

**DETERMINANTS OF MODIFIED AUDIT OPINION OF LISTED NON-FINANCIAL
FIRMS IN NIGERIA****Monday Olade, IZEVBEKHAI (PhD, ACIT)¹ & Owa, FREDERICK (PhD, CNA)²**¹ Accountancy Department, Auchi Polytechnic, Auchi² Delta State Polytechnic, Ogwashi-UkuMondayizevbekhai75@gmail.com ; chukwumenimefred@yahoo.com**ABSTRACT**

The study examined the determinants of modified audit opinion of listed non-financial firms in Nigeria. The objective of the study was to investigate whether audit firm size has significant effect on modified auditor opinion in non-financial firms in Nigeria. The secondary source of data collection was adopted in the study where the purposive sampling technique was used to select a sample size of ten (10) non-financial firms in Nigeria for the study. Least Square regression analysis was used in this study and the findings revealed that audit firm size has significant effect on modified auditor opinions in non-financial firms in Nigeria. The study concluded that the size of the board will influence the likelihood of a firm receiving modified audit opinion and firms with large boards were less likely to receive modified opinion due monitoring effectiveness of large boards. Finally, it was recommended that the size of the audit board should be properly partitioned to ensure a balanced opinion and adequate representation of the financial status of the firm.

KEYWORDS: Modified Audit Opinion, Non-Financial Firms, Audit Firm Size, Auditor Independence, Audit Committee Financial Expertise, Earnings Management.**1. Introduction**

Both the public and private sectors have a lot of interest in transparency and accountability subjects. Various nations have endeavoured to enhance corporate governance with the aim of promoting transparency and accountability. External audit, according to the World Bank's corporate governance toolkit, can guarantee accountability and transparency in state-owned businesses. According to Bratten, Causholli, and Omer (2019), state owned enterprises have a significant economic impact on many nations, especially when it comes to providing essential services. Boards of directors are in charge of overseeing and keeping an eye on the data that management presents. Thus, if executed appropriately, it may result in enhanced financial reporting quality. This indicates that the likelihood of an independent auditor's modifying their audit opinion is lower for well-managed businesses. According to Tian and Xin (2017), the audit opinion was significant because it provided insight into whether the financial statements that management had provided represented a true and fair picture. According to Ayinla, Aliyu, and Abdullah (2022), changing audit reports is a symptom of subpar financial reporting. According to Hsiao, Lin, and Hsu (2020), qualified, adverse, and disclaimer opinions are examples of the different types of modification. Unaltered audit opinions can boost the agent's financial reporting's credibility which is probably going to persuade lenders

and investors to give more money (Gehya, 2019). In the public sector, investors and members of the public may wish to see audit reports to learn how their money and taxes are used by state-owned businesses.

Nigeria business environment has been perceived in some quarters as not very friendly to foreign and local investors. This assertion's evaluated justifications include financial reports' incapacity to satisfy this user group's needs. The degree of trust placed in these financial statements and their capacity to carry out their necessary duties has decreased due to the country's high rate of fraud, excessive earnings management, and other financial crimes. Given the costs associated with business fraud for both the perpetrator and the company, it is critical to devise methods for stopping or identifying it. This includes a cursory examination of the risk factors related to the industry, careful consideration of the motivations behind the fraud, and a plan for how to manage it on a day-to-day basis. Because of this, the auditors are viewed as "messiahs" who will fix this anomaly and, in doing so, either directly or indirectly restore equilibrium to the way the business environment operates (Kalabeke, Sadiq, & Keong, 2019).

The agency problems that result from the division of ownership and control of businesses are what gave rise to the need for external audit services. Businesses are always owned by a variety of shareholders, but professional managers oversee day-to-day operations; these managers may or may not be major shareholders. This implies that the firm's managers must report to the shareholders on their stewardship of the company's resources, typically by releasing a set of financial statements on a regular basis. It also means that the firm's shareholders have a residual claim on the company's resources. It is typically necessary for financial statements to be certified by an auditor in order to guarantee that the data published by businesses is trustworthy for consumers. An auditor is an impartial, strict, and independent third party that conducts independent assessments that lend credibility to financial statements (Lamido, Okpanachi, & Yahaya, 2022).

Essentially, the purpose of auditing is to give investors the necessary confidence to rely on audited financial statements. More specifically, the goal of auditing is to minimize the residual loss brought on by managers' opportunistic financial reporting and to lessen information asymmetry on accounting numbers. Effective and perceived qualities – often referred to as apparent quality – are required for auditing to serve as a useful monitoring tool.

Users of financial reports believe that the creation of a high-quality audit report promotes engendered confidence in those reports. Since the expected independence of the auditor increases the assurance that significant investment decisions can be made based primarily on the substance of those statements, investors in particular have a tendency to place greater trust in financial statements that have undergone auditing. These financial users' heightened confidence tends to draw capital inflows, which over time fosters growth and development in the business environment. Nonetheless, "structured financial statements" could result from management inefficiencies. These financial statements often misrepresent the organization's true financial situation and state of affairs, endangering potential investors' decisions. Unfavourable investment outcomes would diminish the financial statements' credibility, which would lower capital flow and worsen the state of the business environment (Adeyemi

& Fagbemi, 2022). It is therefore, based on these tenets, that this study aims to analyze the determinants of modified audit opinion of listed non-financial firms in Nigeria.

2. Literature Review and Hypotheses Development

2.1 Modified Auditor's Opinion

Mwangi (2018) asserts that the audit judgement is directly impacted by the quality of financial information. The degree to which operational activities are manipulated—interference in the course of business dealings and overproduction to control the cost of goods sold, respectively – is the basis for evaluating quality. Control factors including firm size, debt, profitability, and the auditor's reputation are included in the analysis to evaluate the dependencies. Based on the degree of sales manipulation, the audit opinion significantly affects the quality of financial information (under the aspect of value and the time when the transactions were made), the findings indicate. The audit opinion highlights the likely limitations of the audit effort in terms of its ability to uncover fraudulent production activities, but it has no discernible impact in cases of manipulation through overproduction.

Maintaining high standards of competence for auditors can help improve financial reporting. Ogungbade, Adekoya, and Olugbodi (2021) evaluate the financial reporting quality of deposit money banks listed on the Nigerian Stock Exchange. The information was obtained from audited annual reports for each of the 11 deposit money banks listed on the Nigerian Stock Exchange between 2009 and 2018. In the study, the choice between a random and a fixed-effect model was made using Hausman's test. The model of random effects was chosen and analyzed. The study's conclusions showed that the only factor that statistically significantly affected the quality of financial reporting (FRQ) was audit fees. This study found that the interval between the end of the accounting year and the external auditor's signature on the financial report served as a proxy for financial reporting quality (FRQ).

2.2 Audit Firm Size and Auditor's Opinion

The importance of ensuring reliable and accurate financial reporting has increased in light of recent business scandals in developed and developing countries. Daferighe and George (2021) claim that despite government efforts to ensure accurate financial reporting, corporate financial scandals are still on the rise in Nigeria and around the world.

Board size is the total number of directors, including executive and non-executive members. Board sizes come in two varieties: small size and large size. The board of directors is solely responsible for managing the company's daily operations. Consequently, the board's size may have a big effect on how well the business performs. There is a convergence of opinion regarding the relationship between board size and company performance. Contradictory findings, however, appear regarding whether a large or small board is more productive. Omer, Aljaaidi, and Yusof (2020) claimed that big boardrooms can be a barrier to change because they have a tendency to make decisions slowly. A second argument in favour of a small board size is the fact that there is a tendency for this issue to worsen as the number of directors rises and that directors seldom challenge the decisions made by upper management (Kalabeke, Sadiq & Keong, 2019).

Okoye, Adeniyi, and Ogbodo (2024) investigated the impact of audit firm size and auditor tenure on financial statement fraud of listed non-financial firms on the Nigerian Exchange Group. Secondary data and an ex-post facto design are used in the study. As of December 2022, the population was ninety-five (95) non-financial firms that were listed on the Nigerian Exchange Group. The Beniesh M-score model and Robust Least Square Regression Analysis were both used in the study. The results showed that there is no discernible positive correlation between audit firm size and financial statement fraud. The study concluded that because audit firm size does not always guarantee the elimination of financial statement fraud, it is not necessary in forms.

Orbunde, Oyewobi and Musa (2022) investigated the impact of audit firm size on earnings management as measured by discretionary accruals of listed consumer goods companies in Nigeria. For the study, an exposed facto research design was used. The size of the audit firm has a positive and significant impact on earnings management, according to the results of the random effect regression analysis. The study concluded in light of the findings and advised interested consumer goods companies to evaluate external audit firms based on their efficacy, efficiency, and output rather than solely on their size when determining whether or not they are one of the Big 4.

Ogungbade, Adekoya and Olugbodi (2021) assessed the effect of audit quality on the quality of financial reporting of deposit money banks listed on the Nigerian Stock Exchange. Techniques: The information was obtained from audited annual reports for each of the 11 deposit money banks listed on the Nigerian stock exchange between 2009 and 2018. In the study, the choice between a random and a fixed-effect model was made using Hausman's test. Data analysis was done using a random-effects model. Audit firm size, audit tenure, and audit fees were found to have an impact on financial reporting quality (FRQ), but audit fee was found to have a statistically significant effect. The study recommended that considerate size of the board should be constituted to portray firm's value.

Ugwu, Aikpitanyi, and Idemudia (2020) examined the effect of audit quality on the financial performance of all 15 listed DMBs in Nigeria. Secondary data that were taken from the listed DMBs' financial statements were used. Multiple regressions were utilized for data analysis, and correlation and ex-post facto research designs were used in the study. The study found a strong and favourable correlation between ROA and audit firm size. Therefore, the study suggests that regulatory bodies try to make joint audit mandatory and that any firms that do not comply should face consequences, given that joint audit demonstrated a significant relationship with firm performance in this regard.

2.3 Auditor's Independence and Auditor's Opinion

The ability of the audit committee to maintain objectivity in the face of external pressures that could compromise its mission is referred to as its independence. To preserve the audit committee's independence in Nigeria, the CBN's code of corporate governance requires that the majority of the committee's directors be non-executive directors. Although they are less likely to ignore financial reporting irregularities or manipulations, members of independent audit committees are regarded as being fairly impartial (Asthana, Khurana, & Raman, 2018).

The longevity of an audit firm may have a negative impact on an auditor's independence. Long-term relationships between the auditor and the client can cause their interests to coincide, which reduces the likelihood of the auditor acting independently. The study's authors contend that audit independence is not ensured by the rotation of Nigerian audit firms. Part of this could be explained by the fact that auditors have similar cultural prejudices and orientations in addition to having similar professional mindsets. Growing a client-auditor relationship increases the possibility that auditors will have "learnt confidence" in the client and fail to perform the necessary financial report examination. When an auditor becomes complacent about their work, they often rely on less rigorous audit techniques or static audit programs and make assumptions about the audit findings. The opening might have had a negative impact on the quality of financial reporting (Alu, Shiyabola, Olurin, & Moses, 2022).

Yeng and Oppong (2024) looked at how audit independence might affect the quality of financial reporting in the stock markets of Sub-Saharan Africa. Utilizing quantitative information gleaned from the ten-year (2012–2021) annual financial reports of 106 listed companies in the six sub-Saharan African stock markets. For the study, the Ex-post factor research design was a great fit. The result demonstrates that audit independence is important in explaining the quality of financial reporting and has a positive effect. It is advised that policies regarding audit tenure be updated and that listed companies extend their audit tenure. When deciding whether to hire a new auditor, it is also advised that businesses carefully review the audit report from prior auditors.

Abdul-Ganiyy, Raji, Oke, and Shittu (2021) examined the impact of auditor independence on the quality of financial reporting by deposit money banks in Nigeria. Six (6) years data were taken from the audited annual reports of ten selected deposit money institutions for the study. The results indicated that audit independence positively affect financial reporting quality. The study recommended reorienting and reorienting audit committee members to ensure significant impacts on the quality of financial reporting.

Owolabi and Afolayan (2020) asserted the relationship between independence of the auditor on the quality of financial reporting in Nigerian deposit money banks. A total of 20 Nigerian deposit money banks were included in this study. Ten (10) banks were chosen for the sample using a deliberate non-probability sampling technique. Secondary data was obtained from the corporate annual reports of the sample banks. The data were examined using panel OLS regression for panel data as well as descriptive and correlation tests. The study found that deposit money banks had a positive correlation between financial quality and audit independence.

Ohaka and Tom (2018) looked into the relationship between financial reporting quality and the independence of the audit committee. Primary source of data collection was used. A questionnaire was used to survey the firms, with a sample size of sixty chosen. Multinomial logit analysis and the Ordinary Least Square Method (OLSM) were used to analyse the data. The data indicates that there is only a weak correlation between audit committee independence and the relevance of financial reports, but a strong correlation with dependability and consistency. The study concluded that the quality of financial reporting in

Rivers State's aluminium corrugating companies significantly relates to audit committee independence.

2.4 Audit Committee Financial Expertise and Auditor's Opinion

Expertise within the audit committee enables members to effectively fulfill their mandated responsibilities (Mazlina, 2015). As a result, a lot of research has been done on the connection between the quality of financial reporting and the expertise of the audit committee. Ojeka, Iyoha, and Asaolu (2015) looked into the relationship between the quality of financial reporting in Nigeria and the expertise of the audit committee. One way to assess the quality of financial reporting was to look at timeliness and consistency (or whole accrued performance). Covariance, paneled least square, and ordinal least square were used to analyses the data. The results show a negative relationship between total accrual quality and financial expertise on the audit function. Similarly, Umobong and Ibanichuka (2017) investigated the relationship between audit committee experience and food service companies' financial reporting quality in Nigeria between 2011 and 2014. They came to the conclusion that members' financial reporting becomes more credible as their understanding of finance increases.

Abdullahi (2024) looked at how the independence and experience of the audit committee affected the quality of financial reporting from Nigerian listed commercial banks. The study's ten (10) year timeframe was from 2013 to 2022. Of the fourteen (14) quoted banks on the Nigerian Exchange Group, eight (8) commercial banks were included in the study using panel data research design techniques. By measuring the variables, the study's data were gathered from the annual accounts of the banks that were sampled. The study discovered an insignificant positive relationship between audit committee experience and the quality of financial reporting. The study suggested that commercial banks should give their audit committee members more training funds and opportunities to earn professional certifications.

Ayinla, Aliyu and Abdullah (2022) investigated the impact of audit attributes on the quality of financial reporting of twelve Nigerian Deposit Money Banks. A correlational research design was employed in the study. A pooled OLS regression approach was used for data analysis. The panel data regression results showed that the financial reporting quality of Nigerian listed DMBs was positively and significantly impacted by the independence and expertise of the audit committee. The results of the study indicate that the quality of financial reporting is significantly improved by audit committee independence and expertise.

Rista (2022) ascertained the impact of audit committee experience and the quality of financial reporting on all of Kenya's quasi-governmental enterprises. Primary and secondary data on all 72 state corporations were collected. Regression analysis was used to examine the correlations between the research models. Both correlation and regression analysis showed that there is a statistically significant relationship between the financial competency of audit committees and the quality of financial reporting. The results show that persons with advanced financial expertise on the audit committee enhance the quality of quasi-government entities' financial reporting. It recommended that persons of expertise in all spheres should be deployed to strategic locations in the firm.

Oji and Ofoegbu (2017) looked into how the financial reporting of Nigerian listed companies was affected by the expertise of audit committee members. In order to gather data, a subset of 145 operational workers from specific publicly traded companies in Rivers State, Nigeria, were given a survey form. The statistical analyses were carried out using the traditional OLS regression technique. The data indicated that there is a significant positive relationship between the financial reporting of publicly traded Nigerian companies and the competence of the audit committee members. Scholars also stress how crucial it is for companies to arrange for audit committee members to receive training in areas that demand in-depth knowledge, like implementing new accounting standards that will facilitate the company's financial reporting process.

2.5 Earnings Management and Auditor's Opinion

A deliberate intervention in accounting reports with the goal of pursuing different self-serving interests is known as earnings management (Olotu, Salawu, Adegbe, & Akinwunmi, 2019). Earnings management is defined by Apollos, Jerry, and Olajumoke (2019) as accounting practices used by management with the intent to manipulate or falsify reported earnings through the use of accounting techniques, as well as accelerating or under-accruing expenses, delaying the recognition of revenue transactions (based on the target objective), or utilising other strategies designed to influence earnings. According to Omoye and Eriki (2018), earnings management is the term used to describe creative methods of classifying income, assets, and liabilities as well as systematic misrepresentation of the true income and assets of corporations or other organizations.

In contrast to fraud, earnings management is the process of choosing generally accepted accounting principles (GAAP)-compliant accounting procedures and estimates. In other words, any company engaging in earnings management would do so within the parameters of generally accepted accounting practices. Investors and shareholders may form false impressions of the company as a result of the act of managing earnings, which does not always accurately reflect the true performance of the business. Therefore, in situations where there are strong incentives for earnings manipulation, efficient board oversight is crucial to lowering the prevalence of this practice (Agbata, Oranu, Ndum, & Eze, 2022).

Although many people believe that manipulating earnings is bad, this is not entirely accurate. Of the three types of manipulation of earnings, creative accounting may be harmful, earnings fraud is harmful, but earnings management is not harmful. According to Ziv (2018), representational faithfulness is merely a relative concept, earnings management is legitimate and does not distort a company's worth or financial situation, wealth transfers resulting from earnings management are acceptable, and earnings management can add value.

Ibobo and Ogbodo (2023) examined the impact of earnings management on the financial performance of listed manufacturing firms in Nigeria between the years 2012 and 2021. The study utilized panel data, which were sourced from the annual reports and accounts of twenty-one (21) sampled manufacturing firms for the study period. The study's hypotheses were tested using inferential statistics, specifically using Pearson correlation coefficient and Panel Least Square (PLS) regression analysis. The findings indicated that discretionary accrual has a positive and significant effect on returns on assets, returns on equity, earnings

per share, and net profit margin. Ultimately, the study concluded that earnings management has a significant impact on the financial performance of listed manufacturing firms in Nigeria at the 5% level of significance.

Agbata, Oranu, Ndum and Eze (2022) investigated earnings management and financial performance of Nigerian Deposit Money Banks (DMBs). DMBs quoted on the Nigerian Exchange Group made up the population. Data collected from the chosen quoted DMBs in Nigeria covered the years 2012–2018. The data analysis technique employed was the basic linear regression method. The study's results showed that earnings management had a major impact on the financial metrics of DMBs, including net profit margin, dividend payout ratio, and earnings before interest, taxes, depreciation, and amortization. According to the study's findings, DMBs engage in earnings management, which has a considerable impact on both their financial performance and profitability.

In the Jordanian securities market, Saaydah (2019) investigated the connection between audit modification and earnings management. The study used logistic regression to examine data from 104 businesses. The study found a strong correlation between a modified audit opinion and the size of the board. The study found no connection at all between modified audit opinions and earnings management.

Elaheh and Ehsan (2016) investigated the relationship between auditor's opinion and real and accrual-based earnings management. This study examines the opinions of auditors and is grounded in reality, while also taking control variables into account. The study uses the logistic regression method to empirically investigate and study 117 firms over the years 2008–2013. The results showed that the auditor's opinion and earnings management have a positive and significant relationship. The study recommended that managers typically employ both real earnings management and earnings accounting management simultaneously in order to smooth out income.

3.0 Analytical framework and model specification

The ex-post factor research design is used in this study due to the fact that the variables cannot be manipulated by the researcher. This method was adopted since social scientific research problems do not lend themselves to experimental and controlled inquiry of the ex-post factor kind. Also, this research design makes it impossible to select, control and manipulate the factors necessary to study cause-and-effect relationships directly. The population of this study consists of Nigerian listed companies on Nigerian Exchange Group (NGX) as at 31st December, 2023. The population comprises of one hundred and fifty five (155) firms listed on Nigerian Exchange Group. Since the entire listed firms cannot be used for the study, the study is limited to ten (10) listed non-financial firms in Nigeria. The basic criteria of selecting these firms are the capitalization prowess and their specialization. In selecting the sample, purposive sample technique was used to derive the sample size. The purposive sampling was used to ensure that the sample represents a diversity of perspectives. The secondary source of data collection was used for this study where data was gathered from audited annual reports of selected listed deposit money banks in Nigeria. However, for the purpose of this study, eight (8) years annual reports of ten (10) selected non-financial firms were adopted.

The study employed multiple regression technique of analysis using Least Squares regression estimation. This method was adopted because it enhances easy presentation and interpretation of data.

The empirical model of the study is mathematically expressed as follows;

$$AOP_{it} = \alpha + \beta_1 AFZ_{it} + \beta_2 AIN_{it} + \beta_3 AFE_{it} + \beta_4 EAM_{it} + \epsilon_{it}$$

Where;

AOP_{it} = Auditor Opinion

AFZ_{it} = Audit Firm Size

AIN_{it} = Auditor Independence

AFE_{it} = Audit Committee Financial Expertise

EAM_{it} = Earnings Management

ϵ_{it} = Error term

α = Intercept

$\beta_1 - \beta_3$ = Coefficients of parameters estimated.

4. Result and Discussion

Table 1: Summary of Descriptive Statistics

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviat | Skewness | | Kurtosis | |
|-----|-----------|-----------|-----------|-----------|-------------|-----------|------------|-----------|----------|
| | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic | Std. Err |
| AOP | 621 | .00 | 1.00 | .0499 | .21795 | 4.143 | .098 | 15.217 | .196 |
| AFZ | 621 | 1.30 | 5.84 | 4.1250 | .60549 | -.150 | .098 | .902 | .196 |
| AIN | 621 | .00 | 1.00 | .7681 | .42238 | -1.274 | .098 | -.379 | .196 |
| AFE | 621 | .00 | 1.00 | .5411 | .49871 | -.165 | .098 | -1.979 | .196 |
| EAM | 621 | -7.030 | 5.570 | -.55205 | .725356 | .035 | .098 | 37.028 | .196 |
| N | 621 | | | | | | | | |

Source: Output of data analysis by author using SPSS (2024)

From the above table, the dependent variable modified auditor opinion (AOP) has a mean value of 0.0499, standard deviation of 0.21795, minimum value of 0.00 and maximum of 1.00. The independent variables; Audit Firm Size (AFZ) has a mean value of 4.1250 and a standard deviation of 0.60549, a minimum and maximum value of 1.30 and 5.84 respectively. Auditor Independence (AIN) has a mean value of 0.7681, standard deviation of 0.42238, minimum value of 0.00 and maximum value of 1.00. Audit Committee Financial Expertise (AFE) has a mean value of 0.5411, standard deviation 0.49871, minimum value of 0.00 and maximum of 1.00. Earnings Management (EAM) has a mean value, standard deviation, minimum and maximum values of -0.55205, 0.725356, -7.030 and 5.570 respectively.

Table 2: Summary of Coefficient of Correlation

| Coefficient Correlations | | | | |
|---------------------------------|-------|-------|-------|-------|
| | AFZ | AIN | AFE | EAM |
| AFZ | 1.000 | .082 | -.578 | .065 |
| AIN | .082 | 1.000 | -.036 | -.035 |
| AFE | -.578 | -.036 | 1.000 | -.013 |
| EAM | .065 | -.035 | -.013 | 1.000 |

Source: Output of data analysis by author using SPSS (2022)

Table 2 above shows the 2-tailed correlation analysis of the variables at 0.05 level of significance. This shows that audit firm size (AFZ) is negatively correlated with audit committee financial expertise (AFE) while positively correlated with auditor independence (AIN) and earnings management (EAM). Likewise, auditor independence (AIN) is positively correlated with audit firm size but negatively correlated with audit committee financial expertise (AFE) and earnings management (EAM).

Table 3: Summary of Regression Result

Model Summary

| | |
|----------------------------|------|
| Multiple R | .184 |
| R Square | .34 |
| Adjusted R Square | .27 |
| Std. Error of the Estimate | .215 |

Coefficients

| | Unstandardized Coefficients | | Beta | t | Sig. |
|------------|-----------------------------|------------|-------|--------|------|
| | B | Std. Error | | | |
| (Constant) | .350 | .070 | | 4.996 | .000 |
| AFZ | -.071 | .018 | -.197 | -4.032 | .000 |
| AIN | -.050 | .021 | -.097 | -2.426 | .004 |
| AFE | .043 | .021 | .100 | 2.049 | .001 |
| EAM | -.012 | .012 | -.040 | -1.019 | .309 |

Source: Output of data analysis by author using SPSS (2024)

The B column discusses the coefficient of the model. This indicates that a 35% increase in auditor opinion will result to a 7.1% reduction in audit firm size, 5% reduction in auditor independence, 4.3% increase in audit committee financial expertise and a 1.2% increase in earnings management.

The cumulative adjusted R^2 (0.27) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the independent variables jointly. Hence, it signifies that 27% of the total variation in auditors opinion of the sample firms is caused by the proxies of firm attributes. This is quite high so predictions from the regression equation are fairly reliable. It also means that 73% of the variation is still unexplained so adding other independent variables could improve the fit of the model. This indicated that the model is fit and the explanatory variable are properly selected, combined and used. The findings have theoretical, practical and regulatory significance. This significance represents the contributions of the study which are expected to benefit the existing body of knowledge within the accounting and finance research, regulators and providers of accounting services.

Considering the significant effect of audit firm size on modified auditors opinion of sampled firms, the regression result in table 4 indicate that audit firm size has a negative and significance influence on modified auditor opinion of non-financial firms in Nigeria. This was proved by the beta coefficient value of -0.197 and a t- value of -4.032 which has a p-value of 0.000 which is significance at 5% significance level. This leads to the acceptance of alternative hypothesis and rejection on null hypothesis. Hence, it is concluded that audit firm size has significant effect on modified auditor opinions in non-financial firms in Nigeria.

Considering the significant effect of auditors independence on modified auditor opinion of sampled firms, the regression result in table 4 indicate that auditor independence has a negative and significance influence on modified auditor opinion of non-financial firms in Nigeria. This was proved by the beta coefficient value of -0.097 and a t- value of -2.426 which has a p- value of 0.004 which is significance at 5% significance level. This leads to the acceptance of alternative hypothesis and rejection on null hypothesis. Hence, it is concluded that auditor's independence has significant effect on modified auditor opinions in non-financial firms in Nigeria.

Considering the significant effect of audit committee financial expertise on modified auditor opinion of sampled firms, the regression result in table 4 indicate that audit committee financial expertise has a positive and significance influence on modified auditor opinion of non-financial firms in Nigeria. This was proved by the beta coefficient value of 0.100 and a t-value of 2.049 which has a p-value of 0.001 which is significance at 5% significance level. This leads to the acceptance of alternative hypothesis and rejection on null hypothesis. Hence, it is concluded that audit committee financial expertise has significant effect on modified auditor opinions in non-financial firms in Nigeria.

Considering the significant effect of earnings management on modified auditor opinion of sampled firms, the regression result in table 4 indicate that earnings management has a negative and insignificance influence on modified auditor opinion of non-financial firms in Nigeria. This was proved by the beta coefficient value of -0.040 and a t- value of -1.019 which has a p-value of .309 which is insignificance at 5% significance level. This leads to the acceptance of null hypothesis and rejection on alternative hypothesis. Hence, it is concluded that earnings management has no significant effect on modified auditor opinions in non-financial firms in Nigeria.

4.1 Discussion of Findings

The results indicate that almost all the variables are significantly normally distributed at 5% level of significance. The correlation matrix indicates the variables have mixed relationships. The results also indicate the absence of multi-collinearity.

The findings from the first hypothesis agreed that audit firm size has significant effect on modified auditor opinions in non-financial firms in Nigeria. This findings is in agreement with the findings of Okoye, Adeniyi, and Ogbodo (2024) and Orbunde, Oyewobi and Musa (2022) but in disagreement with the results of Ogungbade, Adekoya and Olugbodi (2021) and Ugwu, Aikpitanyi and Idemudia (2020).

The findings from the second hypothesis revealed that auditor's independence has significant effect on modified auditor opinions in non-financial firms in Nigeria. This result agrees with the findings of Yeng and Oppong (2024), Abdul-Ganiyy, Raji, Oke and Shittu (2021), and Owolabi and Afolayan (2020) while it negates the findings of Ohaka and Tom (2018).

The findings from the third hypothesis revealed that Audit committee financial expertise has significant effect on modified auditor opinions in non-financial firms in Nigeria. This is further strengthened by the position of Abdullahi (2024) and Ayinla, Aliyu and Abdullah (2022), while it negates the findings of Oji and Ofoegbu (2017) and Rista (2022).

The findings from the fourth hypothesis revealed that earnings management has no significant effect on modified auditor opinions in non-financial firms in Nigeria. This finding correlates with the findings of Ibobo and Ogbodo (2023), Agbata, Oranu, Ndum and Eze (2022) and Saaydah (2019) while it negates the findings of Elaheh and Ehsan (2016).

5.0 Conclusion and Recommendation

5.1 Conclusion

This findings suggests that the size of the board will influence the likelihood of a firm receiving modified audit opinion. Consequently, firms with large boards were less likely to receive modified opinion due monitoring effectiveness of large boards. Also, the results indicate negative and significant relationship between board independence and auditor's opinion. This finding suggests that enterprises with more independent directors were less likely to receive modified audit opinion. Audit committee financial expertise also has significantly affects the rate of audit opinion, hence, the level of the exposure of audit committee will dictate the impact and relevance of audit opinion. The study also reveals that the earnings management has no effect on audit opinion. Considering the findings from the regression result as interpreted above, then this study concluded that audit characteristics have considerable tendency to improve modified audit opinion of non-financial firms in Nigeria.

5.2 Recommendations

The following are the recommendations of the study:

- i. The size of the audit board should be properly partitioned to ensure a balanced opinion and adequate representation of the financial status of the firm.
- ii. It also recommends that audit committee independence should focus on how to ensure that financial reporting quality demonstrates an accurate and balanced viewpoint of the financial report so as not to deceive all the various users of accounting information.
- iii. The regulators in the non-financial sector should consider mandatory professional qualification suggested by FRCN in 2016 draft of suspended NCCG in order to strengthen the skill and diligence of audit committee. This will aid easy review of financial report considering the contemporary complex nature of financial reporting in Nigeria especially as a result of adopting IFRS in Nigeria.
- iv. Earnings should be properly managed to ensure the prescribed accounting standards are observed.

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