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Audit Risk And Financial Statements Quality Of Manufacturing Companies In Nigeria

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ABSTRACT
This study explored the opinions of the staff of some selected manufacturing firms in Rivers State on the relationship between audit risk and the financial statement quality. The study utilized the descriptive survey design. The sample size for the study consisted of fifty members of staff of the selected manufacturing firms in Rivers State. The primary data for this study were collected from respondents using personal interviews and questionnaire instruments which were found to be reliable with Cronbach Alpha of above 0.7 coefficients. Data were analysed using descriptive and Pearson correlation coefficient statistical tools with the aid of Statistical Package for Social Sciences (SPSS) version 21.0. The findings at 0.05 level of significance reveals that control risk has a moderate negative relationship with timeliness (r= 0.599**) and strong negative relationship with relevance (r = -0.889**) in the surveyed manufacturing firms in Rivers State. Based on the findings, the researchers concluded that audit risk negatively impacts on the financial statement quality in the selected manufacturing firms in Rivers State. Therefore, the study recommended that audit firms should provide sufficient training to their auditors to reduce individual risk propensity. Audit firms should allocate audit work according to auditor's propensity to risk. Finally, auditors should ensure that more attention is given to the detection of errors while carrying out the audit of financial statements.
Keywords: Audit Risk, Control Risk and Financial Statements

INTRODUCTION

The auditing profession is highly associated with uncertainties and high level of business risk, financial and litigation risk. In recent times, there has been an increasing attention and more stringent processes to ensure that the auditors exercise due professional care and skill stemming from the collapse of such major corporations as Enron, Worldcom, Tyco International, Global Crossing and BCCI.

Audits are long-established formalised processes which are largely regulated by professional practices and laws. It was developed because of the separation between the owners of companies (the shareholders) and the stewardship of the management (Institute of Chartered Accountants of Nigeria, 2014). The auditor provides reasonable assurance that the financial statements under audit are free from material misstatements. The auditors' opinion on the reliability of the financial statements can be affected by the misstatements from errors and fraud. Therefore, an effective and efficient audit requires proper assessment of risk and proper allocation of effort subsequent to risk assessments (Blay, Kizirian & Sneathen, 2003). The relevance of risk assessment has attracted a great attention in contemporary literatures in auditing. This is evidenced by the continual issuance of new risk assessment standards (Bell, Peecher & Solomon, 2005). These standards suggest that a financial statement audit is a recursive process in which auditors make risk assessment related to various management assertions based on evidence. Thus the audit team must plan, collect and evaluate audit evidence in response to assessed risks and aggregate the evidence to form an opinion regarding the fair presentation of financial statements (Adeniji, 2010; Gupta, 2005; Dechow, Larson & Sloan, 2011).

Audit Risk is basically the risk that an Auditor may not be able to identify a "material misstatement" in financial statements of a business and may resultantly present a wrong decision in terms of financial health of a business (Nabeel, 2018). It is the probability that the auditor would draw invalid audit conclusions and therefore express invalid audit opinion. In a nutshell, it is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated (Adeniji, 2004). The risk of audit is that the auditor may present an opinion that the financial statements are not presented unfairly and impartially when they actually are (Nikolovski, Zdravkoski, Menkinoski, Dicevska & Karadjova, 2016).

Therefore, audit risk consists of the risk that the relevant assertions related to balances, classes of transactions or disclosures contain misstatements that could be material to the financial statements when aggregated with misstatements in other balances, classes or disclosures (inherent risk and control risk) and the risk that the auditor will not detect such misstatements (detection risk). The risk that the auditor is exposed to financial loss or damage to his reputation from litigation, adverse publicity or other events arising in connection with financial statements audited and reported also tend to pose a serious challenge to auditing. It is difficult to determine the existence of the risk of audit, and even harder to measure its height because it is subjective in nature. In practice, the level of audit risk is determined by the application of the theory of probability and by using mathematical modelling. It is evaluated as normal or low (30%), moderate (60%) and high (90%) (Aceski &Trajkoski, 2004). The highest level of risks has positions where it is very much easy to perform misappropriation, fraud and other criminal offences that are difficult to detect (for example, sales in cash, the cash balance at bank, correction of the value of doubtful and disputed receivables, the calculated depreciation). The overall risk of audit is evaluated by the auditor based on impressions from inherent and control risks.

Different combinations of audit activities and risk assessment, analytical procedures and independent data tests can limit the audit risk to a low level, but some combinations are more effective and more economical or cheaper than others. At the consideration of the overall audit risk, there need to combine individual audit risks implemented on the various statement of financial position and the assertion of the management in connection with them. Given that each of these methods for audit risk assessment has certain shortcomings, it can be concluded that there is no unified, harmonised and simple mathematical approach of combining these risks and that within the audit profession there is no agreement about the question: what is the appropriate low risk (Whittington, 2012).

Therefore, the requirement for professional judgement in assessing risk in the prevailing uncertain and dynamic business environment is a prerogative to the auditor. Thus, many studies have been suspicious of the auditors' professional judgmental ability to distinguish audit evidence and proper responses to audit risk (Low 2004; Khurana & Raman, 2004; Wustemann, 2004). Thus, it is very necessary for the auditor to ascertain and assess the nature of risk in the accounting records before giving an audit opinion. The level of risk and uncertainty in the audit environment influence the auditor's choice of audit strategy. Hence, auditors are required to take risk assessment as a basis for designing an audit plan that provides reasonable assurance of detecting misstatements in corporate financial statements (Asare & Wright, 2002). Monroe and Ng (2000), view the auditor's risk assessment as a revision task with prior year assessment serving as a starting point. The audit risk model provides the framework for risk assessment. The auditor follows a risk assessment process to identify the risk of material misstatement in the annual report of organisations (Adeniji, 2004; Gupta 2005).

The risk of material misstatements is made up of two components of the audit risk model: inherent risk and control risk. The risk of material misstatement is used to ascertain the level of risk detection and to plan the audit procedures. According to Austen, Eilifsen and Messier (2000), an assumption underlying risk-based audit is that the presence of certain types of risk factors are indicative of possible misstatement in the client's annual reports. Therefore, the auditor needs to assess the risks that are likely to cause material misstatements, and to conduct audit procedures based on these assessments to ascertain the existence of misstatements (Dobler, 2003). Concerns about audit risk have gained increased ascendancy especially as a result of the spectacular financial reporting scandals in major corporations, such as Enron, Worldcom and other companies. This therefore calls for a radical outcry for a drastic change in audit procedures to reduce audit risk and improve on the quality of information reported by the financial statements. This study therefore is carried out to provide empirical evidence on the interdependency of the quality of financial statements on effective application of the audit risk model in selected corporations in Nigeria.

Statement of the Problem

Financial statements in recent times have been characterized by several audit risk coupled with a lack of adequacy, reliability and timeliness. Users of financial statements often question the quality of work done through whatever approach adopted by the auditor. Many a time, auditors were seen as subservient to the wishes of the company's management. Hence, the level of confidence the users have is put at risk. Consequently, a lot of problems such as squander, financial misallocation, embezzlement of funds and the incessant and sudden collapses of entities have plagued many corporate enterprises worldwide. These series of problems have led to various changes in the approach to the audit of an entity's financial statements. Amongst the most important changes that have been witnessed include a change from the traditional audit approach to risk-based approach and strategic approach to mention but a few. Therefore, it becomes necessary to ascertain if there is any relationship between audit risk and financial statements quality amidst the various corporate scandals witnessed after an external auditor has given his opinion on an entity's financial statements. Therefore, this study sought to examine audit risk and its implications on the quality of financial statements produced after the audit in Rivers State, Nigeria.

Objective of the Study

The main objective of this study is to determine the influence of audit risk on financial statement quality of manufacturing companies in Rivers State. Hence, the study is set to achieve the following specific objectives:

1. To determine the extent of relationship between control risk and timeliness of `the financial statements of the manufacturing companies in Rivers State.
2. To determine the extent of relationship between control risk and the relevance of the financial statement of the manufacturing companies in Rivers State.

Research Questions

1. To what extent does control risk influence the timeliness of financial statements of the manufacturing companies in Rivers State?
2. To what extent does control risk influence the relevance of financial statement of the manufacturing companies in Rivers State?

Null Hypotheses

1. There is no significant relationship between control risk and timeliness of the financial statements of the manufacturing companies in Rivers State.
2. There is no significant relationship between control risk and relevance of the financial statements of the manufacturing companies in Rivers State.

Review of Related Literature

Operational Conceptual Framework

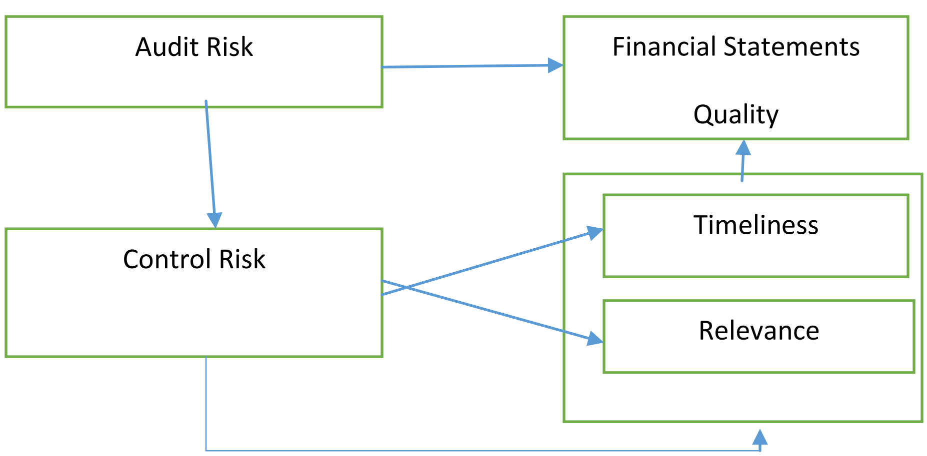

Figure 1: Operational Conceptual Framework of the relationship between audit risk and financial statements quality of manufacturing companies in Rivers State.

Theoretical Framework

The theory adopted in this study is the Agency theory. The purpose of adopting the above mentioned theory was that it underpinned the objective of the study.

Agency Theory

Agency theory was developed by Jensen and Mackling in 1976. According to this theory, a firm is viewed as a nexus of contract between different stakeholders of the entity. Thus, the owners, directors and lenders to a company may have divergent interest in the company. An agent is a person who acts on behalf of another person, the principal, in dealing with other people (ICAN, 2014). This theory is based on the idea that as company grows, the owners (shareholders) usually appoint managers (directors) to run the company on their behalf. By this appointment, the owners (principal) expect the managers (agents) to act in their best interest. Ideally, the managers are expected to act in the best interest of the owners but this is rarely actualised as the managers also have their personal needs and interest which may be their priority. Agency theory therefore explains the application of some procedures to align the interests of the company owners with that of the Directors. Hence, this theory explains the need for monitoring controls such as the financial statements audit, the appointments of Independent Non-executive directors on boards and committees, audit committees, internal audits and compensation schemes (Arwinge, 2013). Therefore, auditing cost is part of the monitoring costs incurred by the owners in order to align their interest with that of the director.

Empirical Review

Demartini and Trucco (2016) studied audit risk and corporate governance: Italian Auditors' Perception after the Global Financial Crises. This study aimed at analysing the most relevant factors for auditors when they estimate the audit risk of their client company, and charge the client for it. The study specifically investigated and analysed the financial results of new client firms after the 2007-2008 financial crises. It particularly paid attention to the analyses of the factors auditors pay attention to when auditing a company's financial statements by including the effect of financial crises in the audit model. Current literature in auditing and corporate governance is therefore improved by this work as it identified effective internal control procedures and auditor's experience as relevant in assessing the components of audit risk. The work further established the significant roles of corporate governance, as perceived by auditors, in the estimation of audit risk in engagement acceptance decision.

Onuorah and Imene (2016) studied Corporate Governance and financial reporting quality in selected Nigerian companies. The data collected for this empirical study covered a period of 2006 to 2015. Econometric analyses were carried out and the result suggested a correlation among corporate governance indicators of Board Structure (Board Size- BRDSZ and Board Independence- BRDID), Audit Committee (Audit Committee Size- ADCMZ), the Quality of External Audit (EADTQ as measured by the presence of an auditor among the Big 4s), Board Experience (BRDEX) and financial reporting quality. The analyses indicated significance among the parameters measuring the financial reporting quality as discretionary accruals of firms (FRQDA). Hence, the study concluded that Board Structure (Board Size-BRDSZ), Board Experience (BRDEX) and the Quality of External Audit (EADTQ) have positive impact on the financial reporting quality measured by the discretionary accruals of firm (FRQDA) by 16.01, 0.05 and 2.75. however, independent directors on the Board (BRDID) and audit quality (Audit Committee Size- ADCMZ) negatively effects financial reporting quality measure by the discretionary accruals of firm (FRQDA) as much as 0.99 and 20.01. Guarantee Trust Bank Plc among the five selected companies of study in Nigeria had better performance in financial reporting based on board structure (BRDSZ) and audit committee size (ADCMZ). This further revealed that there is a short-run relationship among audit quality, (Audit Committee Size-ADCMZ) and the quality of external audit (EADTQ as measured by the presence of an auditor among the Big 4s) and board experience (BRDEX) has not granger cause FRQDA. Finally, the study recommended that greater attention should be given to corporate governance indicators so as to improve on the global financial reporting standards in Nigerian emerging market for investment opportunity.

Miko and Kamardin (2015) studied Corporate Governance and Financial Reporting Quality in Nigeria: Evidence from pre and Post Code 2011. According to them, corporate failure has been the issue of discussion in the business environment for so many years now. They explained that myriads of corporate laws, policies and guideline have been variously issued, amended, repealed and even abolished all in a bid to align corporate governance to quality financial reporting in many countries. In the case of Nigeria, SEC corporate governance code was introduced in 2003 and replaced with another in 2011. This study examined the effect of corporate governance code of 2011 in the pre-code era from 2009 – 2010 and the post-code era from 2012 – 2013 based on twenty listed consumer goods companies as sample. The study concluded that corporate governance mechanism encouraged earnings management in the pre period while significantly reduced earnings management in the post period. The study recommended a periodic review of corporate governance code for more efficiency of the code.

Dabor and Adeyemi (2015) studied Corporate Governance and Credibility of Financial Statements in Nigeria. According to them, the credibility of financial statements has very salient implication for the quality of decisions that investors can make. They used primary data collected from two hundred and forty-eight (248) respondents and secondary data from 20 quoted companies in Nigeria. They investigated the relationship between corporate governance and the credibility of financial statements. The secondary data were analysed using multiple regressions and the primary data was tested using Chi-square test. The findings from this research indicated that the presence of non-executive directors on the board and the compliance with the audit committee composition (as provided by the Companies and Allied Matter Act, 1990) are likely to enhance the credibility of financial statements. They did not find evidence to suggest that CEO duality or absence of institutional shareholding would have negative effect on the credibility of financial statements. The study recommended that apart from including non-executive directors on the board and ensuring that the composition of the audit committee complies with corporate regulatory framework, stakeholders must constantly assess the credibility of the financial statements by assessing the benefits accruing to them in relation their financial commitment to the organisation.

Eze and Appah (2013) studied Audit Risk Assessment and Detection of Misstatement in the Annual Report: Empirical Evidence from Nigeria. The core objective of this study was to examine audit risk assessment and detection of misstatements in annual reports. To achieve the aforementioned objective, data were collected from both primary and secondary sources. The secondary sources were from scholarly written books and journals while the primary data were collected using a well-structured questionnaire with average reliability of 0.91 (91%). The data collected were analysed using Granger Causality test and Multiple Regression Models. The result revealed that the application of audit risk model statistically and significantly affects the detection of misstatement in the financial statements. Hence, the study concluded that audit risk model reduces the level of fraudulent financial reporting through the detection of misstatements by relevant audit procedures.

Fagbem, Abogun, Uadiale and Umuige (2013) studied the Assessment of Audit Approach and Audit Quality in Nigeria. The paper addressed the contemporary issue of quest for improved public confidence in financial reporting in Nigeria and the understanding of issues surrounding the way and manner that Nigerian auditors carry out their work. The study was carried out to assess the audit approach in the light of audit quality and the assurance that the financial statements provide. Despite the number of changes that have taken place in the audit profession during the past twenty years which have changed the way external auditors operate and manage their activities in proving the statutory attestation function on the financial statements, there seems to be paucity of research focused on the ways auditors carryout their attestation function in the midst of dwindling investors' confidence in Nigeria. Using a survey design, the questions that were raised in the study were answered using descriptive and inferential statistics. F-statistics was used in providing answers to the propositions raised in the study. Findings from the study showed that respondents' belief that the auditors' requirement to comply with ethical standards is a crucial factor in sustaining investors' confidence. There was also evidence that the size, complexity and client business risks are crucial factors in the choice of audit approach in Nigeria. The study suggested that there is need for the profession to gear its effort towards the adherence and enforcement of the ethics of the profession in Nigeria. It further recommended that audit approach should be on size, complexity and client business risk to restore the confidence of the users of financial statements.

Adebayo (2011) carried Out an Empirical Analyses of the Impact of the Auditor's Independence on the Credibility of Financial Statements in Nigeria. In the study the independence of the auditors was critically evaluated and the importance of auditors' independence in financial statement credibility was analysed. The data used for this study were collected from both primary and secondary sources. The relevant data collected were analysed using simple percentages and tested with Chi-square statistical tool. The result of the test showed that auditors' independence affects the credibility of financial statements and improvement in the credibility of financial statements can reduce manipulations in it. The study anchored the essence of the existence of auditing on the relevance of financial statements to the decision needs of the trade payables and the investors. The study concluded that auditors' independence and the credibility of financial statements are significantly impaired when non-audit services are also conducted by the auditor. It further concluded that there is a positive relationship between auditors' independence and the credibility of the financial statements. Finally, the study recommended that there should be rotation of auditors to improve on the independence of the auditor and that the external auditors should not be allowed to provide non-audit services to their clients.
Drawing from the myriads of diverse and divergent positions as reviewed above**,** we can argue that the relationship between audit risk and the quality of financial statements is slightly controversial. However, there is paucity of empirical researches that proxied financial statement quality on timeliness and relevance with control risk as a dimension of audit risk just like this research is designed.

METHODOLOGY

The study utilized the descriptive survey design. The study was carried out in Port Harcourt, Rivers State, Nigeria. The population comprised fifty members of staff of 5 manufacturing companies in the area of the study. Stratified random sampling was used by randomly selecting ten manufacturing companies out of the forty-four manufacturing companies listed for the study and 5 respondents were selected each from the ten selected companies giving a total of fifty respondents for the study. The companies studied are: Alo Aluminium Manufacturing Co.; Berger Paints; Demeok Paints Limited; First Aluminum Plc; New Rivoc Nigeria Limited; Oasis Preforms Synergy; Wesley Paints; Port Land Paints & Products Nig. Ltd; Wear Guard Equipment Limited; and Energy Works Technology Limited. Primary data were collected using structured questionnaires and personal interview. The distribution and collection of data were done personally by the researchers. The primary section of analysis included the use of descriptive statistics to portray the univariate characteristics of each variable. Statistics covered the mean scores and standard deviation. While for the secondary section, analysis was carried out using the Pearson Product Moment Correlation Coefficient with the aid of Statistical Package for Social Sciences (SPSS) version 21.0. We used Pearson's Correlation Coefficient (r) because it is a measure of the strength of the association between the two variables, predictor variable (audit risk) and criterion variable (financial statement quality). It can also be used in a causal as well as an associative research hypothesis. The independent variable audit risk is indicated by control risk as its dimension. This was measured at nominal scale showing the relationship with the dependent variable. The dependent variable**-** financial statement quality was measured by timeliness and relevance. The response mode for measuring the independent variable for the two null hypotheses: Ho_1 There is no significant relationship between control risk and timeliness of the financial statements of the manufacturing companies in Rivers State; and Ho_2 there is no significant relationship between control risk and relevance of the financial statements of the manufacturing companies in Rivers State. The reliability of the survey instrument was analysed by means of Cronbach Alpha Coefficients, using the Statistical Package for Social Science (SPSS). Therefore, only the items that returned alpha values of 0.7 and above were considered. Cronbach Alpha can be written as a function of the number of test items and the average inter-correlation among the items. This is indicated in the table below:

Table 1.: Reliability Coefficient Table showing the Cronbach Alpha of all the variable of the study

Variable	Cronbach Alpha
Control Risk	0.957
Timeliness	0.721
Relevance	0.957

Source: Field Survey, 2019 (SPSS out version 21.0)

Table 1 shows the Cronbach alpha of all the variables of the study. It was shown that: Control risk had Cronbach alpha value of 0.957; Timeliness had Cronbach alpha value of 0.721 and Relevance had Cronbach alpha value of 0.957. All the variables of the study had Cronbach alpha value ≥ 0.7which is the required Cronbach alpha value of the study. Hence, if the same set of items of the variables are re-administered to the respondents, the same of similar result will also be obtained.

Table 2.1 : Descriptive Statistics on all the Variables of the Study

		Control Risk	Timeliness	Relevance	Audit Risk	Financial Statement Quality
N	Valid	40	40	40	40	40
	Missing	0	0	0	0	0
Mean		3.07	3.08	3.07	3.28	3.25
Std. Devaition		1.248	1.228	1.248	1.154	1.167
Sum		123	123	123	131	134

Source: Field Survey, 2019 (SPSS Output Version 21.0)

Table 2.1 shows the descriptive Statistics of all variable of the study. It was shown that: control risk had a mean value of 3.07 and a standard deviation of 1.248; timeliness had a mean value of 3.08 and a standard deviation of 1.228; relevance had a mean value of 3.07 and a standard deviation of 1.248; audit risk had a mean value of 3.28 and a standard deviation of 1.154 and financial statement quality had a mean value of 3.35 and a standard deviation of 1.167. The mean of all the variables of the study were above 3.0 which is the required mean on a 5-point Likert scale given as: $\frac{1+2+3+4+5}{5} = 3$. Therefore, the researcher upheld the prevalence of the variable.

Table 2.2: Descriptive Statistics on items of Control Risk

	N	**Sum**	**Mean**	**S.D**
Before the adoption of the conclusion of the audit, it is necessary to examine and verify the previous step of estimated risk control.	40	123	3.07	1.248
If the accounting system and the controlling procedures are assessed as efficient and effective, then the level of control risk can be considered as low.	40	131	3.28	1.154
The exact level of the estimated risk depends on their subjective professional attitude.	40	134	3.35	1.167
Valid N (listwise)	130			

Source: Field Survey, 2019 (SPSS Output Version 21.0)

Table 2.2 shows the descriptive statistics on items of control risk. It was shown that: "before the adoption of the conclusions of the audit, it is necessary to examine and verify the previous step of estimated risk control" had a mean value of 3.07 and a standard deviation of 1.248; "If the accounting system and the controlling procedures are assessed as efficient and effective, then the level of control risk can be considered as low," had a mean value of 3.28 and a standard deviation of 1.154; while "The exact level of the estimated risk depends on their subjective professional attitude" had a mean value of 3.35 and a standard deviation of 1.167. The mean of all the variables of the study were above 3.0 required mean on a 5-point Likert scale given as 1+2+3+4+5 ÷ 5 = 3. Therefore, the researcher upheld the prevalence of the variable.

Table 2.3: Descriptive statistics on items of Timelines

	N	Sum	Mean	S.D
Timeliness of accounting information is clearly considered as an important qualitative characteristic of financial information	40	126	3.15	1.189
Qualitative characteristic of financial information communicated late may not serve its purpose.	40	135	3.37	1.097
Timely accounting statements assist foreign ownership to preserve their investment by monitoring the Management's performance.	40	134	3.35	1.231
Valid N (listwise)	40			

Source: Field Survey, 2019(SPSS Output Version 21.0)

Table 2.3 shows the descriptive statistics on items of timeless. It indicated that: Timeliness of accounting information is clearly considered as an important qualitative characteristic of financial information. This factor had a mean value of 3.15 and a standard deviation of 1.189. Information communicated late may not serve the purpose for which it was intended had a mean value of 3.37 and a standard deviation of 1.079; while timely accounting statements assist foreign ownership to preserve their investment by monitoring the managements' performance, had a mean value of 3.35 and a standard deviation of 1.231. The mean of all the variable of the study were above 3. 0 which is the required mean on a 5 point Likert scale given as (1+2+3+4+5) ÷5=3. Therefore, the researcher upheld the prevalence of the variable.

Table 2.4: Descriptive statistics on items of Relevance

	N	Sum	Mean	S.D
An item in the report is important if there is reasonable expectation that the knowledge of it can influence decision by users.	40	132	3.30	1.181
Financial statements should be a function of certification and assessment of the past events.	40	133	3.32	1.185
The relevance of accounting information depends on its nature, size and position.	40	133	3.32	1.207
Valid N (listwise)	40			

Source: Field Survey, 2019 (SPSS Output Version 21.0)

Table 2.4 shows the descriptive statistics on items relevance. It was shown that: an item in the report is important if there is reasonable expectation that the knowledge of it can influence decision by users, had a mean value of 3.30 and a standard deviation of 1.181. Financial statement should be a function of certification and assessment of the past event, had a mean value of 3.32 and a standard deviation of 1.185; while the relevance of accounting information depends on its nature, size and position, had a mean value of 3.32 and standard deviation of 1.207. The mean of all the variables of the study were above 3.0 which is the required mean of a 5-point Likert scale giving as; (1+2+3+4+5) ÷ =3. Therefore, the researcher upheld the prevalence of the variables.

Data analysis

It is imperative to test the hypotheses after completing the univariate analyses. Thus, this section of the study is concerned with the testing of the formulated hypotheses.

Table 3.1: Range of Relationship and Descriptive Level of association of Relationship

Range of r values	Descriptive level of association
±0.80-1.00	very strong
±0.60-0.79	strong
±0.40-0.59	Moderate
±0.20-0.39	Weak
±0.00-0.19	Very weak

Source: Desk Research, 2019.

Table 3.1.2: Correlation Analysis on the Extent and Direction of the Relationship between Audit Risk and Financial Statement Quality.

		Audit Risk	Financial Statement Quality
Audit Risk	Pearson Correlation	1	-.974**
	Sig. (2-tailed)		.000
	N	40	40
Financial Statement Quality	Pearson Correlation	-.599**	1
	Sig. (2-tailed)	.000	
	N	40	40

**Correlation is significant at the 0.01 level (2tailed).

Source: Field survey, 2019 (SPSS Output Version 21.0)

Table 3.1.2 shows the correlation analysis on the extent and direction of the relationship between audit risk and financial statement quality. It showed a correlation coefficient significance of r = -0.974** with the significant/probability value = 0.000 less than 0.05 level of significance. From the classification in table 4.1, the value is moderate, indicating negative moderate relationship between audit risk and financial statement quality. Also, the correlation coefficient is negative which indicates that decrease in financial statement quality is associated with an increase in audit risk. Therefore, the researchers conclude that there is a moderate negative relationship between audit risk and financial statement quality in the manufacturing firms in River State.

Test of Hypotheses

Decision Rule

If the significance/probability value (PV) < 0.05 (level of significance)=reject the null and conclude significant Relationship. If the significance/probability value (PV) > 0.05 (level of significance) = accept the null hypothesis and conclude insignificant Relationship.

Test of Hypothesis 1

Table 4.1.1: Correlation Analysis on the Extent and Direction of the Relationship between Control Risk and Timeliness

		Control Risk	Timeliness
Control Risk	Pearson Correlation	1	-.599
	Sig. (2-tailed)		.000
	N	40	40
Timeliness	Pearson Correlation	-.599**	1
	Sig. (2-tailed)		.000
	N	40	40

**Correlation is significant at the 0.01 level (2tailed).

Source: Field survey, 2019 (SPSS Output Version 21.0)

Table 4.1.1 shows that the correlation analysis on the extent and direction of the relationship between control risk and timeliness. The table showed a correlation coefficient of r=- 0.559** with a correspondent significant/probability value of 0.000.From the classification of r value in table 4.1.1, the value is moderate. The correlation coefficient is also negative indicating that a decrease in timeliness of information is associated with an increase in control risk. Thus the analysis from table 4.1.1 shows that the probability/significant value is 0.000< 0.05 level of significance therefore the researchers reject the null hypothesis and conclude that there is a moderate negative relationship between control risk and timeliness.

Table 4.1.2.: Correlation Analysis on the Extent and Direction of the Relationship between Control Risk and Relevance

		Control Risk	Timeliness
Control Risk	Pearson Correlation	1	-.889
	Sig. (2-tailed)		.000
	N	40	40
Relevance	Pearson Correlation	-.889**	1
	Sig. (2-tailed)		.000
	N	40	40

**Correlation is significant at the 0.01 level (2tailed).

Source: Field survey, 2019 (SPSS Output Version 21.0)

Table 4.1.2 shows the correlation analysis on the extent and direction of the relationship between control risk and relevance. The table showed a correlation coefficient of r=-0.889** with a correspondent significant/probability value of 0.000. From the classification of r value in table 4.1.2, the value is strong. The correlation coefficient is negative indicating that a decrease in relevance of financial statement is associated with an increase in control risk. Thus, the analysis shows that there is a strong negative relationship between control risk and relevance.

Test of Hypothesis 2

Table 4 .2.1 showed that the probability/significant value of 0.000< 0.05 level of significance, hence the researchers reject the null hypothesis and conclude that there is a strong negative relationship between control risk and relevance.

Table 4.2.1: Regression Analysis Summary on the Effect of Audit Risk on Financial Statement Quality

Variables	**Coef**	**t-cal**	**t-tab (0.05, 39)**	**sig. T**	**R**	**R^2**	**F-cal**	**F-cab (0.5,1,38)**	**Sig f**
Constants	.127	.979		0.000					
					-0.974	0.948	692.583	3.35	0.000
AR	0.037	26.351	1.167	0.000					

Depend Variable: Financial Statement Quality

Source: Field Survey, 2019 (SPSS Output Version 21.0)

FSC = f (AR) ....Ia

FSE = a0-a1 AR +U1 ....Ib

FSC = 0.127 + .037AR

T -value in bracket (.979) (26.351)

Table 4.2.1 shows the summary of regression analysis on the effect of audit risk on financial statement quality. It showed a Pearson correlation coefficient of – 0.974 on the relationship between audit risk and financial statement quality. The value of r is high indicating that a strong negative relationship exists between audit risk and financial statement quality. The coefficient of determination (R^2) = 0.948, which implies that 94.8% variation of financial statement quality is explained by the changes in audit risk, thus the remaining 5.2% is explained by other variables not included in the model. The F-calculated of 3.35 had a significant F-value 0.000 which indicates the usefulness of the model. Conventionally, F-Cal = 692.583> F-tab $^{(0.-5,1,\,38)}$ =3.35, hence the conclusion of a good model utility is upheld.

Similarly, audit risk had a calculated t-value of (26.317). t-tab (0.05, 39) = 1.167 and a corresponding significant/probability of 0.00 < 0.05 level of significant, hence the researchers conclude that audit risk statistically affect financial statement quality. Control risk had a calculated t-value of (.529) t-tab $_{(0.05,\ 39)}$ = 1.228 and a corresponding significant probability value (PV) of 0.600 > 0.05 level of significance, hence the researchers conclude that control risk does not statistically affect timeliness.

DISCUSSION OF FINDINGS

The study was carried out empirically to examine the relationship between audit risk and financial statements quality of manufacturing firms in Rivers State. Based on the hypotheses tested, it was found that there exists a strong negative relationship between audit risk and financial statement quality in manufacturing firms in Rivers State.

Test of hypothesis was carried out using primary data obtained from the respondents and the extent of direction of the relationship between the predictor variables (control risk) and the measure of financial statement quality (timeliness and relevance) and also the effect of audit risk and its predictor variable on financial statement quality and its measures were determined. Table 3.1.2 was concerned with the analysis on the extent and direction of the relationship between audit risk and financial statement quality. It was found that: there is a strong negative relationship between audit risk and financial statement quality. The analysis in table 3.1.2 showed the correlation coefficient of r= -0.974** significant at PV = 0.000 < 0.05. Also table 4.2.1 showed that a regression value of r=-0.948 variation of financial statement quality is explained by the changes in audit risk. Also, audit risk had a calculated t-value of |26.317|> t-tab(0.05, 39) = 1.167 and a corresponding significant/probability of 0.00<0.05 level of significance, hence the conclusion that there was a strong negative relationship between audit risk and financial statement quality. This finding is in line with the study of Eze and Appah (2013) who studied audit risk assessment and detection of misstatement in annual report: empirical evidence from Nigeria. The result revealed that the application of audit risk models statically and significantly affects the detection of misstatement in financial statement.

The test of hypothesis one ($H0_1$), found that there is moderate negative relationship between control risk and timeliness as shown in the table 4.1.1 with correlation coefficient value of r = -0.599** significant at PV = 0.00 < 005.The test of hypotheses two ($H0_2$), found out that there is a strong negative relationship between control risk and relevance as shown in table 4.1.2 with the correlation coefficient value of r = -0.889** significant at PV = 0.00<0.05. Also from the appendix 2, control risk statistically affects the relevance of financial statement quality as it had a calculated t-value of [6.155]> t-tab $_{(0.05,39)\ =}$1.248 and a corresponding significant probability value (PV) of 0.000< 0.05 level of significance. Hence the conclusion that there is a significant relationship between control risk and relevance and also that control risk statistically affects relevance. These findings are in line with the assertion in the literature which states that control risk is the risk that a material misstatement that could occur in a relevant assertion may not be prevented, or detected and corrected on a timely basis by the entity's internal control. It is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to the preparation of the entity's financial statements.

CONCLUSION AND RECOMMENDATIONS

The objective of this study is to examine the relationship between audit risk and the quality of financial statements. The study attempts to provide empirical evidence in the Nigerian context by studying the audit risk and the quality of financial statements of the manufacturing companies in Rivers State. The findings indicated that there is a strong negative relationship between audit risk and financial statements quality. Thus, control risk has negative relationship with timeliness and relevance of financial statements. This invariably implies that decrease in financial statement quality is associated with an increase in audit risk dimension. These findings are supported by the outcome of test of hypothesis in the study. Therefore, it is difficult to determine the existence of the risk of audit, and even harder to measure its height, because it is subjective in nature. Thus, the auditor takes into account different types of risk and assumes that the probability of material misstatement is 100% in line with his professional scepticism throughout an audit exercise. On the strength of this, the auditor assumes at the inception of an audit engagement, that no adequate internal control or evidence of implementation of internal control exists.

In practice the level of audit risk is determined by the application of the theory of probability and by using mathematical modelling. The overall risk of audit is evaluated by the auditor based on impression from inherent, detection and control risk. A limitation of the findings of this study may however stem from questioning the adequacy of the predictive value of control risk excluding Inherent Risk and Detection Risk in evaluating the overall impact of audit risk on financial statements. Thus, the exponential global demands for reliable (quality) audited financial statements may unceasingly beam the searchlights of contemporary audit literatures on a continuous development of both quantitative and qualitative models for measuring the probability of audit risks and to reduce material misstatements. Therefore, the study recommends that audit firms should provide sufficient training to their auditors to reduce individual risk propensity; audit firms should allocate audit work according to auditor's propensity to risk; also, auditors should ensure that more attention is given to the detection of errors while carrying out the audit of financial statements. Finally, there is the need for the Nigerian Financial Reporting Council and other regulatory bodies in line with best practices to look critically into the issue of audit risk and the impact on entities' financial statements.

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Appendix

Regression Analysis Summary on the Effect of Control Risk on Timeliness.

Variable	coef	t-cal	t-tab (0.05,39)	sig. t	R	R^2	F-cal	F -tab (0.05,2,36)	Sig f
Constant	0.137	.814		0.421					
			1.248		-0.959	0.919	135.656	3.07	0.000
CR	0.482	6.155		0.000					

Dependent Variable: Relevance

Source: Field Survey, 2019 (SPSS Output Version 21.0)