical analysis. Therefore, the use of purposive sampling ensures that only firms with adequate and relevant information were included in the study.

### 3.5 Method of Data Analysis

In order to analyze the data for the study and to test the research hypotheses, the study made use of E-views statistical software version 12. Pre-estimation tests, descriptive statistics, correlation, and panel data regression analysis were conducted. Certain robustness checks included fixed - randome effects model and results confirmed main findings at 5% level of significance.

### 4.0 Results and Discussions

The results of this study based on the descriptive analysis, multicollinearity tests, correlation analysis, pre-estimation test and panel regression analysis.

#### 4.1 Descriptive Statistics

The descriptive statistics presents the mean, standard deviation, the minimum and maximum values of the dataset used in this study. The essence is to provide the summary of the data as shown in table 4.1.

Table 4.1 Descriptive Statistics

Variables	ROA	AudComInd	AudFee	AudComSiz
Mean	0.0314	0.3265	8.7577	5.6800
Standard deviation	0.0217	0.0659	0.1537	0.9354
Minimum	0.0030	0.0673	8.4771	4.0000
Maximum	0.1120	0.4285	8.9996	8.0000
Jarque-Bera	13.4657	30.1148	18.5847	73.3083
P-value	0.0006	0.0001	0.000	0.0005
Skewness	1.339	-1.209	0.007	-0.550
Kurtosis	2.945	3.587	-0.930	0.964

Source: Researcher's compilation, 2026

The descriptive statistics of the data in table 4.1 shows that the average value of ROA is 0.0314 with std of 0.0217, with low variations around the mean is an indication of strong predictive power for profitability. Similarly, with low variations around the mean for AudComInd (0.0659), AudFee (0.1537) and AudComSiz (0.9354) are indication of strong predictive power for audit quality. In addition, The Jarque - Bera (JB) which test for normality shows that return on asset AudComInd, AudFee and AudComSiz are normally distributed, that is  $p < 0.05$ . The result means that all the explanatory variables are normally distributed, hence no presence of outlier. Furthermore, the variables' distributions also display varying levels of skewness and kurtosis. Both ROA and AudFee have positively skewed distributions while AudComInd and AudComSiz showed otherwise. Regarding peakedness, only AudComInd is leptokurtic distributions (kurtosis  $> 3$ ), while ROA, AudFee have and AudComSiz have platykurtic distributions (kurtosis  $< 3$ ).

In addition, the study conducted multicollinearity test as shown in Table 4.2.

Table 4.2 Multicollinearity test

Variables	Tolerance (1/VIF)	VIF
AudComInd	0.707	1.414
AudFee	0.963	1.039
AudComSiz	0.728	1.374

Mean	0.799	1.251
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Source: Researcher's compilation, 2026

The data also shows no problem multicollinearity, that is, non-existence of multicollinearity between the independent variables. This was confirmed when computing the variance inflation factors (VIFs) for each of the explanatory variables used in the study. There is no problem multicollinearity when the tolerance value indicated values less than 1.0 (that is the values of VIF is between 1 and 10). Since all variables have VIFs less than 10, it confirms the absence of high correlations among the explanatory variables in the three models, meeting the standard requirement.

In order to determine the relationship between the variables used in this study, the study conducted correlation analysis as presented in Table 4.3.

Table 4.3 Correlation matrix

Variables	ROA	AudComInd	AudFee	AudComSiz
ROA	1.000	-0.354*	-0.028	-0.140
		0.012	0.849	0.333
AudComInd	-.0354*	1.000	0.193	0.522**
	0.012		0.178	0.000
AudFee	-0.028	0.193	1.000	0.096
	0.849	0.178		0.508
AudComSiz	-0.140	0.522**	0.096	1.000
	0.333	0.000	0.508	

Source: Researcher's compilation, 2026

From Table 4.3, the correlation analysis indicated that: there is a significant negative relationship between ROA and AudComInd ( $r = -0.0354$ ;  $p = 0.012$ ); there is an insignificant negative relationship between ROA and AudFee ( $r = -0.028$ ;  $p = 0.849$ ) and; there is also an insignificant negative relationship between ROA and AudComSiz ( $r = -0.140$ ;  $p = 0.333$ ). The negative relationship that exist between the variables is an indication that there is negative relationship between audit quality and profitability of listed manufacturing companies in Nigeria.

In order to conduct the panel regression analysis, the study takes into cognizance the homogeneity nature of the data, hence the need for testing its effect on the data. This study therefore used Hausman effect test to select between fixed and random effect that is best to be adopted in the study as shown in Table 4.4.

Table 4.4. Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Cross- section random	15.3472	3	0.1724

Source: Researcher's compilation, 2026

The Hausman test result shows a chi-square value of 15.3472 and probability value 0.1724, the chi-square value is greater than 10. Based on the result, the study accept the random effect

and reject the fixed effect, hence the study used the random effect to correct the problem of homogeneity in the pool data used for the study.

#### 4.2 Panel Data Regression Model Test

After conducting the regression model selection, this research adopted random effect estimation model as the tool for the testing of the hypotheses of the study. The model of the regression is represented in the table 4.5 below:

Table 4.5 Random Effect Model Regression Results

Variables	Coef.	Std. Err.	t-value	p-value	Decision
AudComInd	-0.130	0.054	-2.411	0.020	Rejected
AudFee	0.006	0.020	0.305	0.762	Accepted
AudComSiz	0.001	0.004	0.383	0.703	Accepted
Constant	0.013	0.172	0.075	0.941	
<i>R-squared</i>		0.130	Number of obs		50
<i>Adjusted R-squared</i>		0.073	<i>Prob(F-statistic)</i>		0.009
<i>S.E. of regression</i>		0.0209	<i>Durbin-Watson stat</i>		1.962
<i>F-statistic</i>		2.287			

Source: Researcher’s compilation, 2026

From Table 4.5, the value of R squared = 0.130 shows that the audit quality variables considered (AudComInd, AudFee and AudComSiz) have weak effect on only (13.7%) of the variability of profitability can be explained by audit quality. However, the Durbin Watson stat (1.962 ≈ 2) reveals that there is no presence of autocorrelation in our model. Based on the Table 4.5, the following analysis and discussion are presented:

Firstly, the panel regression model analysis shows that p-values of 0.020 (i.e.  $p < 0.05$ ) for AudComInd indicates that the regression is statistically significant. This means that the null hypothesis (H01) is rejected which implies that audit committee independence has significant impact on profitability of listed manufacturing companies in Nigeria. This finding is supported by the studies of Ekundayo et al., (2024) and Yahaya (2026) that also reveal a significant effect but unlike this study, they showed the effect is positive. However, the finding of this study is inconsistent with the studies of Abiloro, et al. (2025) and Bako (2024) which reveal an insignificant effect of audit committee independence.

Secondly, the panel regression model analysis shows that p-values of 0.769 (i.e.  $p > 0.05$ ) for AudFee indicates that the regression is statistically insignificant. This means that the null hypothesis (H02) is accepted which implies that audit fee has no significant impact on profitability of listed manufacturing companies in Nigeria. The finding of this study is partially supported by the studies of Daniel (2026) and Orjinta, et al. (2026) who revealed positive and significant effect of audit fee.

Finally, the panel regression model analysis shows that p-values of 0.703 (i.e.  $p > 0.05$ ) for AudComSiz indicates that the regression is statistically insignificant. This means that the null hypothesis (H03) is accepted which implies that audit committee size has no significant impact on profitability of listed manufacturing companies in Nigeria. This finding is inconsistent with the finding of Bako (2024) and Izuchukwu, et al. (2025) that revealed positive and significant effect of audit committee size

## 5.0 Conclusion and Recommendations

This study examined the impact of audit quality on the profitability of listed manufacturing companies in Nigeria. Specifically, the study investigated the effect of audit committee independence, audit fee, and audit committee size on return on assets (ROA) as a measure of profitability. The findings revealed that audit committee independence has a significant effect on profitability of listed manufacturing companies in Nigeria, while audit fee and audit committee size have no significant effect on profitability.

The study therefore concludes that audit quality has a significant influence on the financial performance of listed manufacturing companies in Nigeria, particularly through audit committee independence. This implies that effective audit oversight and strong governance structures are essential for improving the profitability and sustainability of manufacturing firms. Although audit fee and audit committee size did not show statistically significant effects, they remain important components of corporate governance and financial reporting quality.

## 5.1 Recommendations

Based on the findings of the study, the following recommendations are made:

- Manufacturing companies should ensure that audit fees are adequately structured to support quality audit services without creating unnecessary financial pressure that may reduce profitability.
- Companies should maintain an optimal audit committee size that promotes effective monitoring and decision-making without creating inefficiency or coordination problems.
- Management should strengthen audit committee independence by ensuring that more non-executive and independent members are included in the committee to improve transparency, accountability, and financial reporting quality.
- Regulatory authorities should continue to enforce compliance with audit governance standards to improve investor confidence and strengthen the performance of manufacturing companies in Nigeria.
- Manufacturing firms should regularly review their audit quality practices to ensure that audit mechanisms contribute positively to operational efficiency and long-term profitability.

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