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COST OF EXERCISING PROFESSIONAL EXPERTISE AND AUDIT QUALITY IN NIGERIA

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ABSTRACT

An audit is a service performed by a firm of accountants to validate information provided by management in order to raise the level of confidence in the financial statements of corporate businesses. Literature has revealed that the cost of professional expertise is thwarting the exercise of professional scepticism and judgment, which has led to poor audit quality. Therefore, this study aimed to examine the effect of the cost of professional expertise on audit quality in Nigeria. The study employed a survey research design, and primary data were obtained through a

Introduction

Audit firms are primarily established for profit, and their continued existence is reliant on their capacity to reduce the costs of delivering audit services to their clients. However, compliance with auditing standards and accounting standards as required by the Financial Reporting Council (FRC), as well as the ethical standards of the professional bodies to which auditors belong, equip auditors to provide high-quality services. As a result of the turbulent economic crisis, there has been an increase in the price of carrying out audit activities in recent times. Several audit firms and their partners have been reported to be facing litigation for poor audit quality, which required partners and their firms to pay fines (British Broadcasting Corporation (BBC), 2020).

Provision of quality audit requires putting more efforts hence additional costs. Therefore, in exercising professional expertise as expected by Financial Reporting Council, increase in audit engagement costs occurs, hence, profound conflict between the cost of providing audit services as stipulated by auditing standards and the quality of audit tasks (International Auditing and Assurance Standard Board (IAASB), 2014). However, lack of adequate time and resources to obtain sufficient evidence of the sensitive areas of judgment, as well as failure to substantiate auditors' findings with client accounting data, are major causes of poor audit quality (White, 2020). As a result, several high-level audit failures have occurred not only in Western countries, but also in Africa, particularly in Nigeria. Many workers in the affected firms have lost their jobs as a result of the audit failure, and many investors have lost money; and petty merchants in communities and towns where such an entity operate experience both social and economic implications of audit failure (Yuan et al., 2019). In the same vein, several reported cases of poor audit quality have raised concern of regulators, researchers as well as

structured questionnaire administered to audit partners, audit managers, and audit seniors across Nigeria. The analysis of the data was carried out using Partial Least Squares Structural Equation Modeling (PLS-SEM) procedures. The study revealed that budget overruns and auditor-client conflict as costs of exercising professional expertise have positive significant effects on audit quality, whereas auditors' marginal cost has no significant effect on audit quality in Nigeria. It is therefore concluded that cost of exercising professional expertise have significant effect on audit quality in Nigeria. This study recommended that, in order to avoid budget overruns, auditors should make use of experienced audit staff that are familiar with the job at hand. Also, audit committee and chief financial officer should handle issues that may result to conflict between external auditor and the client professionally.

Keywords: *Cost of* professional expertise, audit quality, accountants, audit seniors audit partners, audit managers.

auditing professionals on deficient audit reports. Thus, the recently concluded tribunal case in UK fined KPMG and its former staff to the tune of £14M over unethical behaviour regarding conspiracy, deliberate misrepresentation to deceive inspectors from the regulatory authority (Booth, 2022; Makortoff, 2022). Public confidence on the auditor's report started declining as a result of series of failures of big organisation like Enron, WorldCom and many others in developed countries (Zerban, 2018; Kusumawati & Syamsuddin, 2018). In Nigeria, banking industry is not left out. For instance, Union Bank, Intercontinental Bank, Afri-bank, FinBank, and Oceanic Bank did not pass the stress test conducted in 2009 by Central Bank of Nigeria (CBN), even though a clean report had been issued by their external auditors (Okoye et al., 2015).

Empirically, studies have been conducted with focus on the primary objective of improving audit quality and have examined the impact of diverse variables such as professional scepticism, auditor quality, professionalism, auditors' mind-set, experience, competence and many more on the audit quality (Brazel et al., 2016; Sayed-Hussin et al., 2017; Brazel et al., 2018; Robinson et al., 2018; Jati & Suprasto, 2018; Nida et al., 2018; Haris, 2019; Hai et al., 2020; Deliu, 2020). However, cost of exercising professional expertise is found constituting a barrier to the application of professional expertise and the production of quality audit report which has not been examined adequately in prior studies. There is therefore scanty literature on effect of cost of exercising professional expertise in developing countries (Prabangkara and Fitriany, (2021); and Anugerah et al (2016)) as past studies did not empirically examine the effect of cost of exercising professional expertise on audit quality in Nigeria. More so, the use of Analysis of Variance (ANOVA) technique which can only assess one dependent variable at a time and multivariate approaches which are difficult and involve high-level mathematics, necessitating the use of a statistical tool to examine the data and its statistical modeling outputs are not always straightforward, hence, may not be appropriate enough for the analysis of the data in this study contrary to their use in the studies of Bowlin et al. (2015); and Zahmatkesh, and Rezazadeh (2017)).

Prior studies identified budget overrun and auditor-client conflict as cost of exercising professional expertise but both were not simultaneously and empirically tested. Thus, the knowledge gap as well as methodology gap identified by this study are filled by the introduction of additional variables to the measurement of audit quality and cost of exercising professional expertise and also by the employment

of Structural Equation Model (SEM) which is more appropriate for this study. Against this background, this study examined effect of cost of exercising professional expertise on audit quality in Nigeria by investigating simultaneously, the relationship between budget overruns, and auditor-client conflict as well as variable introduced, that is, auditor marginal cost on audit quality in Nigeria.

The specific aims of the study are to: examine the effect of budget overruns on audit quality in Nigeria; evaluate the effect of auditor-client conflict on audit quality in Nigeria; and assess the effect of auditors' marginal cost on audit quality in Nigeria. Towards these ends, the following hypotheses stated in the null forms guide the study.

Ho_1: Budget overruns does not significantly affect audit quality in Nigeria;

Ho_2: Auditor-client conflict does not have significant effect on audit quality in Nigeria; and

Ho_3: Auditors' marginal cost has no significant effect on audit quality in Nigeria.

Literature Review

Conceptual Review

Audit Quality

Audit quality is described as being achieved when audit task is performed in accordance with professional standards and applicable legal and regulatory requirements, firms' quality control policies and procedures (International Standards on Auditing (ISA) 220). Audit quality includes essential components that influence the likelihood that quality audits are carried out on a regular basis. Thus, audit quality framework identifies and distinguishes these component factors as inputs, process, outputs and key interactions within the financial reporting supply chain as well as contextual factors (IAASB, 2014; IAASB 2018). IAASB is seeking for ways by which audit firms will improve audit quality and this is evidenced by the activities of International Standards on Auditing (ISA) and International Standard on Quality Control (ISQC). Quality audit is one in which the auditor's assessment accurately represents the company's real situation (Amalia et al., 2019). In a nut shell, audit quality can be achieved if it is established that audit exercise has been conducted according to audit standards' requirements.

Audit quality under the purview of audit firms is to conduct audit task in accordance with requirements and regulations of professional ethical standards, audit standards and other related laws. Determinants of audit quality is linked to firm size, individual auditor's state of mind or traits, audit team structure, time budgeted for the audit, experience, skill and competence of auditors (Hossain et al., 2017; Kusumawati & Syamsuddin, 2018). Kuntari et al (2017) posited that ability of auditor to accomplish its tasks, such as finding the client's mistake and reporting it brings about audit quality.

The difficulty of measuring audit quality makes it a sensitive topic for experts and researchers. To solve this problem, PCAOB came up with twenty-eight (28) audit quality indicators which covered audit professionals, audit processes and audit results (Brown et al., 2016). Measurement of audit quality can also be deduced from International Financial Reporting Standards (IFRS) that related to audit quality, such as ISA 200, ISA 220, ISA 230, ISA 240 (IAASB, 2018). Zarefar et al. (2016) employed ethics, experience and competence to measure audit quality. Albeit, this study employed experience, competence, commitment, audit leader involvement and effective audit documentation, to measure audit quality because of their peculiarity towards auditors' characteristics which is the focus of this study.

Experience refers to auditors with sufficient and appropriate experience on diverse audit task and also endowment with vast understanding of audit processes, ISAs and applicable legal and regulatory requirements, business environment in which the entity operates as highlighted by ISA 230 and other relevant ISAs. Literature established that audit experience is significant to audit quality (Kuntari et al.,

2017; Najib, & Suryandari, 2017; Reschiwati et al., 2020; Mulyani, 2020). However, experience in this study is not only general audit experience but also specific experience as related to understanding client's business and its environment.

Competence in this study indicates the knowledge and skill necessary to achieve tasks that defines the individual's job. It refers to a member of the engagement team who has the necessary competencies, capabilities, and authority to carry out the function in accordance with professional standards and applicable legal and regulatory requirements as stipulated in ISA 500: A38. The IESBA code stipulated professional competence and due care as one of the fundamental principles of professional ethics. However, others include integrity, objectivity, confidentiality and professional behaviour; consideration of competence as well as capabilities of individual members of the engagement team including ascertainment of whether they have sufficient time to carry out their audit task or not. Audit quality is not limited to knowledge and skills of auditors but also include mental capacity to carry out audit tasks (Umar et al., 2019). Iryani (2017) reported that top ranking KAPs committed a lot of resources to improve competence of their audit staff. The study posits that sufficient knowledge, training and experience are required in audit task for the achievement of audit quality.

Commitment is concerned with auditors' adherence to established values, quality, ethical behaviour, competence, and the creation of a culture of honesty in the performance of their tasks as well as participation in line with professional standards, legal, and regulatory criteria. According to the literature, auditors' dedication is inversely related to audit quality (Zhukun et al., 2018) and mitigates the detrimental impact of time budget constraint on audit quality (Kesuma, & Dwirandra, 2019). This implies that the question of time budget overruns may not likely become an issue as a result of auditor' commitment.

According to Vaicekauskas (2019), audit quality is defined by the audit firms and audit engagement team's criteria. The involvement of the audit leader in the audit is one of the most significant criteria for the audit engagement team. As an executive of an audit company, the audit leader is accountable for the audit firm's quality control system, setting a "tone from the top," and presenting himself and his behaviour, including audit process participation, as an example to other less experienced audit engagement team members. Kim (2021) posited that partners are essential in activities requiring skill and experience, such as assessing and comprehending the industry and directing the complete audit process. From the views above, audit leader involvement signifies the necessity of the involvement of the key engagement team members in the conduct of audit task. This will accord the key engagement team members the privilege of employing their vast experience and insight in the audit planning processes, identifying high-risk areas and carrying out adequate estimation and allocation of audit budget hours for the audit exercise.

Effective audit documentation refers to proper documentation of every aspect of audit task. This includes but is not limited to audit programme, identification of significant matters in the course of audit task, checklist, confirmation and representation of letters in the light of ISA 230 and other ISAs for specific matters. These may be recorded in either paper, electronic or other media. Adequate audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit to understand the significant professional judgements made in reaching decisions on significant matters arising during the audit exercise. It also assists the engagement partners in their review to ascertain whether sufficient appropriate audit evidence has been obtained or not to support the outcome reached and for the audit report to be issued.

Costs of Exercising Professional Expertise

Costs of exercising professional expertise are factors that hinder audit quality. Auditors are faced with certain threats and outlays as a result of exercising professional expertise. Prior studies refer to it as outcome effect of application of professional expertise (Brazel et al., 2016; Brazel et al., 2018). The identified variables in the literature, such as auditor-client conflict, and budget overruns are regarded as costs of exercising professional expertise.

Brazel et al. (2016) opined that perception of auditors regarding cost and benefit of auditors' exercising professional expertise may result into inappropriate application of professional expertise. Brazel et al. (2018) posited that supervisor and staff auditors take precautionary measure in exercising sceptical behaviour to avoid adverse evaluation from their supervisors. Auditors perceived that reputation influences their decision to engage in audit quality-related behaviour, (Blum et al., 2022). Hence, application of auditor's professional expertise is affected by staff auditor evaluation but reputation mindset positively instils audit quality on auditor.

However, a critical examination of prior studies revealed that the costs associated with the auditors' extra efforts in obtaining sufficient audit evidence and in ensuring that audit risk is reduced to an acceptable level in order to draw realistic outcomes on which his opinion will be based (as required by ISA 200) on the application of professional expertise are not taken into account. As a result, there is a need to investigate auditors' marginal costs in addition to other variables identified in the prior study, to determine their impact on audit quality.

Public Company Accounting Oversight (PCAOB) declared that the relationship between auditor and client can influence audit judgement and at the same time hinder application of professional expertise. Auditors obtain information from client through enquiry to clarify issues identified in the course of their job which will eventually form part of the management comment on the issue identified. Eutsler et al (2018) stressed that clients' interpersonal style affects the extent to which the auditor is sceptical about the client in certain situation.

Furthermore, efforts exercised by the auditors are determined by the hours and amount of time allocated to diverse steps employed in auditing task and these are essential contributions to audit quality (Knechel et al., 2013; PCAOB, 2015). Audit judgements are affected by the framing of audit steps and the perceived verifiability of the performance quality of audit steps (Maksymov et al., 2017). Maksymov et al. (2017) asserted that more audit hours are budgeted by auditors as a result of inadequate framing to examine audit steps to be taken in the audit risk areas and that time budget is appropriate proxy for the audit quality. However, Maksymov et al (2018) revealed that time budget pressure may result in 'trade-offs of audit effectiveness for efficiency' which influence the likelihood of weakening audit quality.

Staff auditor evaluation has been described as a situation whereby audit staff who exercise professional expertise is rewarded when misstatement is detected whereas audit staff who exercise professional expertise is penalized when misstatement is not identified. Hence, exercising professional expertise goes along with costs such as budget overruns, conflict with management and possibility of loss of client for being sceptical. However, when misstatement is not found after application of professional scepticism, audit staff supervisors see it as time loss and waste of resources which may result in chastising scepticism (Brazel et al., 2016). Performance evaluations, according to Blix et al. (2021), are primarily concerned with the results of the subordinate's work, such as task completion and budgeted hours, but they are also linked to employee satisfaction and discontent as well as an improvement or decline in overall job performance.

Theoretical Review

The Theory of Reasoned Action (TRA) was initiated by Fishbein and Ajzen (1975). The theory examined the relationship between attitude and behaviour and little evidence was obtained in support of the relationship between attitude and behaviour. The study therefore concluded that intention to perform determines behaviour and not attitude. Hence, Ajzen and Fishbein (1977) improved upon the theory. In the year 1991, additional idea was introduced into the original theory with new identity regarded as The Theory of Planned Behaviour (Ajzen, 1991) which offers strong conceptual justification for the effect of cost of exercising professional expertise. These theories identified link between attitudes and behaviour along with intention as a basis of performed action. It posits that the utmost determinant of individual behaviour is intention and intention is the product of attitude and subjective norms.

Specifically, the Theory of Reasoned Action and Theory of Planned Behaviour identified the causal relationship that exists between attitudes, intentions and behaviours (Glanz et al., 2008). These theories have been applied successfully in the study that examined how outcome information affects individual ethical attitudes and intentions to behave (Fleischman & Valentine, 2019).

This study is anchored on the Theory of Reasoned Action and Theory of Planned Behaviour. There is sufficient linkage of the strength of the two theories in examining the effect of costs of exercising professional expertise. Aside from the fact that these theories ignored certain situations that stimulate performance of an act that is ordinarily not present to individuals, it explicitly declared that the measure of behaviour intention can predict whether or not an individual will perform a certain act having held behavioural intention constant and the behaviour is well predicted.

Empirical Review

This field of study is rooted in limited literature not only in developed countries such as the United States of America and the United Kingdom, but also in developing countries such as Nigeria, with the use of either diverse, similar, or mixed variables to investigate their impact on audit quality, with little investigation on the effect of costs of exercising professional expertise on audit quality. Prior research on the effect of audit timing on auditor's attitude towards exercising professional expertise has considered, in overall, that reactions of auditors to time budget pressure varies (Svanstrom, 2016; Maksymov et al., 2017). Maksymov et al. (2017) emphasized the significance of time on audit tasks. The study looked at several audit tasks and the time required to analyse the logic of the client's assumption on the amount of growth in annual rental revenue reported, as well as the time required to check the terminal value of a rental building recorded by management. Audit managers and audit seniors from the Big Four organizations took part in the investigation. The study demonstrated that the frame has a greater effect for actions that are not practical to evaluate performance quality, such as annual rental income growth.

The study of Azad and Hammoudi (2018) which was conducted in United Arab Emirate revealed that time budget pressure influenced audit quality. Survey techniques was employed via questionnaire. Similarly, Amalia, et al. (2019) in East Java, Indonesia investigated influence of time pressure on independence and audit procedure compliance, the findings of the study declared that time pressure affect auditors' independence and audit procedure. Kirana and Ramantha (2020) also examined effect of time pressure along with other variables on audit quality at listed manufacturing companies in Indonesia Stock Exchange. The study showed that time pressure influence audit quality.

In the same line of research, Brazel et al. (2018) explored sceptical behaviour and the influence of budget overruns on sceptical judgements and actions in the budget file as an outcome effect in audit staff

evaluations. The study used an experimental approach, with audit seniors from two of the eight top worldwide accounting firms participating. Two experimental studies were conducted, and they included experience and positions of audit staff in one of the multinational accounting firms, where individual staff appraisal of performance as regards identification of misstatement and non-misstatement were explored. The findings of the study, discovered that exercising professional expertise creates budget overruns owing to more testing, which incurs additional costs. The added cost incurred as a result of producing quality audit is regarded as marginal cost in this study.

More so, Brasel et al. (2019) examined if frequency of fraud risk assessment and the timing of fraud inquiries of operational-level employees affect audit quality. The study employed inward-directed scepticism which required auditors to be sceptical about their own judgement by repeating the risk assessment process in order to obtain additional evidence for making effective decisions and limit bias and timing inquiry of operational-level employees. The focus of the study was on fraud related task before performing substantive test. However, experimental approach was employed and participants were Senior-level audit staff from Big 4 accounting firms. The study found that auditors' audit quality suffers when they are under a lot of time pressure, and that auditors who participate in training activities frequently, engage in dysfunctional auditor behavior to a lesser extent.

In another study, Izzah and Laily (2020) investigated the influence of time pressure on premature sign-off of audit procedure with professional commitment as the moderating variable. Primary data was employed to obtained information from Public Accountant Offices in Malang, Indonesia. The result shows that time pressure has a positive influence on premature signoff of audit procedure. The study of Rajabdorri and Khanizalan (2020) found a negative and substantial association between premature sign-off and under-reporting of chargeable time and auditor performance, with rising premature sign-off and under-reporting of chargeable time.

Furthermore, Fleischman and Valentine (2019) investigated how outcome knowledge influences individual ethical sentiments and behaviour intentions. The research looked into the ethics situation, ethical behaviour beliefs, and ethical behaviour attitude and opinion for subjective social norms. The finding was expanded by observing that the intimidating behaviour of the situation manager alters organizational outcomes from unfavourable to favourable, and participants rate unethical behaviour less harshly. Tjan (2019) examined different area of time budget pressure which focused on the performance evaluation of quality focus which has influence on auditors exercising their professional expertise. As a result, the evaluation approach influences individual behaviour towards audit task.

An examination of relevant previous literature revealed that the effect of the following variables on audit quality had been investigated: experience, competence, knowledge, auditor rotation, audit time budget pressure, audit tenure partner, client-management interactions, audit fees, incentives, professional skepticism, auditing standards, audit firm size, audit team structure, board independence, auditor independence, ownership structure, audit tenure. However, this study broadened the scope of this topic by investigating the effect of cost of exercising professional expertise on audit quality in Nigeria. In the course of investigating the cost of professional expertise, marginal cost of auditors were added to variables identified by the literature, whereas effective audit documentation, audit leader involvement, and understanding the client environment were introduced to audit quality latent variables to achieve robustness of the results.

Conceptual Framework

The conceptual model consists of the independent variables and their direct effect on audit quality (the dependent variable). The model reflects interactions between indicators of costs of exercising professional expertise and audit quality. The hypothesised relationship is depicted in Figure 1.

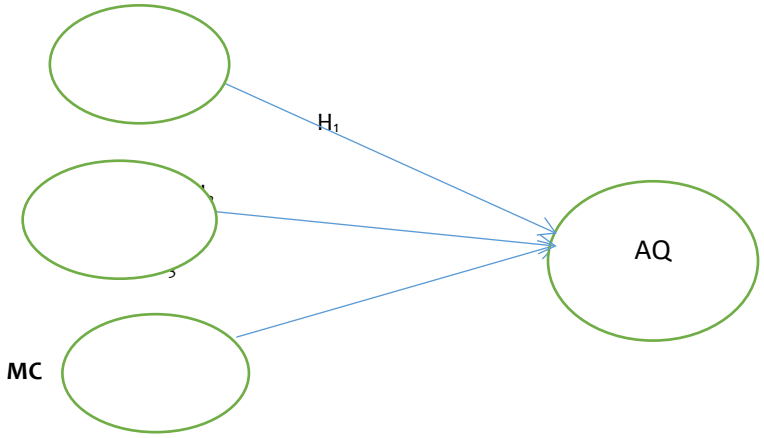

Figure 1: Hypothesised Structural Equation Model
Source: Authors' conceptualisation (2023)

In Fig. 1, Audit Quality represented by AQ is the dependent variable with five measured variables; Audit Team Experience (ATE), Audit Team Competence (ATC), Commitment of Audit Team Members (CAT), Audit Leader Involvement in Audit Exercise (ALI) and Effective Audit Documentation (EAD). The independent latent variables, Cost of Exercising Professional Expertise (CPE), is measured with three (3) variables: Budget Overrun (BO), Client–Auditor Conflict (AC), and Auditors' Marginal Cost (AM). The arrows from BO, AC, and AM independent latent variables to audit quality shows that those three latent variables are investigating their direct effect on audit quality.

Methodology

The study employed survey approach by using questionnaires to collect data from the cross-sections of target audience, that is, audit partners, audit managers and audit seniors in audit firms in Nigeria. Quantitative research type was used because it permits quick assessment, evaluation and data analysis of large amount of data in order to achieve a greater accuracy. The study made use of quantitative data obtained from primary source based on questionnaire forms and distributed to auditors in practice in Nigeria. The questionnaire used for measuring costs of exercising professional expertise was adapted from prior studies (Brazel et al., 2018; Brazel et al., 2016) and audit quality (Kusumawati & Syamsuddin, 2018). Internet survey was employed to be able to reach very wide respondents.

The population of this study was 3,323 active audit firms in Nigeria. These comprise of active practicing Firms of Institute of Chartered Accountants of Nigeria and Association of National Accountants of Nigeria. The elements of the population comprise audit partners, audit managers and audit seniors, which constitute the unit of analysis in this study. The sample size of this study for questionnaire administration was determined using Taro Yamane's sample size determination formula (in equation (1)).

$$n = \frac{N}{1 + N(e)^2} \qquad (1)$$

Where, n = the sample size; N = Population of the study; e = is the desired level of precisions or sampling error =0.05

Therefore, the sample size of the study was determined thus:

$$n = \frac{3323}{1 + 3323(0.05)^2} \quad (1a)$$

$$n = \frac{3323}{9.3075} \quad (1b)$$

$$n = 357 \quad (1c)$$

Therefore, the sample size of the study was 357 active audit firms in Nigeria. The random sampling method was used in the sampling procedures.

Model Specification

This study employs empirical model by Fleischman and Valentine (2019) consistent with the Theory of Reasoned Action and Attribution Theory to examine the effect of cost of exercising professional expertise on audit quality.

As such, the dependent variable (audit quality) is expressed as a function of the independent variables (cost of exercising professional expertise) in equation (2):

$$\text{Audit quality} = f(\text{Cost of exercising professional expertise}) \quad (2)$$

Equation (1) was further broken down based on the three dimensions of cost of exercising professional expertise examined and equation (3) is specified accordingly.

$$AQ = f(\text{BO}, \text{AC}, \text{AM}) \quad (3)$$

Therefore, functional model of the study is finally specified in equation (4):

$$\text{AQ}_i = \alpha_0 + \alpha_1 \text{BO}_i + \alpha_2 \text{AC}_i + \alpha_3 \text{AM}_i + \varepsilon_i \quad (4)$$

Where: AQ is audit quality; BO is budget overruns; AC is auditor-client conflict, and AM denotes auditors' marginal cost. Also, the intercept of the model is α_0; and the coefficients of the independent variables are represented by α_1, α_2, and α_3. The error term which denotes factors other than those specified in the model is represented by ε while subscript 'i' represents number of audit firms covered in the study. Dependent variable of this study is Audit quality and shall be measured by the following variables: audit team experience (ATE), audit team competence (ATC), commitment of audit team members (CAT), audit leader involvement in audit exercise (ALI), and effective audit documentation (EAD). On the other hand, the independent variable is cost of exercising professional expertise measured by budget overrun (BO), client–auditor conflict (AC) as identified in the literature as well as auditors' marginal cost (AM) introduced by the researchers.

Method of Data Analysis

Partial Least Square Structural Equation Model (PLS-SEM) was employed in this study as the method of data analysis**.** Structural Equation Model is a technique that relates causes and effects among two or more variables which is consistent with the theories employed for this study. This research was carried out using SMART-PLS 4.

Results and Discussion

Preliminary Assessments

Assessment of the Measurement Model

The diagrammatic demonstration of the measurement model is depicted in Fig. 2.

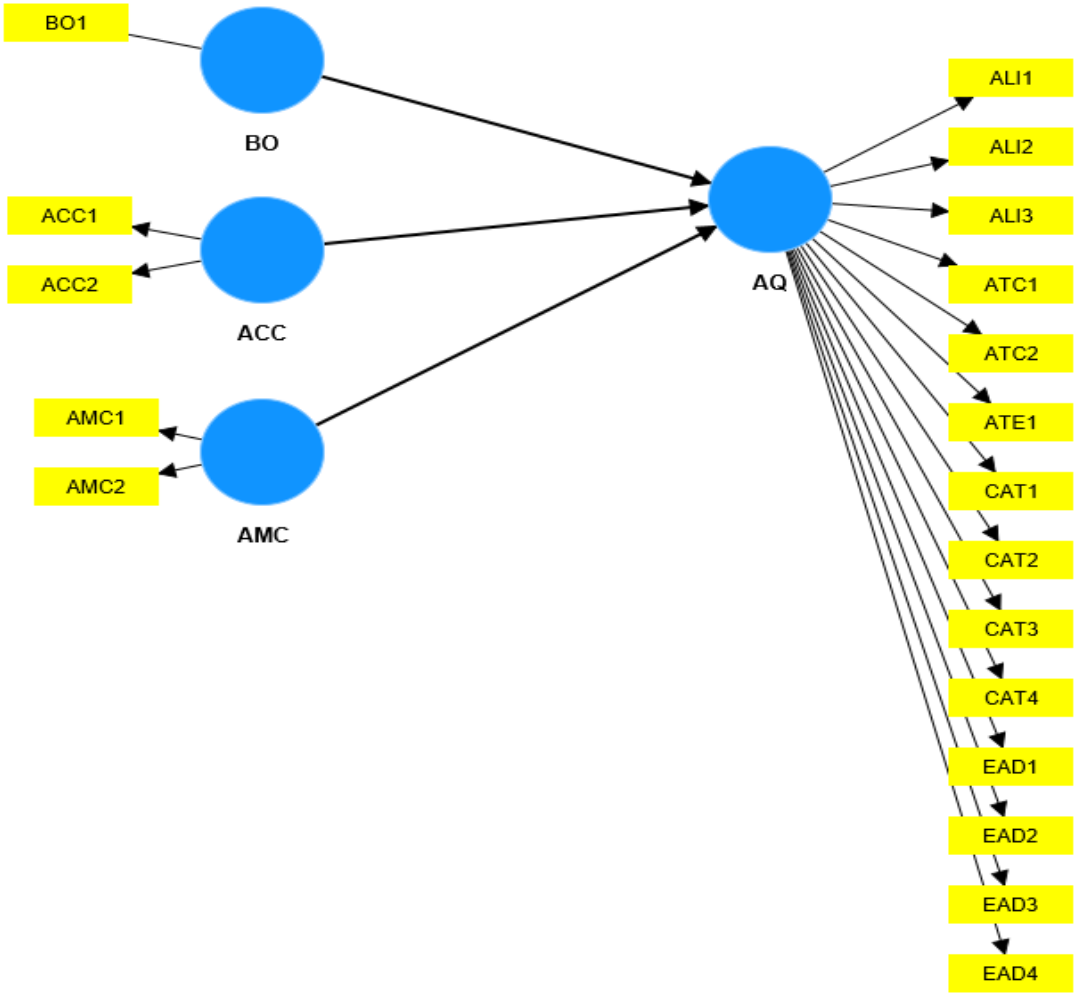

Figure 2: Measurement Model Assessment
Source: Authors' Computation, 2023

Reliability Analysis and Validity Test

Confirmatory Factor Analysis (CFA) was used in this study to assess the reliability and validity of the hierarchical constructs of audit quality (AQ) and cost of exercising professional expertise (CPE). The measurement model was tested for indicator reliability, composite reliability, convergent validity, and discriminant validity, as stipulated by Hair et al (2017).

Reliability Analysis

Indicator reliability (also known as individual item reliability) of reflective constructs is tested by examining the indicator factor loading and the results are reported in Table 1. However, Table 1 revealed that all of the constructs have factor loading values greater than 0.7 in the factor loading. Consequently, the constructs' and indicators' threshold for factor loading has been reached. As a result, the shared variance between the construct and its indicators is greater than the variance of the error term of 0.5

used in this investigation because no items in the sample had factor loadings below the recommenced value of 0.50 after removing indicators BO 2 and ATE 2 for not meeting up with the threshold.

Table 1: Factor Loadings

	ACC	ALI	AMC	ATC	ATE	BO	CAT	EAD
ACC1	0.815							
ACC2	0.930							
ALI1		0.800						
ALI2		0.729						
ALI3		0.871						
AMC1			0.874					
AMC2			0.901					
ATC1				0.882				
ATC2				0.875				
ATE1					1.000			
BO1						1.000		
CAT1							0.834	
CAT2							0.829	
CAT3							0.766	
CAT4							0.707	
EAD1								0.712
EAD2								0.779
EAD3								0.804
EAD4								0.761

Source: Authors' Computation, 2023

Furthermore, Cronbach's Alpha and the composite reliability were used in the study to assess the internal consistency of the constructs. The results of the tests as reported in Table 2 show that all the variables exceed the recommended Cronbach's Alpha threshold level (> 0.70), and for the composite reliability, all constructs also exceed the recommended minimum level (> 0.70). Cronbach's Alpha was between 0.705 and 0.792, while composite reliability was between 0.706 and 0.812 The two reliability indicators have reliability statistics that exceed the required threshold of .70 (Hair et al, 2011). As a result, construct dependability is established in this study.

Table 2: Construct Reliability Analysis (Cronbach's Alpha and Composite Reliability)

	Cronbach's Alpha	Composite reliability
ACC	0.706	0.808
ALI	0.737	0.812
AMC	0.732	0.738

ATC	0.705	0.706
CAT	0.792	0.804
EAD	0.738	0.774

Source: Authors' Computation, 2023

Validity Analysis

Convergent Validity

The study used the Average Variance Extracted (AVE) criterion to assess convergent validity, as recommended by Fornell and Lacker (1982). The AVE denotes how well a construct can explain the variance of its indicators and how much of the variance can be attributed to measurement error. The results of AVE revealed that the indicators underlying the construct are related to one another and that the variance in the construct can explain almost all of the variance in the indicators. Presented in Table 3 is the AVEs for the variables of the study.

Table 3: Construct Convergent Validity

	Average variance extracted (AVE)		
ACC	0.765		
ALI	0.644		
AMC	0.788		
ATC	0.772		
CAT	0.617		
EAD	0.548		

Source: Authors' Computation, 2023

Table 3 shows that the measurement mode produced satisfactory results for the AVEs, implying that convergent validity has been established. This is because AVEs are still within the recommended AVE threshold value of equal to or greater than 0.5 (Fornell & Lacker, 1982).

Discriminant Validity

Discriminant validity indicates how distinct a construct is from the other constructs in the model. Thus, discriminant validity test was conducted and the results are produced in Table 4.

Table 4. Discriminant Validity: Fornell-Larker Creterion

	ACC	ALI	AMC	ATC	BO	CAT	EAD
ACC	0.874						
ALI	0.483	0.802					
AMC	-0.248	-0.345	0.888				
ATC	-0.011	0.247	0.141	0.879			
BO	0.348	0.458	-0.128	0.270	1.000		
CAT	0.154	0.279	0.054	0.727	0.316	0.786	
EAD	0.108	0.357	-0.336	-0.007	0.197	0.071	0.741

Source: Authors' Computation, 2023

In line with the Fornell-Lacker criterion and presented in Table 4, the diagonal figures are higher than off-diagonal figures beneath them. This means that the square root of a construct was greater than the correlation among the other constructs, indicating discriminant validity, was met, and evidence of discriminant validity was revealed.

In the same vein, as an additional measure of discriminant validity, Heterotrait-Monotrait ratio (HTMT) was also used in this study. According to Henseler et al. (2015), neither the Fornell-Larcker criterion nor the assessment of cross-loadings fully detects discriminant validity problems. The recommended threshold is for the HTMT ratio to be less than 0.85 in order to give credence to the discriminant validity. The HTMT ratios are presented in Table 5.

Table 5: Discriminant Validity: Heterotrait Monotrait Ratio (HTMT)

	ACC	ALI	AMC	ATC	ATE	BO	CAT
ACC							
ALI	0.608						
AMC	0.344	0.439					
ATC	0.131	0.408	0.199				
ATE	0.517	0.320	0.112	0.225			
BO	0.422	0.500	0.150	0.321	0.296		
CAT	0.218	0.390	0.093	0.476	0.348	0.349	
EAD	0.173	0.481	0.422	0.091	0.322	0.202	0.151

Source: Authors' Computation, 2023

Table 5 indicates that the HTMT criterion has been met, since none of the ratios is equal or exceed 0.85. As a result, all model evaluation requirements for the reflectively measured constructs that supports validity and reliability have been met.

Construct Validity

When convergent validity and discriminant validity are established, construct validity is established, especially when PLS-SEM is used in the data analysis.

Validating Higher Order Construct

Based on the first lower order construct validity outer weights, outer Loadings, and VIF, budget overrun, auditor-client conflict, auditor's marginal cost were the higher order constructs in the study. The outer weights were the constructs of lower order (Sarstedt et al., 2019). As a result of meeting all of the criteria, the validity of Higher Order Constructs was established in this study.

Multicollinearity Test

Furthermore, VIF values were evaluated to determine multicollinearity and as such all VIF values are less than the recommended value of 5. (Hair et al., 2016). According to Fornell and Bookstein (1982), multicollinearity indicators are calculated using the Variance Inflation Factor (VIF). The VIF value for the indicators in this study are reported in Table 6.

Table 6: Variance Inflation Factors (VIFs)

	VIF
ACC1	1.423
ACC2	1.423
ALI1	1.520

ALI2	1.474
ALI3	1.403
AMC1	1.500
AMC2	1.500
ATC1	1.422
ATC2	1.422
ATE1	1.000
BO1	1.000
CAT1	1.762
CAT2	1.836
CAT3	1.696
CAT4	1.349
EAD1	1.446
EAD2	1.456
EAD3	1.325
EAD4	1.376

Source: Authors' Computation, 2023

The VIFs for the variables as contained in Table 6 suggest there is no problem of multicolllinearity among the independent variables since none of the VIFs exceed the recommended threshold of 5.

Assessment of the Structural Model

The assessment of structural models examines the relationships between variables. To accomplish this, the study validated higher order constructs and investigated path coefficients from independent variables to dependent variable. The direct relationship between cost of professional expertise (CPE) and audit quality (AQ) was investigated. The Bootstrapping procedure was used to examine the significance relationships of all constructs over 5,000 iterations with no sign changes (Hair, 2011; Clauss, 2017). Path coefficients used in the evaluation of the constructs relationship are reported in Table 7. Therefore, Table 7 indicates that budget overruns has positive and significant relationship with audit quality in Nigeria. Likewise, auditor-client conflict is positively and significantly related to audit quality in Nigeria. However, auditor's marginal cost exerts negative non-significant association with audit quality in Nigeria.

Table 7: Path Coefficients

			β	t-value	P Values
BO -> AQ			0.408	9.537	0.000*
AC -> AQ			0.288	5.968	0.000*
AMC -> AQ			-0.156	1.953	0.051***

Source: Authors' Computation, 2023

Hypotheses Testing

The testing of the three research hypotheses was achieved through the value of path coefficients of the constructs and the results of the hypotheses testing are presented in Table 8.

Table 8: Results of Hypotheses Testing

Ho	Statement of Hypotheses	P-value	Decision
Ho_1	Budget overruns does not significantly affect audit quality in Nigeria	0.000	Rejected
Ho_2	Auditor-client conflict does not have significant effect on audit quality in Nigeria	0.000	Rejected
Ho_3	Auditors' marginal cost has no significant effect on audit quality in Nigeria	0.051	Do not reject

Source: Authors' Computation, 2023

According to Table 8, the null hypothesis (Ho_1) that budget overruns does not significantly affect audit quality in Nigeria, was rejected and the alternative upheld. This implies that budget overruns have significant effect on audit quality in Nigeria. Thus, the study asserts that budget overruns have positive significant effect on audit quality in Nigeria. Likewise, the null hypothesis (Ho_2) that auditor-client conflict does not have significant effect on audit quality in Nigeria, was rejected and the alternative upheld. This suggests that auditors-client conflict have significant positive effect on audit quality in Nigeria. However, the study does not reject the hypothesis (Ho_3), auditors' marginal cost do not significantly influence audit quality in Nigeria. This means that auditors' marginal cost do not have significant effect on audit quality in Nigeria.

Discussion of Findings

This study examined the impact of the cost of exercising professional expertise on audit quality in Nigeria. Three hypotheses were stated to examine the significance of budget overruns, auditors-client conflict and auditor marginal cost on audit quality. The study found that budget overruns and auditors-client conflict have significant positive effect on audit quality which indicates that budget overruns and auditors-client conflict variables correlate positively and have a significant direct effect on audit quality. The implication of this finding is that the greater the auditor's use of professional proficiency without compromise or bias, the higher the audit quality. The result of this study supported the views of Azad and Hammoudi (2018); Kirana and Ramantha (2020) that stated that budget overruns and time pressures affect audit quality.

In contrast, the study discovered that auditor's marginal cost has an insignificant direct relationship with audit quality in Nigeria. This means auditor's marginal cost does not correlate positively with audit quality and it is insignificant, and has no direct effect on the audit quality. Hence, Ho_3 is upheld. This implies that auditor's marginal cost does not directly influence audit quality unlike budget overruns, and auditor-client conflict variables which influence audit quality directly. This in line with the study of Blum et al. (2022) which reported that auditors in the course of their duties often exercise their professional expertise with certain costs and that auditors' perceived reputation influences their decision to engage in audit quality-related conduct. Hence, costs incurred as a result of exercising professional obligations are compensated for by positive reputation mindset and this in turn give them goodwill among their colleagues. Therefore, an auditor that is wary of reputation will not compromise audit quality at the expense of additional cost.

Conclusion and Recommendations

The results of the study revealed that budget overruns, auditor-client conflict as costs of exercising professional expertise have positive significant effects on audit quality in Nigeria. However, marginal

cost as a cost of exercising professional expertise has no significant effect on audit quality most especially the auditors that value their reputation do not compromise audit quality because of cost. It can therefore be concluded that cost of exercising professional expertise significantly promotes audit quality in Nigeria. This implies that cost of exercising professional expertise is crucial to the enhancement of audit quality.

The study recommends that auditors should make use of experienced staff that are familiar with the job at hand to avoid budget overruns. More so, timely planning in terms of providing appropriate audit programme is essential to safeguard audit quality. It is also recommended that the audit committee as well as the chief financial officer should handle issues that may result to conflict between external auditor and the client professionally. In addition, auditors should not compromise cost to reputation in the exercising audit judgement. This buttresses the need for auditors to be allowed adequate time to complete audit tasks. In the same, time should not be a barrier to auditors in exercising their professional knowledge. Also, there is a necessity for auditors to be wary of dispute with their clients, whether a misrepresentation is discovered or not. Supervisors and audit partners should also recognize the efforts of their audit personnel in guaranteeing quality work.

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