Impact of Ownership Structure on Audit Quality of Listed Insurance Firms in Nigeria

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Abstract

As a consequence of insufficient audit quality, corporate financial reporting problems have increased in the last decades. This has also been ascribed to the businesses' ownership structure. As a result, from 2009 to 2018, this study looked at the influence of ownership structure on audit quality of listed insurance firms in Nigeria. Secondary data was gathered from annual reports of 18 insurance companies during the period under review. The data was analyzed using logistic regression and results revealed that institutional ownership, block-holding ownership, and foreign ownership have a positive and significant impact on the audit quality of listed insurance firms in Nigeria, whereas managerial ownership has a positive, but insignificant impact. The research concludes that institutional investors' monitoring effectiveness will increase the chances of engaging Big 4 audit firms. As a result, the research suggests that the board of directors of insurance companies should promote institutional investment in order to strengthen managerial oversight and audit quality. Regulatory authorities and policymakers of listed insurance corporations should also establish atmosphere that encourage international investment in Nigeria.

Keywords: Audit Quality, Institutional Shareholders, Managerial Shareholders, Block-holders, and Foreign Shareholders

1. Introduction

The insurance industry is regarded as a major contribution to national economies. Investor confidence is required for insurance companies to operate efficiently in capital markets. Investors need to know that the financial information they are provided is accurate and reliable when making capital allocation decisions. The consistency of audits and audit judgments presented on financial statements is critical for retaining investors' trust. Independent auditors are critical in improving financial data accuracy by confirming the dependability of insurance companies' financial reporting (Junaidda, 2017).

Some have criticized Nigeria's market environment as unfavourable to both domestic and foreign investors. One of the reasons for this claim is that financial results have failed to match the needs of this set of clients (Enofe, Mgbame, Aderin, & Ehi-oshio, 2013). Bribery, excessive profit control, and other financial crimes have weakened public trust in these financial accounts, as well as their ability to carry out their responsibilities (Enofe *et al*., 2013).

External auditors may be seen as a solution to the agency issue, with audit serving as a tool to testify to a firm's management's transparency and stewardship, which reduces the chances of errors and intentional misstatements such as fraud and management manipulation (Anderson *et al*, 1993).

According to Odudu, Terzungwe, and Joshua (2018), institutional ownership is one of the most effective factors that can influence audit quality as it has the ability to influence businesses through its experience and expertise. However, in recent time past, less attention is paid to it and its impact on audit quality, resulting in numerous financial scandals. Most institutional owners are only interested in boosting the value of their stock, thus they are unlikely to be concerned with recruiting competent auditors, a Big 4 audit firm, or a high-quality auditor (Shehu & Ahmed, 2012; Dou, Hope & Thomas 2013).

Managerial ownership, on the other hand, is frequently identified as one of the causes of agency concerns that may increase audit risk; however, this overlooks the possibility that managerial control resulting from ownership may lead to a drop in demand for high-quality audits, resulting in low audit fees (Gotti et al. 2012; Willekens et al. 2004). As a result, manager-owners may include high-quality audits to decrease related agency expenditures. Ownership management power may result in a decrease in demand for high-quality audits, resulting in lower audit costs (Gotti et al. 2012). Block-holder ownership, according to Shehu and Ahmed (2012), refers to shareholders who own 5% or more of a company's stock on its outstanding shares. When it comes to block-holder ownership, Murya (2010) differentiates between individual and institutional investors. Individuals or companies that own more than 5% of a company's stock are known as block-holder shareholders (Cronqvist, & Fahlenbrach, 2009).

The well-publicized audit failures at Enron and other high-profile firms have piqued public interest in audit efficiency, resulting in a crisis of public trust in both developed and developing countries about the ownership structure and auditing of publicly traded companies. Nigeria, on the other hand, has had its share of poor audit quality and financial reporting failures, with problems at Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009, and Intercontinental Bank Plc in 2009, among others (Enofe, 2013; Usman, 2013; Dominico & Ray, 2014). The insurance sector is not left out. For instance, in February 2012, NAICOM replaced the management of Investment, Alliance & General Life Assurance Plc and Allied Assurance Plc with temporary management due to insolvency, financial misappropriation, violation of corporate governance provisions, and claims default (The Punch, 2018).

Many researches on ownership structure and audit quality have been performed, but these studies yielded mixed results. For example, Seyedeh Elham et al. (2016) found that ownership institutions have a negative effect on audit quality. Pouraghajan et al (2013) report that while foreign ownership has a positive relationship with audit efficiency, institutional ownership has a negative and negligible relationship with audit efficiency in China. Furthermore, since developed markets have different institutional settings and litigation environments than emerging markets, their results are restricted in scope.

Also, prior research paid little attention to block-holding and international ownership, both of which are critical aspects of the ownership structure. Odudu et al. (2019) concentrated on institutional and family ownership of listed manufacturing firms in Nigeria. Ibn and Bala (2015) examined audit quality of listed deposit money bank in Nigeria using ownership structure. Though banking and insurance firms are both financial institutions, industry legislation, policies, and other sectorial environmental changes prevent findings from being extrapolated to insurance firms. Furthermore, the activities of banks and insurance companies are based on various models, resulting in some notable differences (Thangavelu, 2015).

Based on the review of relevant literature, none of the previous studies on ownership structure and audit quality in Nigeria have captured the combination of the selected variables in this study and in the listed insurance firms in Nigeria. As a follow-up to the previous studies, this study examines the effect of ownership structure on audit quality of listed insurance firms in Nigeria, in order to fill the gaps in the literature. The remaining part of the paper is divided as follows: section 2 – literature review, section 3- methodology, section 4 – results and discussion; and section 5 highlights the conclusion and recommendations.

2. Literature Review

This section provides the conceptual and empirical reviews of relevant literature on ownership structure and audit quality. The section also discusses the theories upon which the study is anchored.

2.1 Conceptual Review

2.1.1 Ownership Structure

The word ownership refers to those who have control over a company's operations. Those rights can be acquired by purchasing a stake in the business. The structure and composition of a company's shareholders are defined by its ownership arrangements (Miri & Rostami, 2015). Ownership structure is a multidimensional concept that covers a broad variety of measurements due to its multiple facets and dimensions. The ownership factor also takes into account the difference in capital and voting rights, giving rise to different classes of ownership as follows: institutional ownership, block-holding, foreign ownership, and managerial ownership.

Institutional ownership refers to a financial investment made by a group of entities that is typically larger than individual investments. It reflects the number of companies owned by major investing institutions (who own more than 5% of the company's stock) (Hoseinbeglou et al., 2013). It usually includes ownership of shares of corporations by pension funds, enterprise funds and investment funds, associations, institutions and government-owned companies, and generally major corporate shareholders (Azibi & Tondeur, 2011).

The Securities and Exchange Commission (SEC) described block-holding in its corporate governance code (2003) as any investor with more than a 5% equity stake in a company. The literature suggests that block shareholding is one of the ownership structures that can help reduce agency costs by concentrating ownership (Fleming et al., 2005). They are non-voting shareholders who use their size to exert influence over the appointment of external auditors. By enabling access to inside information, block holders minimize information asymmetry and address the division of ownership and management of the company. Block-holding is an internal governance device that enables the largest shareholders to exert control over management behaviour and decisions (Omar & Hind, 2012).
Managerial ownership refers to a situation in which both the manager and the company's shareholders own stock in the company (Christiawan & Tarin, 2007). According to Jensen and Meckling (1976), increased managerial ownership aligns

shareholders' interests with managers' interests, thereby reducing knowledge asymmetry. As implied by the conventional agency theory, managerial ownership (insiders) has an incentive to behave in the interests of shareholders. The shareholding owned by managers helps align their interests with those of shareholders (Jesnsen & Meckling, 1976). On the other hand, foreign ownership/control of investment in a country is defined as the complete or majority ownership/control of investment in that country by investors who are not citizens of that country (Odudu, Okpanachi, & Yahaya, 2019). Many countries have increasingly opened up their capital markets to draw foreign investors as part of the push to increase capital market globalization. Nigeria has developed into a potential economy that attracts the attention of foreign investors who contribute to the global and regional economies, such as DFI. Foreign investment has become an important player in the ownership structure system that contributes immensely to the growth of the stock market and the economic development of the country (Odudu, Okpanachi, & Yahaya, 2019).

2.1.2 Audit Quality

De Angelo (1981) described audit quality as the market-based joint likelihood that a given auditor would both identify and report material misstatements in the client's financial statements. Dang (2004) defines audit quality as the market-estimated joint likelihood that a given auditor will both (a) discover and (b) disclose a violation in the client's accounting statement. The market interprets the term to mean that an auditor has an unbiased opinion on an organization's published financial statement, stating whether the financial statement is true and fair as reported. It can also be thought of as a systematic process of objectively gathering and analyzing information about economic behavior and events in order to determine the degree of correspondence between the claims and existing parameters, as well as transmitting the results to interested users. As a result, audits can serve a valuable economic benefit by assisting in the protection of the public interest by enhancing transparency and reinforcing trust and confidence in financial reporting (ICAN, 2005).

2.2 Review of Empirical Studies

This section evaluates relevant empirical studies on ownership structure and audit quality with the goal of critically examining the contributions of previous academics as well as identifying gaps in the subject area.

Rahman Khan et al. (2011) looked into the effects of company ownership concentration on audit fees in Bangladesh. The study discovered a substantial negative relationship between ownership concentration and audit fees, which means that when businesses are dominated by sponsor and institutional shareholders, audit fees are lower. Zureigat (2011) investigated the effect of ownership structure on audit quality in Jordanian publicly traded companies. The study used 188 companies from the Amman Stock Exchange's 262 listed companies as sample. Using logistic regression, the researchers looked at the relationship between audit quality and audit firm size as a dependent variable and ownership structure as an independent variable. According to the regression analysis, there is a significant positive relationship between audit quality and the quality of companies owned by institutions.

The impact of institutional investors on audit quality was investigated by Lennox and Li (2014). Correlation analysis was used in this study. The analysis relied on secondary data sources. The data was analysed using the panel regression methodology. Institutional investors have a favourable and statistically important effect on the audit fees of the selected companies, according to the report.

The effect of institutional ownership on the independent auditors' opinion at Tehran Stock Exchange was investigated by Adel, Seyed, Hossein, and Naslmosavi (2016). 61 companies were used as the study's population. The data was analyzed using logistic regression. According to the findings, there is no connection between institutional ownership and audit opinion. Chen, Dong, and Lin (2016) investigated the monitoring impact of institutional investors on portfolio firms' audit results. The study discovered that increasing a company's institutional ownership improves the readability of its 10-Kforms substantially. Furthermore, the study found that increased ownership improves the efficiency of the audit committee, encourages the company to hire tough auditors, and improves the consistency of internal controls. Furthermore, auditors perceive a decrease in organization expenses and audit risk as a result of the shift in institutional ownership, and therefore charge lower audit fees.

Kane (2016) looked into the connection between managerial ownership and the firm's audit quality. The research focused on a group of 13 companies. The paper employed a correlation analysis design. The study concludes that institutional investors can influence audit quality by incentivizing firms to improve corporate disclosure quality, as a firm's improved information climate encourages tracking and has an effect on equity returns, acquisition, liquidity, resource allocation, and cost of capital. The results of this study cannot be applied to other situations.

Odudu et al (2018) examined the effect of ownership structure on audit quality of listed firms in Jordan between 2009 and 2016. Adjusted population of 155 firms was arrived at from the total of 177 firms. Agency theory was used to underpin the study. The paper provides updated details on the multiple forms of corporate ownership and their impact on audit quality in Jordan, as well as other developed countries with similar corporate environments. Multiple regression was employed to analyse the data collected from the annual report. The results highlight the importance of household, bank and government ownership in maintaining high audit efficiency. Non-financial institutions and foreigners, on the other hand, have significant impact on the quality of the audit.

2.3 Theoretical Underpinning

In line with extant literature, this study was underpinned by agency theory. Jenson and Mecklin (1976) introduced the idea of agency theory in order to resolve the preposition of conflicts of interest between the shareholders and the managers. The agency cost principle, which is consistent with Berleand Means' (1932) propositions, discusses problems related to the division of ownership and control in large corporations. The conflict of interest between principal and agents is the most important aspect of agency theory. The principal (shareholder) delegated decision-making authority to an agent (manager) who carried out the principal's instructions (Jensen & Meckling, 1976).

The agency theory has historically dominated discussions of corporate governance and financial efficiency. The agency theory is a legal term that describes a contractual arrangement between two parties known as the principal and agent (Shapiro, 2005). The principal hires the agent to perform specific services on his or her behalf based on specific instructions. The principal's delegated powers are aimed at the agent's use of key resources, and it is assumed that the agent will use his or her technical expertise to multiply the principal's wealth (Clarke, 2004). Because of the asymmetrical knowledge in this relationship, the principal institutes control structures, which include managerial, institutional, and international ownership, to protect the principal from the agent's potential selfish conduct.

3. Methodology

The study adopts correlational research design since it helps to establish the link and degree of association between ownership structure and audit quality. Data were collected from the annual reports and accounts of 18 listed insurance firms on the Nigerian Stock Exchange as of December 31, 2018. These firms were purposively selected based on the study criteria which include availability of data, and firm must not be delisted during the study period.

For the current study, three variables were identified and discussed in this section. These are: dependent variable (audit quality), the Independent variable, ownership structure, represented by institutional ownership, managerial ownership, bulk holding and foreign ownership; and control variable of firm size and leverage. The study utilized logistic regression analysis as the primary analytic technique.

Variables Measurement and Model Specification
The variables of the study are measured as follows:

Table 3.1: Variables Measurement

Variables	Proxy	Type	Measurement
Audit Quality	AUDQ	Dependent	If the financial information obtained from the companies' audited reports shows that it is audited by one of the "Big4" audit firms is 1 or otherwise 0 (Abdullah, 2008; Shan, 2010).
Institutional Ownership	IOWN	Independent	Measured by the percentage of the total shares owned by institutions (Hoseinbeglou *et al.*, 2013)
Managerial Ownership	MOWN	Independent	Measured by percentage of shares owned by the management from total outstanding shares Arifur, (Balachandran, & Paul, 2008)
Block-Holding	BLKH	Independent	Is the proportion of shares held by certain number of block holders, exceeding 5% (SEC, 2003; Omar & Hind, 2012).
Foreign Ownership	FOWN	Independent	measured as the percentage of the total shares owned by non-Nigerian investors in the company (Seini *et al.*, 2019; Shleifer & Vishsny, 1986).
Firm size	FSZ	Control	Log of total assets Zureigat(2011)
Leverage	LEV	Control	Total liabilities/total asset Zureigat (2011)

Source: Compiled by author from reviewed literature (2021)

In order to get the audit quality, the linear regression model is illustrated below:
$ADQ_{it} = \alpha + \beta_1 IOWN_{it} + \beta_2 MOWN_{it} + \beta_3 BLKH_{it} + \beta_4 FOWN_{it} + \beta_3 FSZ_{it} + \beta_4 LEV_{it} + \mathcal{E}$
B_1-B_4=Coefficient
$\mathcal{E}$ = error term
it =company and time

4. Data presentation and analysis
This section presents the results of the study as follows: descriptive statistics, the correlation matrix, and the regression results.

Table 4.1 Summary of Descriptive Statistics

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
AUDQ	180	0.62	0.49	0	1
IOWN	180	0.48	0.20	0.06	0.84
MOWN	180	0.25	0.23	0	0.81
BLKH	180	0.53	0.16	0	0.84
FOWN	180	0.10	0.20	0	0.69
FSZ	180	7.16	0.38	6.25	8.04
LEV	180	0.57	0.65	0.071	5.05

Source*:* STATA 13 Output (2021)

Table 4.1 indicates that audit quality (AUDQ) has a mean value of 0.62 and a standard deviation of 0.49. This means that 62% of the sample is audited by the top four audit firms (KPMG, Ernst & Young, Deloitte, and PricewaterhouseCoopers). The standard deviation value indicates that the AUDQ variable has a minor dispersion from their averages.

In addition, Table 4.1 shows that institutional ownership has a minimum value of 6% and a maximum value of 84 percent. This shows that some of the sampled firms had institutional investor interest of up to 84%, which is substantial, while the least level of interest was 6%, during the study period. The averages and standard deviation values of 48% and 20%, respectively, show that the variables are not too far from their mean. Institutional investors make up 48 percent of the ownership structures of the firms analyzed, according to the average value of 0.48.
As indicated in Table 4.1, management ownership (MOWN) has an average value of 25% and a standard deviation of 23%, showing that these variables are widely

separated from the mean. The mean value implies that around 25% of the shares of the sampled firms are owned by the directors. Furthermore, MOWN variable has a low value of near zero (0) and a high value of 81%. Implying that there are organizations that have no managerial ownership, as indicated by the minimum value..

In addition, Table 4.1 also shows that the average share of block ownership across Nigeria's publicly listed insurance firms is 53%, with a standard deviation of 16%. On average, stockholders with up to 5% ownership account for 53% of the sample firm's share ownership structure, as evidenced by the mean value of 0.53. The standard deviation shows that the variables have a small dispersion away from the data set's mean. 0 and 84 percent are the lowest and greatest percentages, respectively, while 0 is the median value. The lowest possible figure, 0%, implies that there are firms in the sample that have no particular ownership exceeding 5% of the total (no block ownership).

FOWN has an average value of 0.10, a standard deviation of 0.20, a lowest value of 0 and a maximum value of 0.69, according to Table 4.1, with a minimum value of 0 and a maximum value of 0.69, respectively. The findings show that, on average, 10% of the shares in the firms analyzed are held by entities situated outside of Nigeria. This indicates that foreign investors' interest in Nigeria's publicly listed insurance businesses was minimal for the time period studied. The standard deviation, on the other hand, indicates that there is no overall pattern since it shows a large divergence from the mean, the lowest possible number of 0 means that there are no foreign-owned insurance businesses.

Table 4.2: Spearman Correlation

	AUDQ	IOWN	MOWN	BLKH	FOWN	FSZ	LEV
AUDQ	1.000						
IOWN	0.337*	1.00					
MOWN	-0.241*	-0.101	1.000				
BLKH	0.427*	0.661*	-0.073	1.000			
FOWN	0.148*	0.048*	-0.019*	0.039	1.000		
FSZ	0.304*	0.130	-0.131	0.013	0.3013	1.000	
LEV	0.214*	-078	0.087	0.04	0.163*	0.404	1.000

Note: * at 5% level of significance

The correlation matrix result presented in Table 4.2 indicates that there are no high correlations amongst the variables of the study that could signal the existence of multicollinearity. This is evidenced from that the fact that the highest correlation coefficient is 0.661 which is below the threshold of 0.80 as suggested by Gujarati (2010).

Regression Results

The summary of the regression result is presented in Table 4.3 as follows:

Table 4.3

Random Logit regression model

Variables	Odd ratio	STD ERROR	Z	P-VALUE
IOWN	5.14	2.78	3.03	0.002*
BOWN	3.44	5.22	0.81	0.416
FOWN	103.68	239.55	2.01	0.045*
BLKH	1.00	.001	1.99	0.046*
FSZ	17.82	34.29	1.50	0.134
LEV	1254.549	4629.22	1.93	0.053
LR chi2	15.49			0.017
Log Likelihood	-54.53			
NO of OBS	180			
No of Group	18			

Note: Odd ratio is used, Significance * $P<0.05$

Source: Regression Result from Output STATA13

The study utilized a random logistic regression model based on criteria as well as a likelihood ratio rho test to make a judgment. The odd ratio was utilized in the study to provide the impression that the data was drawn from a normal distribution. As shown in Table 4.3, the likelihood ratio chi-square is 15.49, and the result is statistically significant at 5% (0.017), showing that the study's model is well-fit. Furthermore, it reveals that the criteria included for this study have a combined impact on the audit quality of Nigeria listed insurance firms.

Discussion of Findings

In line with the findings of the study, the following conclusions were drawn:

The study uncovered evidence that institutional ownership had a positive impact on the audit quality of Nigeria listed insurance firms. According to the findings of the study, the efficacy of institutional investors' monitoring will raise the likelihood of them hiring a Big 4 audit firms. This is consistent with the work of Lennox and Li (2014), Chen, Dong, and Lin, (2016) and Alfraih (2017) who found positive relationship between institutional investors and audit quality. The finding is contrary to the works of Almutairi, (2013), Ben Ali and Lesage (2013) and Adel Nikoozad, Seyed, Hossein and Naslmosavi (2016), who found that institutional investors does not impact on audit quality.

Second, the study uncovered evidence that management ownership of listed insurance firms in Nigeria has no influence on the audit quality. This is consistent with prior studies of Santanu, Bikki and Talal (2017), Pangaribuan and Pranata (2015) who found evidence that management ownership is positively but not significantly related to audit quality.

Furthermore, the findings revealed that block-holding has a positive impact on the audit quality of Nigeria's listed insurance firms. The finding is consistent with the agency theory and also similar to the studies by Odudu et al. (2018), who found that block-holders has positive impact on audit quality .However, it is contrary to the study of Seyedeh Elham et al., (2016), who found that block shareholders have negative impact on audit quality.

Lastly, the analysis indicates that foreign ownership has a positive and significant impact on audit quality. The finding is in line with agency theory and also consistent with prior studies: Zureigat (2011) , Agus et al., (2012) and Nelson and Mohamed-Rusdi, (2015) and Abu et al. (2019) by who found that foreign ownership improve audit quality.

5. Conclusion and Recommendations

This study examined the impact of ownership structure on audit quality of listed insurance firms in Nigeria. The study adopts correlation research design and data were obtained from published accounts of 18 listed insurance firms on the Nigeria stock exchange as at 31st December 2018. Data were analyzed using logistic regression. Findings revealed that institutional ownership, block-holding ownership and foreign ownership influence audit quality of listed insurance firms in Nigeria. The study therefore concludes that organizational, foreign and international ownership play a major role in ensuring high-quality auditing of listed insurance firms in Nigeria.

The following recommendations have been made in the light of the study's findings and conclusions.

1. The board of directors of insurance firms should encourage institutional investment in order to improve management control and the quality of audit reports.
2. Shareholders of block shares in publicly traded insurance firms should continue to use their voting rights to ensure that reputable external auditors are appointed to improve audit quality and ensure the reliability of financial reports.
3. The Nigerian government and regulatory bodies (SEC) should work together to create favourable conditions for foreign investment in the country.

Recommendations for Further Studies

This study examined the effect of ownership structure on audit quality of listed insurance firms in Nigeria; with audit quality measured using the big 4 audit firms. The study therefore suggests for future researchers to proxy audit quality using other measures such as audit tenure and/or audit experience. Also, the study should be replicated in other sectors of the economy, like the entire financial sector to facilitate generalization of findings.

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