Research Proposal

The relationship between audit quality and firm performance

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Chapter 1: Introduction

Reputable companies from affluent countries have been at the centre of many high-profile scandals in the world of international business in recent years. Financial crises and company bankruptcies may have a significant influence on the business sector. Corporate fraud episodes, like those at United Group and others, have put shareholders' money at risk, hence there has to be more accountability (Ado et al., 2020). The purpose of external audit reports (AR) is to guarantee effective and reliable internal controls; yet, these occurrences have placed doubt on their trustworthiness.

1.1 Background of the topic

The frequency and severity with which clients are informed of audit results about accounting system errors is a measure of audit quality (Al-ahdal and Hashim, 2022). Despite the fact that this has been a contentious issue for quite some time, studies have shown that poor audit quality is a major cause of financial and business issues. Those in favour of audit rotation cited its many benefits, while those against cited its high expenses (Alzeban, 2020). Finding out what makes the connection between audit quality and company performance so strong is the main motivation for this study (Wijaya, 2020).

Still, these financial statements must be prepared and presented to all users by management in order to satisfy their varied needs. Ado et al. (2020) discovered that investors are more likely to increase their investments in an organisation when they have faith in the audited financial reports of that business.

The interest of both internal and external stakeholders in the accuracy and reliability of businesses' financial reports has made audit quality (AQ) a crucial concern in the field of audit practice (Cavaliere et al., 2021). How well an audit satisfies its requirements in relation to a predetermined set of intrinsic qualities was outlined in 2004 by the European Supreme Audit Institution (EUROSAI). To measure audit quality and find out how it relates to business performance, researchers have used a number of proxies, such as audit fees, audit firm size, audit expertise, audit client significance, litigation impact, and audit tenure (Dakhlallh et al., 2020). Afribank Nigeria Plc (2009), Cadbury Nigeria Plc (2006), Parmalat (2003), and Enron (2001) are just a few examples of recent corporate disasters that have brought attention to the global significance of audit quality. Finding unfilled research needs and laying the groundwork for new investigations is the goal.

1.2 Research Aim

The aim of the research is ***"The relationship between audit quality and firm performance."***

1.3 Research Objectives

1. To understand various approaches to evaluating audit quality in order to boost the company's efficiency.
2. Determine how audit quality affects companies' bottom lines.

1.4 Research Questions

1. What is the impact of audit quality of firm financial performance?
2. What are the potential ways to improve audit quality?

1.5 Research Framework

Here is how the rest of the research is structured: Associated theories, company performance, traits of corporate governance, and audit quality proxies are the primary foci of Chapter 2's research. In the second section, the relevant literature on topics such as audit quality, business performance, and corporate governance traits. This study's methodology is detailed in Chapter 3. At the outset, it lays out the study's framework, methodology, sample, and time frame. The previous part included the model parameters, relevant variables, and a chapter summary. First, the study's conclusions regarding the association between corporate governance traits and business success are detailed in Chapter 4. For the second step, the study report out the linkage between 16 corporate governance factors and audit rating. In other words, audit quality proxies and their link to economic outcome are the focus of the study. Lastly, the article covers (focuses on) this aspect that is the link between corporate governance and company success. Such items as the impact of audit quality as the mediator of this link will be discussed. In the final chapter, state the conclusions, the limitations, and the actions for the continuation of research and the significance of the study.

Chapter 2: Literature Review

2.1 Audit Fees

When it comes to financial reporting, the goal of auditing is very important since it ensures dependability and integrity by revealing any irregularities, inaccuracies, or fraudulent activity that may be present in financial accounts. As a result of the costs that are imposed by professional accounting firms, Amahalu (2020) has garnered the attention of academics, practitioners, and researchers from a variety of sectors.

Good auditing quality and information security are the main issues in many researches considering the relationship between auditing and business performance. As cited by Zraiq and Fadzil (2018), numerous research papers employed auditor rotation, independence, fees, and experience as both an option and substitute for audit quality. These called-for studies comprise Woodland and Reynolds (2003), Nam (2011), Mittinen (2011), Bouaziz (2012), Anderson and Verma (2012), Farouk and Hassan (2014), Tobi et al. (2016), and Matoke and Omwenga (20 The report reveals that auditors may become biased by assisting the companies in their day-to-day operations, rather than just auditing. Farouk and Hassan have demonstrated via their (2014) study the impact of audit quality on the financial performance of Nigerian publicly traded cement companies, based on Rahman, Meah, and Chadhury's (2019) studies. For an in-depth examination of the connection between the audit quality and financial performance of the public companies in Kenya, the study by Matoke and Omwenga (2016) put forth the indicators like auditor size, auditor independence, audit team qualities, auditor experience, and net profit margin being used in proxy being as suggested by the views given Velte (2017). The scientists in this work did the linear regression of multiple specimens to correlate the data.

2.2 The Rationalisation of Ownership

When big shareholders own a considerable percentage of a company's shares and exert influence over the company's operations and policies, lesser shareholders sometimes lack the ability to hold management responsible for their actions. Dakhli (2021) contends that CEOs of companies profit themselves by extending advantages to themselves and by being less productive, which ultimately results in the shareholders suffering losses.

Research suggests that when companies are owned by a small number of people, managers may be less motivated to make strategic choices and take risks for their own benefit (Khan & Subhan, 2019). In this regard, a large total equity share may provide majority shareholders more ability to oversee the company (Clarke, 1998). As a result, this may be useful in enhancing company performance via the provision of external environment-related experiences, such as internal and external partnerships according to Naimah, (2017). While some authors in developed nations according to, Rahman, Meah, and Chaudhory, (2019), found a positive correlation between concentrated ownership and company performance, other authors in developing nations have found the opposite. In both industrialised and developing nations, several writers have shown that the two factors are negatively related (Roszaini & Mohammad, 2006).

Hypothesis 1: A correlation exists between the concentration of ownership and the performance of the company.

Chapter 3 Research methodology

3.1 Introduction

In this research, a research method based on a comprehensive approach will be adopted in order to analyse the association between audit quality and company performance. The approach will be a multi-sided methodology which will be combined with a varied field of sources in order to remain accurate.

Sample and Sampling Selection Criterion:

The research will be targeted specifically to companies of different industries aimed at obtaining a wide range of input for the study which will reflect both experience and practice. The criteria for selection is going to cover spectrum of parameters, including size of a business, its industry or regions where it operates. A proportionate sampling will be applied to make sure of enough representation from every stratum.

Data Collection Process and Data Sources:

Data collection will be complete through the process of acquisition of facts from multiple channels such as academic literature, industry reports as well as financial databases. Academic literature will be meticulously reviewed using an inclusion/exclusion criterion to identify and incorporate studies that are relevant and provide a theoretical foundation.

Data Analysis Methods:

Statistical methodologies including quantitative data analysis will be used to analyse and account the linkage between audit quality and organizational performance. Methods of statistics like a regression analysis would be utilized to estimate the cause of audit quality across different indicators of firm performance by neutralizing the possible bias of other variables. Other qualitative data like the viewpoint of industrial experts or the insights from carried case studies may also be integrated to give an illustrated and deepened context to the research analysis.

3.2 Research Limitations

The first of the study's stated goals was to conceptualise the relationship between non-financial companies' firm performance over a three-year period (2012–2014) and ownership structure, specifically ownership concentration and managerial ownership. The second purpose is to conceptualise how audit quality influences the link between business performance and ownership arrangements, specifically concentration of ownership and managerial ownership. The limitations of this research are the same as those of any other study. In order to provide future researchers with some direction for experimentally examining the link between ownership structures, audit quality, and business performance, this study primarily aimed to theoretically investigate the relationship (Velte, 2017). Last but not least, as indicated before, this study looked at how ownership structures affected company performance.

Chapter 4: Research outcome

The research is expected to add to the current body of literature on several subjects, such as economics, finance, fintech, and financial crime. Due to these factors, along with the quantitative nature of this study, a thorough examination of existing literature will offer a valid response to the most debated question: whether decision-makers in any organisation need an audit to verify the accuracy of information in reports (Khan and Subhan, 2019).

Tasks	Feb	Mar	Apr	May	Jun	July	August
Identify research area							
Formulate research question							
Formulate research strategy. Research design							
Write research proposal							
Negotiate review							
Literature review							
Data analysis							
Write first draft							
Write second draft							
Write final draft							
Dissertation due							

Figure: Research Plan

Source: (Created by Author)

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