

AUDIT QUALITY AND MARKET VALUE OF EQUITY OF SELECTED NIGERIAN OIL AND GAS COMPANIES

ADEJUWON OLUWAKEMI, OYEDOKUN, GODWIN EMMANUEL & ADEWUMI MOYOSORE

Department of Management and Accounting, Lead City University, Ibadan, Nigeria

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ABSTRACT

This study investigates the effect of audit quality on the market value of equity of selected oil and gas companies in Nigeria. Employing a descriptive survey research design within the quantitative research paradigm, primary data were obtained through a structured questionnaire administered to directors and management staff of listed oil and gas firms. The findings reveal a significant and positive relationship between audit quality and the market value of equity, with particular emphasis on the audit process as a critical determinant. Specifically, the results demonstrate that robust audit procedures enhance the credibility of financial statements, thereby improving investors' confidence and supporting informed decision-making. The study concludes that greater attention should be directed toward the audit process, as it plays a pivotal role in ensuring transparency and safeguarding organizational value. It is recommended that auditors adopt rigorous and comprehensive audit procedures, ensuring that potential areas of financial misrepresentation are thoroughly examined. By strengthening audit quality, firms in the oil and gas sector can enhance their market value of equity and contribute to the broader stability of financial markets.

Keywords: Audit quality, Market value of equity, Oil and gas companies, Audit process, Nigeria.

1.0 INTRODUCTION

One cannot overstate how crucial financial information is to the stakeholders of an organization as it helps the stakeholders to make informed decisions. The significance of accounting data lies in its ability to influence stakeholders' judgments by providing insights into past performance for forecasting future outcomes. Shareholders and potential investors consider many factors when reviewing the performance of a company to determine whether a business is worth their investment or not. One way by which they carry out this review is by assessing the financial statement of the organization as this helps with effective decision making. One of the several information provided by the financial statement is the market value of the equity of the company. The market value of equity is the market evaluation of a company's current worth. It shows how much investors are willing to pay for a company's stock and how the company's value has grown compared to its book value. The market value of equity plays a pivotal role in attracting investments and maintaining stakeholder confidence in this sector. It shows the perception of investor concerning the financial health, governance and its future profitability. The confidence of an investor, reduction in information asymmetry and the

reliability of financial information is strengthened by a high-quality audit. (Clinch, Strokes, & Zhu, 2012).

The oil and gas sector is one of the sectors of the economy characterized by high financial stakes and complex operations. However, several financial scandals in recent years, ranging from the collapse of Enron Corporation to the controversies surrounding Oando and ExxonMobil Nigeria, have raised concerns about the reliability of financial reporting in this sector (Securities and Exchange Commission Nigeria, 2019; Okonkwo, 2020; Benston, 2002). As a result, stakeholders increasingly seek assurance regarding the accuracy and transparency of financial statements, which directly influences their perception of a company's market value. Therefore, the credibility and transparency of financial reporting in this sector have been an important issue in stabilizing and improving its market value of equity. The market valuation of the oil and gas industries has usually been unstable and this is due to volatile global oil price, reserve uncertainty, decommissioning liabilities and environmental concerns, the lapses in government and uncertainties in regulation (Lawal, 2021). This problem is more pronounced in a market such as Nigeria's due to weak institutional framework and inconsistent disclosures which increases the doubt of the investors thereby contributing to the undervaluation of shares (Ugwunta, Ugwanyi, & Ngwa, 2018). This problem establishes a gap in the assurance of financial information which has direct implications for the market value of equity.

Empirical evidence showed that firm value can be reduced by poor financial reporting practices, income smoothing and inadequate disclosures particularly when market perceive high risks (Mainoma, Aruwa, Naburgi, & Oyedokun, 2022). Similarly, weak audit oversight and the absence of credible assurance mechanism mitigate information disparity leading to share not rightly priced

One crucial factor that can impact the market value of equity is the quality of the audit engaged by this sector. Audit quality, defined by the competence and independence of audit professionals, the robustness of the audit process, and the reliability of audit results, serves as a key indicator of the trustworthiness of financial statements. Ugwunta, Ugwuany, and Ngwa (2018) discovered that audit quality indicators are connected with share price, showing that investors sees how credible a company is by the value of its equity. Erinoso and Oyedokun(2022) shows that environmental audit and disclosure are connected to stronger financial performance (such as Return on Investment Return on Equity and Profit after Tax), showing mediums through which market perception can be influenced by higher quality assurance and transparency. It is to this end that this study seeks to examine the relationship between audit quality and market value of equity of oil and gas companies

This paper has been properly structured to gain more insight into the in-depth review of related literature and hypothesis development, research methodology, discussion of findings and conclusion of the study

1.1 Objective of the study

The main objective is to examine the relationship between audit quality and the market value of equity of selected oil and gas companies in Nigeria.

1.2 Research Hypotheses

In line with the objectives of the study, the alternative hypotheses is: Audit Quality has significant effect on the market value of selected oil and gas companies in Nigeria

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Market Value of Equity

Market value of equity (MVE) is a key indicator of firm value, reflecting investors' collective assessment of a company's worth. It is commonly measured as the product of the company's share price and the number of outstanding shares, often referred to as market capitalization (Ohlson, 1995). Beyond its arithmetic definition, MVE embodies investors' perceptions about future cash flows, dividend prospects, and the risk profile of the firm. In the oil and gas sector, MVE is particularly volatile due to external shocks such as oil price fluctuations, regulatory changes, and geopolitical risks. Thus, it not only mirrors present performance but also captures market expectations of the firm's long-term viability. Empirical evidence suggests that accounting-based measures such as earnings per share (EPS), price-to-earnings (P/E) ratio, dividend per share, and firm size significantly drive MVE in emerging markets (Okoye, Nwoye, & Egbunike, 2017; Ugwunta, Ugwuanyi, & Ngwa, 2018). This underscores the value relevance of accounting information and its ability to influence equity pricing decisions.

2.2 Audit Quality

Audit quality has been a subject of intense scholarly debate since DeAngelo's (1981) seminal definition, which describes it as the probability that an auditor will both detect and report material misstatements in financial statements. High-quality audits strengthen the credibility of financial information, thereby reducing information asymmetry and enhancing investor confidence. For capital-intensive industries such as oil and gas, audit quality is crucial, as firms must demonstrate accountability in reporting reserves, asset values, and environmental obligations (Erinoso & Oyedokun, 2022). Studies have shown that audit quality proxies such as auditor type (Big 4 versus non-Big 4), auditor independence, and audit committee effectiveness significantly influence both earnings quality and the market valuation of firms (Francis & Wang, 2008; Mainoma, Aruwa, Naburgi, & Oyedokun, 2022).

2.3 Audit Quality Indicators

To operationalize audit quality, several frameworks have been proposed. The Public Company Accounting Oversight Board (PCAOB) emphasizes Audit Operational Inputs, Audit Processes, and Audit Results as key dimensions of Audit Quality Indicators (AQIs).

Audit Operational Inputs focus on the competence, experience, and workload of audit teams, reflecting the "people" dimension of audit performance.

Audit Processes include leadership tone, independence, incentives, and monitoring mechanisms that guide audit execution.

Audit Results are represented by the audit opinion and related outputs, including assessments of internal controls, going concern evaluations, and enforcement outcomes.

These AQIs provide deeper insights into how audit quality is constructed and sustained across engagements, offering a multidimensional perspective beyond mere auditor type or tenure (IAASB, 2014).

2.4 Importance of Audit Quality to Financial Statement Users

The relevance of audit quality to MVE is best understood through the lens of financial statement users. For creditors, a strong equity base signals solvency, reduces default risk, and provides collateral assurance, particularly critical in the capital-intensive and volatile oil and gas industry. Shareholders, on the other hand, view MVE as a direct measure of their wealth and a signal of the firm's competitiveness. Higher audit quality strengthens the reliability of reported earnings and reserves, enabling shareholders to make informed decisions about holding, selling, or purchasing additional shares. From a broader market perspective, robust audits help mitigate agency problems by ensuring transparency, which, in turn, fosters market stability and efficiency (Clinch, Stokes, & Zhu, 2012).

2.5 Linking Audit Quality and Market Value of Equity

The conceptual linkage between audit quality and MVE rests on the premise that credible financial reporting reduces information risk, thereby influencing investor confidence and firm valuation. Empirical studies across various sectors, including oil and gas, have consistently shown that high audit quality improves the value relevance of accounting information and enhances market capitalization (Olowokure, Tanko, & Nyor, 2016; Ugwunta et al., 2018). Conversely, weak audit quality has been associated with earnings manipulation, reduced investor trust, and depressed share values. Thus, audit quality serves not only as a mechanism for enhancing reporting credibility but also as a driver of firm value in equity markets.

3.0 THEORETICAL FRAMEWORK

The theory examined in this study is the agency theory. Agency theory views a company as a web of contracts. It assumes the existence of several interest groups in a firm (such as shareholders, bankers, suppliers, customers, employees etc.). These individual groups have the interest to pursue and protect. According to their specific interest, they make some forms of contribution to the firm in return for a given price. The theory tries to describe a relationship where one party (principal) delegates work to another (the agent). It is concerned with resolving problems in relationships bothering on conflict of interest and risk-sharing were given the divergence of risk attitudes of different parties. Agency Theory examines scenarios in which one party, known as the agent, makes decisions or takes actions on behalf of another party, referred to as the principal⁷¹. The theory also assumes separation of ownership from control and provides an opportunity where parties in the relationship strive to maximize their utilities which tend to create a high level of probability which forces the agent to decide or choose to act in his interest as against the principal interest resulting in a conflict-of-interest problems. An audit is considered relevant in these circumstances because it is perceived to meet the expectations of stakeholders. However, auditors are not only appointed in the interest of third parties but also in the interest of management. The theory is associated with conflict of interest

between shareholders and management of firms, which suggest that a less informed party (shareholders) will demand information that monitors the behavior of well-informed firms' management. The audit of financial reports is one form of such information, that would provide shareholders with independent assurance about the activities and development in the firm.

3.1 Empirical Studies

Several studies have examined the role of audit quality and accounting information in influencing market value.

Uqwunta, Ugwuanyi and Ngwa (2018) found that the composition of audit committees, auditor independence and auditor type (Big 4 vs non-Big 4) has positive and significant effect on the market prices of quoted firms, it revealed that there is a positive and significant relationship between audit committee composition and share prices. The study however also reported that extended auditor tenure had a negative effect on the share price of companies. This implied that both the reported earnings and share market price are enhanced by the quality of audit in the organization.

Okoye, Nwoye and Egbunike (2017) examined the impact of accounting information on the market value of shares in Nigeria using pooled panel data extracted from 59 listed companies in the Nigeria Stock Exchange between 2008-2014. The study reported that earnings per share (EPS), asset tangibility, price to earnings ratio and firm size were significant drivers of market value of equity. This suggests that transparent reporting backed by credible audit assurance plays an important role. Similarly, Olowokure, Tanko and Nyor (2016) examined ICT firms in Nigeria and established that dividends per share, earnings per share and return on equity were positively and significantly associated with market share price. The study emphasized the importance of high quality disclosure and credible assurance in shaping market valuation. Erinoso and Oyedokun (2022) analyzed listed oil and gas companies and found that environmental disclosure and environmental audits had positive impacts on financial performance, which indirectly supports stronger equity valuations.

Studies from Clinch, Strokes and Zhu (2012) demonstrated that higher audit quality reduces information distortion thereby improving market pricing efficiency. In another cross-country study, Francis and Wang (2008) found that the value relevance of high-quality audit was stronger in environments with robust investor protection, highlighting the role of institution setting.

The reviewed literature demonstrates that audit quality proxies (auditor type, independence, audit committee effectiveness, audit fees and accounting information variables (EPS, DPS, ROE, Firm size) significantly influence market value of equity. However limited studies have focused exclusively on the oil and gas sector in Nigeria, a sector where valuation challenges are especially sensitive due to high volatility and disclosure complexity.

3.2 Hypothesis Development

In light of the existing body of work, this study develops and tests the following hypothesis

H0: Audit quality has no significance effect on the market value of selected oil and gas companies in Nigeria

4.0 METHODOLOGY

The study employed a descriptive research survey design which is within the quantitative research method. This design is suitable for examining the effect of audit quality on the market value of equity of selected oil and gas companies in Nigeria. The study population comprises all the directors and management staff of the active traders in the listed oil and gas companies in the Nigeria Stock Exchange market and this has a total of 171 staffs. The selection of the directors and management staff is based on the fact that these are the set of people who have the information regarding the value relevance of accounting information in their firm and are in the best position to provide this information. A structured questionnaire was adopted as the study's instrument. Primary data was collected to address the objectives of this study. The study adopted descriptive and inferential statistics to analyze the data.

5.0 RESULT

The reflective measurement model was used to assess the factor loading of audit quality and market value of equity. Audit quality is categorized into audit process, audit professional, and audit result. A total of eighteen (18) items was used in the study to assess the factor loading of the audit quality and four (4) items was used for market value of equity. The analysis shows that the loading was between 0.50 and 0.90, but the items below 0.60 were removed from the analysis. Thus AUDR5, AUDPROF1 from audit quality construct was removed from the model because it was less than 0.60. Also, MVE4 was removed from the market value of the equity construct.

5.1 Structural Model Result of Audit Quality and Market Value of Equity

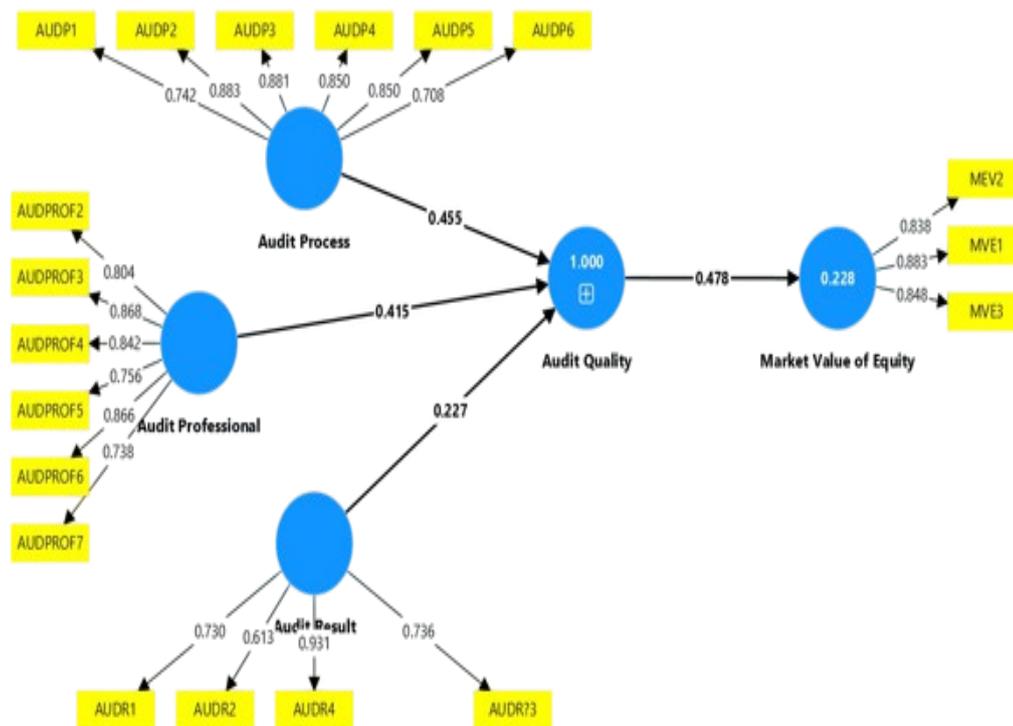
	Path Coefficient	Standard Deviation	T-Value	P-Value	Decision
Audit Process -> Audit Quality	0.455	0.040	11.459	0.000	
Audit Professional -> Audit Quality	0.415	0.033	12.768	0.000	
Audit Result -> Audit Quality	0.227	0.027	8.482	0.000	
Audit Process -> Market Value of Equity	0.218	0.049	4.474	0.000	
Audit Professional -> Market Value of Equity	0.198	0.045	4.363	0.000	
Audit Result -> Market Value of Equity	0.109	0.024	4.580	0.000	
Audit Quality -> Market Value of Equity	0.478	0.107	4.451	0.000	Supported
R ²	0.228				
R ² Adjusted	0.217				
F ²	0.296				

SRMR

0.140

The F2 result indicates that the relationship between audit quality and market value of equity (0.296) is moderate. This implies that the effect size of audit quality on market value of equity is moderate (see Table 4.17).

The coefficient of determinant (R2) is assessed to measure the level of variance of market value of equity as explained by audit quality. The analysis revealed that the R2 for market value of asset is moderate at R2= 0.228, which implies that 22.8% variance of market value of equity is explained by audit quality, which includes: audit process, audit professional and audit result.



5.2 PLS Algorithm Model of Audit Quality and Market Value of Equity

The direct effect of path coefficient and T-value for the overall construct include; audit quality and market value of equity ($\beta= 0.478$, $t= 4.451$, $P\text{-value}= 0.00$). This implies that audit quality has a significant effect on market value of equity.

The indirect effect of path coefficient and T-value for the relationship between audit process and market value of equity is ($\beta= 0.218$, $t= 4.474$, $P\text{-value}= 0.00$), audit professional and market value of equity ($\beta=0.198$, $t=4.363$, $P\text{-value}= 0.00$), audit result and market value of equity ($\beta=0.109$, $t= 4.580$, $P\text{-value}= 0.00$). This analysis shows that audit process has the highest contributing factor to explaining the impact of audit quality on market value of equity. The

result further revealed that an increase in audit quality will increase market value of equity by 0.107 standard deviation. The SRMR for the model is 0.140, which is within the acceptable threshold, thus, the model is considered a good fit.

The result shows that the t-value = 4.451 is more than 1.96 and its significant level, $p= 0.00$ is less than 0.05. this implies that the null, which states that audit quality does not have a significant effect on market value of equity is rejected. Therefore, alternative hypothesis which states that audit quality does have a significant effect on market value of equity is accepted. This negates the findings by Ben Le and Moore whose study finds a negative relationship between quality and both the COE capital and income- increasing discretionary accruals

6.0 CONCLUSION AND RECOMMENDATION

The study established the importance of audit input by professionals, audit process and audit result in an audit exercise as this will also enhance the credibility of the information given to the users of accounting information. The study established that there is a high relationship between audit quality and market value of equity. It also revealed that the audit process has the highest contributing factor to explaining the impact of audit quality on market value of equity. The study recommends that attention should be given to the procedures engaged by the auditors during the audit exercise. They are to ensure that no stone is left unturned and to also ensure that they intentionally look for likely ways the management might want to manipulate the records thereby helping stakeholders to make informed decisions.

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