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EFFECT OF AUDIT CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF LISTED CONSUMER GOODS COMPANY IN NIGERIA

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Abstract

The study examines the effect of audit characteristic on financial reporting quality of listed consumer goods companies in Nigeria for the period 2009-2018. This study adopted Ex-post facto research design. The population for this study was the twenty-one (21) consumer good firms listed on the Nigerian Stock Exchange (NSE) as at 2018. However, only firms that have up-to-date data with regards to audit characteristics and financial reporting quality were selected to constitute the sample size of the study. The study adopted the use of empirical analysis tools including descriptive statistics and using ordinary least squares (OLS) panel regression technique to determine the relationships between the research variables. The analysis shows that Audit type has no significant effect on the financial reporting quality of quoted consumer goods firms in Nigeria. Also the study reveals that Audit tenure has significant negative effect on the financial reporting quality of listed consumer goods companies in Nigeria. In contrast, the study shows that audit size has significant positive effect on the financial reporting quality of listed consumer goods companies in Nigeria. The study recommends that listed consumer goods companies in Nigeria should improve on the type of audit firm that are employed to audit their companies as this will strengthen their financial reporting quality. Also listed consumer goods companies in Nigeria should reduce the period of tenure of audit firm as it has a negative influence on their financial reporting quality. The study also recommends that big auditor firm with big size should be patronized by listed consumer goods companies in Nigeria so as to have a reliable financial reports.

Keywords: Audit, Audit quality, Consumer goods, Financial reporting, Financial statement

JEL Classification Codes: D4, H84, M40

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1. INTRODUCTION

The turbulent effects of the global financial crisis have highlighted the critical importance of credible high quality financial reporting. Achieving quality financial reporting depends on the role that the external audit plays in supporting the quality of financial reporting of quoted companies. It is an important part of the regulatory and supervisory infrastructure and thus an activity of significant public interest. Audit quality is one of the most important issues in audit practice today. Several individuals and groups; both internal and external, have an interest in the quality of audited financial information (IAASB, 2011; Heil, 2012).

The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements. The societal role of auditors should be a key contribution to financial performance, in terms of reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to preset rules and regulations. Lower risks on misstatements increase confidence in capital markets, which in turn lowers the cost of capital for firms (Heil, 2012; Watts & Zimmerman, 1986). External financial statement users, including current and potential investors, creditors and others need reliable financial information on which to base their resource allocation decisions.

When the financiers of organizations have confidence and trust in the audited financial report of an organization, they are bound to pour in more funds into the organization, which in turn results in increased financial performance. Regulators and standard setters can increase the effectiveness of quoted companies by promulgating rules and regulations that help ensure that audits improve financial information quality. Internal financial statement users such as management, audit committees and board of directors have an interest in quality audits, for example; to help reduce the cost of capital (ISB, 2000; Miettinen, 2011).

Audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well-functioning markets and enhanced financial performance. External audits performed in accordance with high quality auditing standards can promote the implementation of accounting standards by reporting entities and help ensure that their financial statements are reliable, transparent and useful. Sound audits can help reinforce strong corporate governance, risk management and internal control at firms, thus contributing to financial performance (Internal Audits Board, 2011). The statutory audit can reinforce confidence because auditors are expected to provide an external, objective opinion on the preparation and presentation of financial statements. Auditors need to be independent in the opinions they express, while the work they have to do to form their opinions is highly dependent on and rooted

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in the real world and may become challenging in some business environments such as the cement industry. It is against this background that this research work is carried out. The purpose of this study therefore is to determine the impact of audit quality on the financial performance of quoted firms in Nigeria.

There have been concerns about audit quality in the present environment, where severe failures have come to light, for example; Enron scandal of 2001; Parmalat in 2003; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009 (Ajani, 2012; Miettinen, 2011). It has been found that the perceived reliability of audited financial information has declined. In contrast, the perceived relevance of audited financial information has increased. The effect of audit quality on financial performance has recently received attention from researchers in the western world. Studies have shown that audit quality has an impact on the financial performance of an organization (Beasley, 1996; Heil, 2012; Miettinen, 2011). While these studies provide evidence from vibrant capital markets, very little research on the relationship between audit quality and the financial performance of organizations has been conducted in countries where capital markets are less developed. Thus, it is evident that there is a need for research on audit quality and the financial performance of organizations in Nigeria. The familiarity that exists between the auditors and their clients as a result of long audit tenure encourages failure in auditor independence. Though, there has been a call for sweeping changes in the auditing profession to ensure independence and therefore improved their audit quality (Palmrose, 2006).

There have been a lot of corporate scandals in the academic literature and across accounting profession on audit tenure, independence and financial reporting quality. The debate center whether the auditor's independence in the auditor client relationship should be allowed to build a short or long term relationship with the client. The corporate scandals in many countries have raised question about the effectiveness and efficiency of auditor independence in financial reporting but the regulatory and professional bodies tried in enforcement and compliance to enhance the audit quality and restoring the investor's confidence (Holma & Zamanb, 2011) Lennox(2014) opined that the main objective of audit have been shifted from presenting the financial statement in true and fair view and emphasis was not on the arithmetical accuracy but on a fair presentation of financial reporting. Accounting and auditing play a significant role in principal agent relationship (i.e. agency relationship). The agency relationship between owners and managers in a firm creates a natural conflict of interest because of the information asymmetry that exists between manager and shareholders.

This information asymmetry means that manager generally has more information about "true" financial position (shown by statement of financial position), and result of operations (in a statement of comprehensive income) of the company than the absentee owners does. Thus, contact relationship between the shareholders and managers in a firm lead to the demand for firm

auditing. The quality of an audit depends concurrently on several audit firm characteristics such as independence of auditor, tenure of auditor, specialty of auditor and auditor enterprise. (Abedalgader Ibrahim & Baker, 2010). Levitt (2000), posit that the understanding of audit quality plays an important role in maintaining efficient confidence in the integrity of financial reporting. The higher the perceived audit quality, the more reliable the financial reports. Also, the findings will enhance user's confidence in those financial reporting quality. De Angelo (1991) defined audit quality as the view that an auditor will both determine and truly report material misstatements, errors, omission and falsification detected in clients' financial reports. This possibility depends upon the broad opinion of an auditor's professional conduct, which includes factors as objectivity, conflict of interest, independence and professionalism. Wallace (1980) opined that a substitute of audit quality is the audit's ability to reduce noise bias and improves the financial reporting quality. Knechel and Vanstraelen (2007) suggested that audit quality is an alternative by the tendency of the auditor to state a going concern opinion. Audit quality is a fundamental ingredient in enhancing the credibility of financial statements to users of accounting information.

Coate, Florence and Kral, (2002) and Fairchild (2008) portrays that audits add reliability to the financial information by providing an independent certification of management-provided financial statements, thus decreasing investor's risk. Watkins, Hillison, and Morecroft, (2004) posits that financial reporting credibility is reflected in the confidence of users in audited financial reports. Financial Accounting Standard Board (FASB, 2011) defines financial reporting as activities which are intended to communicate the informational needs of external users who lack the authority to demand the financial information they want from an organization and therefore must use the information the management serve them. Lewis and Pendrill (1996) asserted that financial information that is given to users rather than information which is required by an individual or group of individual who are in a position to enforce their request.

Previous researchers have examined the relationship of audit tenure audit quality with financial reporting quality and their findings remain inconclusive. In the Nigeria context, the issue of audit tenure with weak corporate governance practice is still lingering with the problem of fraud thereby making the investors' confidence on financial reporting quality to be biased. The certainty of the duration of the tenureship whether to long or short is posing problem to the independence of the auditor clients' relationship (Ilaboya & Ohokha, 2014) and this paper have adequately made suggestion on how this issue can be resolved by adopting the moderate audit tenure rotation that could assist to improve the independence of the auditor and thereby enhanced the investors' confidence.

From previous researches the relationship between weakness of corporate governance and poor financial reporting quality, audit tenure, financial manipulation and misappropriation, and weak internal control. Other researchers asserted the necessities for enhancement of

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corporate governance and financial reporting quality process (Klein (2002); Beasley et al 2000; Sloan 2002; Cohen et al 2004). This paper will extend the literature by examining the weak compliance and enforcement of corporate governance practice that affect the tenureship structure in Nigeria and propagate adequate corporate governance models that will ensure the effectiveness of audit tenure and decrease fraudulent activities in Nigeria social economic environment (ROSC, 2011).

The need to improve on audit quality arises out of the fact that investor confidence might suffer with its attendant effect on investment. Understanding the factors that influence audit quality could aid researchers and corporate firms to appraise how much they use such variables. A number of studies have been conducted both in Nigeria and abroad to understand the effect of audit quality on financial reporting quality. There is equally conflict in empirical findings on literature. While a good number of the studies posit positive relationship between audit quality and financial reporting quality (Yuniarti, 2011; Rahmina & Agoes, 2014; Oladipupo & Monye-Emina, 2016; Onaolapo, Ajulo & Onifade, 2017), others support negative relationship (Enofe, Mgbame, Aderin & Ehi-Oshio, 2013; Hoitash, Markelevich & Barragato, 2007), whereas some found no relationship at all (Choi, Kim & Zang, 2010).

However, there is no much empirical study in Nigeria that studied the audit quality and quality financial reporting nexus among the consumer goods firms in Nigeria. Again, the review of empirical studies in Nigeria, to the best of my knowledge, are scanty. More so, no study in Nigerian context have isolated the consumer goods sector of the Nigeria Stock Exchange for a study of this nature, even as this study is the most recent covering data up to 2018 to bring the empirical debate on the effect of audit fee on audit quality to currency. These gaps are filled by this study. Corporate failures and scandals in many countries raise significant questions about the effectiveness of financial reporting and auditing. Auditing firms, professional and regulatory bodies are under fire and face pressures to restore confidence in auditing. However, there are many similar studies conducted by different Authors, Salehi and Kangarlouei (2010) investigated the effect of audit quality on accrual reliability of listed companies and found existence of more accrual stability coefficient in audit firms with higher audit quality than those with lower audit quality. Similarly, Al-Khaddash et al. (2013) did a work on the factors affecting the quality of auditing, drawing data from Jordanian commercial Banks. Results indicate a positive and significant association between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm and the proficiency of the auditor.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Audit Characteristic

The term audit characteristic does not have a universally accepted definition. It connotes the quality of audit report from an auditor. Audit itself is an independent examination of and expression of opinion on the financial statement of an enterprise by an appointed auditor, in pursuance of that appointment and in compliance with any relevant statutory obligation (Onaolapo, Ajulo & Onifade, 2017). To this end, audit is expected to improve the value of information presented in the financial statements and as a result of this, audit quality has to do with a display of professionalism, diligence and care by auditor in audit process which should lead to a true and fair view of financial statement (Arrunada, 2000). Thus, audit quality is auditor's ability on discovering the material misstatement and reports them (DeAngelo, 1981). In the words of Arens, Elder, Beasley, Best, Shailer, Fielder (2011) audit quality means how well an audit detects and report material misstatements in financial statements, the detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence". It can equally be referred to as the joint probability in which an auditor finds and reports errors contained in the audited financial statements to comply with general auditing standards in performing their duties so that credibility is maintained (Rahmina & Agoes, 2014).

These definitions suggest that audit quality has to do with detecting misstatements, and correcting them so that what is reported in the financial statement becomes the true position of the firm so audited. This was why Onaolapo, Ajulo and Onifade (2017) averred that the existence of audit quality is validated when a financial statement is free from information asymmetry. This implies that audit quality will bring actual quality and perceived quality to be the same in context and value. The definition of Jackson, Moldrich and Roebuck (2008) view the quality of audits from actual and perceived quality. According to the definitions, actual quality shows levels of risk of material errors in financial statements that can be reduced by the auditor. Perceived quality indicates the level of confidence of users in financial statement and the auditor's effectiveness in reducing material misstatement in financial statements prepared by management. Therefore, the concept of audit quality implies that the necessary actions that will ensure the report of the true financial position of a firm has been put in place. The expertise needed to do these is believed to lie with the big and well established firms. Thus in Nigeria, audit quality has been denoted with the likelihood that a sampled company employs the services of one of the big audit firms. The variables is represented using dummy of the audit firm size where the big4 audit firm is assigned to represent quality audit

However, global financial crisis, corporate failures and scandals in many countries brought doubts as to effectiveness of auditing to do so. There have been so many attempts to

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restore confidence for auditing work by passage of regulatory Acts. The passage of these Acts supposed to increase audit quality. For example, DeFond and Lennox (2011) find that the passage of SOX results in a large reduction in the number of small audit firms operating in the market. They report that nearly 50%, 607 of 1,233 small audit firms that were active during 2001– 2008 exited the market and the majority of these exits occur in 2002–2004, coinciding with passage of SOX, the advent of PCAOB registrations, and the beginning of inspections. They also show that the presence of fewer small auditors coincides with a doubling of the average number of clients per small audit firm. Thus, they document a significant shift in the composition of the market for small auditors after the adoption of SOX. In addition, they argue that low quality auditors are more likely to find it cost beneficial, at the margin, to exit the market for public company audits in response to the new regulatory environment implemented under SOX (P.22). These results show that the passage of these Acts increased audit quality if audit size supposed to be proxy for audit quality. Moreover, as we put forward it is expected that high audit quality lead to high financial reporting quality. However, the passage of Acts led to increase financial quality.

2.1.2 Financial Reporting Quality

Financial reporting is concerned with the presentation of financial statements in a form for comprehension by users of financial information (Nwanyanwu, 2013). It is essentially a process of communication of financial information and also represents an instrument of identifiable stewardship (Obazee, 2005). In another dimension, financial reporting is the medium of communicating information about the financial affairs of both profit and non - profit organisations and constitutes an important service that is so special which the accounting profession extends to societies of economic and social systems. It is by no means, the only avenue by which managers of organisations (public and private) give account of their stewardship to their owners and other stakeholders (Adebayo, 2005).

The foregoing definitions, irrespective of the dimensions from where they were configured, are homogenous as they present financial reports as key documents that provide data about an organisation's financial activities for use by interested parties in decision making. As a result, auditors are expected to be circumspect in the provision of audit services to ensure that information contained in their reports is of high quality, sufficient and reliable. According to Nwanyanwu (2013), financial reporting objectives vary from one organisation to the other depending on the nature of activities. In his opinion, whereas in a public sector, the objective may be to identify how taxpayers' resources were utilized in the provision of social and infrastructural facilities, in a private sector, the purpose may be to report how owners' resources were applied to generate income and whether such application increased or decreased their wealth. Specifically, Adebayo (2005) documents some objectives of financial reporting as including the provision of useful information for making economic decisions for resource allocation; the provision of information for evaluating the stability and liquidity of organisations as well as about performance generally; the provision of information especially for government and non- profit making organisations for evaluation of effectiveness of management of resources in achieving set societal goals, the provision of information for predicting, comparing and

evaluating the status of an organisation in the industry and economy as a whole and the provision of relevant statements of financial activities of an organisation.

However, the interpretation of quality of financial reporting remains problematic due to different financial reporting environments, regulations, procedures, and understandings (Zheng, 2010). There are different definitions of quality of financial reporting. Some of the seven qualitative characteristics quality issues in financial accounting viewed as desirable for the fulfilment of their fundamental objective of communicating decision-useful measurements include relevance, understandability, reliability, completeness, objectivity, comparability, and timeliness (Honu & Gajevszky, 2014). Li, (2010) found that accounting standards are the major determinant of financial reporting quality among other institutional factors. In order to have high quality financial reporting the accounting standards must first be of high quality. Van Beest, Braam and Boelens (2009) on their part posited that since different user groups will have dissimilar preferences, perceived quality will deviate among constituents. In addition, the users within a user group may also perceive the usefulness of similar information differently given its context. As a result of this context and user-specificity, measuring quality directly seems problematic. Some of the measure contained in the conceptual framework included relevance, faithful representation, understandability, comparability and timeliness.

2.2 Theoretical framework

2.2.1 Policeman Theory

The policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud. This was the case in the early 20th century. However, more recently the main focus of this process has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud and manipulation of financial information. This was the most widely held theory on auditing until the 1940s (Hayes, Schilder, Dassen & Wallage, 1999). Up until the 1940s it was widely held that an auditor's job was to focus on arithmetical accuracy and on prevention and detection of fraud.

However, from the 1940s until the turn of the century there was a shift of auditing to mean verification of truth and fairness of the financial statements. Recent financial statement frauds such as those at Societe Generale, Satyam, Ahold, Enron have resulted in careful reconsideration of this theory. There now is an ongoing public debate on the auditor's responsibility for detection and disclosure of fraud returning us to the basic public perceptions on which this theory derives. According to this theory, the audit committees should put in place mechanisms to detect fraud before it happens just like a policeman tries to prevent crime from happening. In terms of quality of financial reporting, audit committee is viewed to perform the duty synonymous to that performed by the policemen such as to check and detect any instances of frauds in the organisations. Therefore, audit committee that is independent, diversified, and financially competent and have quality meetings is perceived to exercise their mandate more

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effectively. For instance, Elder et al. (2009) stated that the most common way for users to obtain reliable information (reducing the information risk) is to have an independent audit committee.

Similarly, Salehi, Rostami and Mogadam (2010) also adopted policeman theory in explaining the usefulness of accounting information system in emerging economy. This study will adopt the policemen theory in assessing the role of audit committees on quality of financial reporting among non-commercial state corporations in Kenya. As mentioned earlier policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud, therefore audit committees acting as organisation policeman go a long way in ensuring quality financial reporting.

2.3 Empirical Review

Enofe, Mgbame, Aderin, and Ehi-Oshio (2013) analyzed the determinants of audit quality in Nigerian business environment. The determinants studied include engagement and firm related characteristics such as audit tenure, audit firm size, board independence and ownership structure. A Likert scale questionnaire was developed and used to collect data from a sample of 100 respondents from the South-South geopolitical zone of Nigeria. A multiple regression model developed was analysed using the OLS regression technique. From the results, audit firm size, board independence and ownership structure were found to be positively related to audit quality; however, only board independence exhibited a significant relationship with audit quality. Audit tenure exhibited a negative relationship with audit quality which was also not significant.

Choi, Kim, and Zang (2010) employed a multiple regression technique to examine whether and how audit quality proxied by the magnitude of absolute discretionary accruals is associated with abnormal audit fees, that is, the difference between actual audit fee and the expected, normal level of audit fee. The results of various regressions reveal that the association between the two is asymmetric, depending on the sign of the abnormal audit fee. For observations with negative abnormal audit fees, there is no significant association between audit quality and abnormal audit fee. In contrast, abnormal audit fees are negatively associated with audit quality for observations with positive abnormal audit fees.

Following the nature of Indonesia where there is high audit market competition and strong client bargaining power resulting from regulation on mandatory audit firm rotation, Fitriany and Anggraita (2016) investigated the economic bonding between auditor and client by examining the association between abnormal audit fee and audit quality. The study employed the natural log of actual fees paid to auditors for their financial statement audits as dependent variable while the independent variables included total assets (firm size), number of business segments, number of geographic segments, inventory and receivables, number of employees, firm report a loss, leverage, return on assets, firm liquidity, the use of the Big4 auditors, tenure, book-to-market ratio, and sales change. The multiple regression model showed that a positive abnormal audit fees are negatively associated with audit quality and imply that the audit fee premium is a significant indicator of compromised auditor independence due to economic auditor–client bonding. Audit fee discounts could also increase audit quality, maybe due to the

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mandatory audit firm rotation and high audit market competition in Indonesia, so that the auditor must keep their independency and high audit quality to maintain good reputation.

Krauß, Quosigk, and Zülch (2014) examined the presence and magnitude of initial audit engagement fee cutting and its potential effect on audit quality in Germany using a sample of 992 firm- year observations from 2005 to 2011. The results show a systematic fee cutting for initial audit engagement years in Germany. However, despite significant audit fee differences between initial and subsequent audit engagement years, there was no differences in audit quality. Krauß, Pronobis, and Zülch (2015) examined the association between abnormal audit fee pricing and audit quality for the institutional setting of German IFRS firms by using a sample of 2,334 firm-year observations for the period from 2005 to 2010. The findings show that positive abnormal audit fees are negatively associated with audit quality and imply that the audit fee premium is a significant indicator of compromised auditor independence due to economic auditor–client bonding. Audit fee discounts generally do not lead to a reduced audit effort, or respectively, audit quality is not impaired when client bargaining power is strong. The association of positive abnormal audit fees and audit quality is robust to different audit quality surrogates such as absolute discretionary accruals, financial restatements, and meeting or beating analysts' earnings forecasts.

Ilaboya and Ohiokha (2014) examined the impact of audit firms' characteristics on audit quality. The study proxied audit quality using the usual dichotomous variable of 1 if big 4 audit firm and 0 if otherwise. A sample of 18 food and beverage companies listed on the Nigerian Stock Exchange market within 2007-2012 was used for the study. A multivariate regression technique with emphasis on Logit and Probit method was used to estimate the model for the study. The findings indicate that there is a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure and audit quality.

Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in audit market in Nigeria. The study thus employed audit quality as dependent variables while the explanatory variables were audit tenure, board independence, audit committee activeness, firm size and leverage. Using a probit binary regression technique on 350 firm observations data obtained from companies quoted on the Nigeria Stock Exchange, it was observed that both positive and negative abnormal audit fees had insignificant positive impacts on audit quality. This shows that abnormal audit fee does not matter to audit quality. Contrary to expectation, board independence and firm size had negative impacts on audit quality. However, only the impact of board independence was statistically significant. Of the auditor tenure, audit committee activeness and leverage that have positive impacts on audit quality, only the leverage had significant impact on audit quality.

Yuniarti (2011) examined the determinant factors of audit quality by proposing the hypothesis that the audit firm size (size of public accounting firm) and audit fees (audit fees) have an effect on the audit quality. The unit of analysis was the external auditor who has worked in (Certified Public Accountant) CPA firm, the author takes the CPA Firm in Bandung, West Java, Indonesia. This type of research is descriptive verification research, because it describes

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the variables and observes the correlation of these variables from the hypothesis that has been made systematically through statistical testing. The statistical test use path analysis and the examination of the hypothesis in this research using two ways: simultaneous test and individual test (partial), using t-test and f-test. Empirical test results that the CPA firm size does not significantly affect to audit quality in public accounting firm in Bandung, whereas the amount of audit fee significantly affect to quality of audit and simultaneously CPA firm size and audit fees do not significantly affect to quality of audit in public accounting firm in Bandung.

Rahmina and Agoes (2014) aimed to determine the effect of auditor independence, audit tenure, and audit fee both partially and simultaneously on the audit quality. This research uses primary data collected through the distribution of questionnaires in audit firm listed in Capital Market Accountant Forum – FAPM in Indonesia. The population of research are senior auditor, supervisors, managers, and partners' positions and worked on the audit firm member of FAPM. The results of this research show that in general auditor independence, audit tenure, and audit fee have a positive influence on audit quality. The test Coefficient of Determination result of 21.4% indicates that the audit quality can be explained by variations in auditor independence, audit tenure, and audit fee, while the remaining 78,6% is explained by other variables that are not used in this research, such as auditor's size, auditor's industry specialization, and audit risk.

Onaolapo, Ajulo and Onifade (2017) examined the effect of audit fees on audit quality in Nigeria using a sample of listed cement companies on the floor of the Nigerian Stock Exchange. The explanatory variables were audit fee, audit tenure, client size, leverage ratio while audit quality as the dependent variable. Ordinary Least Square Model estimation technique was used for the data analyses. Secondary data derived from the published annual reports of the selected companies for a six-year period (2010-2015) was used for the study. Findings from the study show that audit fee, audit tenure, client size and leverage ratio exhibit a joint significant relationship with audit quality. Further results show that audit fee in particular has a significant positive impact on audit quality.

There are several theories that explain the relationship between audit characteristic on financial reporting quality in the literature of accounting. But only three theories are related to the study namely Stakeholders Theory, Stewardship Theory and Policeman Theory. However. This study is underpinned by Policeman Theory.

3. METHODOLOGY

3.1 Research Design

This study adopted *Ex-post facto* research design. *Ex-post facto* research uses data already collected, but not necessarily amassed for research purposes. *Ex-post facto* literally means from what is done afterwards. The study will rely heavily on already existing secondary data of all listed consumer good companies in Nigeria. The dependent variable for this study is financial reporting quality, while the independent variables are Audit Type, Audit Tenure and Audit Size This research design is adopted because of its strengths as the most appropriate design to be used in a study like this where it is difficult to select, control and operate all or any

of the independent variables, or when laboratory control will be impartible, costly or ethically questionable. This design examines the data collection sources, population, sampling plan, method of analyses and instruments of data collection used.

The population for this study will be the twenty-one (21) consumer good firms listed on the Nigerian Stock Exchange (NSE) as at 2018. However, only firms that have up-to-date data with regards to Audit characteristic and financial reporting quality will be selected to constitute the sample size of the study. Data for the purpose of this study were collected from secondary sources specifically from Nigerian Stock Exchange (NSE) Fact book and the listed firm's published financial statements for the period of 2009-2018. Panel data on market capitalization of the firms for the period will be collected, extracted and analyze for the study.

The study employed the use of empirical analysis tools including descriptive statistics and using ordinary least squares (OLS) panel regression technique to determine the relationships between the research variables. This is because regression analysis is concerned with the study of the dependence of one variable on other variables. The panel regression will be carried out using the Eview for windows statistical package software to link the variables in the study and determine the kind of relationships that exist between them. Using regression for this study is due to the quality of its strength in determining the variability of the variables in the study.

3.2 Model Specification

The following regression model is estimated for the study.

$$FRQ = f(AUDTTY, AUDTTR, AUDTSIZE)$$

$$FRQ_{it} = \beta_0 + \beta_1 AUDTTY_{it} + \beta_2 AUDTTR_{it} + \beta_3 AUDTSIZE_{it} + \mu_{it}$$

Where:

FRQ = Financial Reporting Quality (Dependent Variable)

AUDTTY = Audit Type (Independent variable)

AUDTTR = Audit Tenure (Independent variable)

AUDTSIZE = Audit Size (Independent variable)

β_0 = Constant/Intercepts

$\beta_1, \beta_2, \beta_3$ and β_4 = Parameters of determination

μ_t = Stochastic Variable (Error term)

i = Company i

t = Time t

4. FINDINGS AND DISCUSSIONS

Table 1: Descriptive Statistics

	FRQ	AUDTTY	AUDTTR	AUDTSIZE
Mean	253.7596	0.054054	0.797297	0.729730
Median	-2.505000	0.000000	1.000000	1.000000
Maximum	3678.563	1.000000	1.000000	1.000000
Minimum	-997.3700	0.000000	0.000000	0.000000
Std. Dev.	908.0270	0.226892	0.403378	0.445607
Skewness	3.273671	3.944254	-1.479044	-1.034587
Kurtosis	12.54272	16.55714	3.187571	2.070370
Jarque-Bera	825.9087	1517.152	54.17704	31.73177
Probability	0.000000	0.000000	0.000000	0.000000
Sum	37556.42	8.000000	118.0000	108.0000
Sum Sq. Dev.	1.21E+08	7.567568	23.91892	29.18919
Observations	148	148	148	148

Source: Authors' Computation, (2019)

The Table 1 indicates that Financial Reporting Quality, Audit Type, Audit Tenure and Audit Size are 253.7596, 0.054054, 0.797297 and 0.729730 respectively. The table also shows that the mean of financial reporting quality (FRQ) is 253.7596, with standard deviation of 908.0270, the minimum and maximum values of -997.3700 and 3678.563 respectively. It implies that the average value of financial reporting quality of listed consumer goods companies in Nigeria is -997.3700 to 3678.563 and the deviation from both sides of the mean is 908.0270. This suggests that the data are widely dispersed from the mean because the standard deviation is more than the mean value.

The table 1 also indicates a minimum value of Audit Type (AUDTTY) of 0.000000, and maximum value of 1.000000. The mean value 0.054054 with standard deviation of 0.226892. It implies that the average value of Audit Type of listed consumer goods companies in Nigeria is 0.000000 to maximum value of 1.000000 and the deviation from both sides of the mean is 0.226892. This implies that the data are widely dispersed from the mean, because the standard deviation is more than the mean value.

The descriptive statistics indicates that the mean of Audit Tenure (AUDTTR) is 0.797297 with standard deviation of 0.403378, the minimum and maximum values of 0.000000 and 1.000000 respectively. It implies that the average value of Audit Tenure of listed consumer goods companies in Nigeria is 0.797297, and the deviation from both sides of the mean is 0.403378. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The table 1 also indicates that the mean of audit firm size (AUDTSIZE) is 0.729730 with standard deviation of 0.445607, the minimum and maximum values of 0.000000 and 1.000000

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respectively. It implies that the average value of audit firm size of listed consumer goods companies in Nigeria is 0.729730, and the deviation from both sides of the mean is 0.445607. This suggests that the data are not widely dispersed from the mean, because the standard deviation is less than the mean value.

The probability value of Jarque-Bera test of Financial Reporting Quality, Audit Type, Audit Tenure and Audit Size are less than 5%. It indicates that they are not normally distributed. However, the Guasian theorem (1929) and Shao (2003) suggest that normality of data does not in any way affect the inferential statistics estimate to the BLUE.

4.1 Correlation Matrix and Multicollinearity Analysis

The correlation matrix is used to determine the correlation between the dependent and independent variables of the study. The table below represents the correlation matrix for the sample observations.

Table 2: Correlation Matrix
 Maximum Absolute Correlations
 Factor: Untitled

	MAC
FRQ	0.472417
AUDTTY	0.392792
AUDTTR	0.472417
AUDTSIZE	0.392792
Overall	0.472417

Observed Covariance:

	FRQ	AUDTTY	AUDTTR	AUDTSIZE
FRQ	1.000000			
AUDTTY	-0.065839	1.000000		
AUDTTR	-0.472417	0.120532	1.000000	
AUDTSIZE	0.149928	-0.392792	0.109446	1.000000

Source: Authors’ Computation, (2019)

Table 2 presents the correlation matrix of the dependent and independents variables. It is observed that the variables correlate fairly well (between - 0.28 and 0.79). There is no correlation coefficient greater than 0.8, hence there is no problem of collinearity of data.

4.2 Post Residual Diagnostic Test

Table 3: Variance Inflation Factor Table

Variance Inflation Factors

Sample: 1 162

Included observations: 148

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
AUDTTY	99042.32	1.291323	1.221522
AUDTTR	26822.10	5.158209	1.045583
AUDTSIZE	25611.38	4.507969	1.218370
C	30725.90	7.411232	NA

Source: Authors' Computation, (2019)

VIF = 1 (Not correlated)

1 < VIF < 5 (Moderately correlated)

VIF > 5 to 10 (Highly correlated)

Table 3. Above presents the variance factor (VIF) and tolerance coefficients of each of the explanatory variables. It is observed that the collinearity diagnosis revealed a VIF well below 10, a tolerance above 0.2. This shows that there is no threat of multicollinearity or independent errors. Researchers suggested that multicollinearity does not constitute a problem when the VIF does not exceed 10 and when the tolerance for each of the variable is above 0.2 (Wasserman & Kutner, 1990)

4.3 Panel Regression Analysis

Table 4: Regression Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.702085	3	0.4399

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
AUDTTY	943.038161	361.528600	284697.840997	0.2758
AUDTTR	-1161.140938	-1147.371135	6211.317172	0.8613
AUDTSIZE	674.198953	491.493108	60977.557884	0.4594

Cross-section random effects test equation:

Dependent Variable: FRQ

Method: Panel Least Squares

Sample: 2010 2018

Periods included: 9

Cross-sections included: 18

Total panel (unbalanced) observations: 148

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	636.5761	229.3718	2.775302	0.0063
AUDTTY	943.0382	621.1979	1.518096	0.1315
AUDTTR	-1161.141	183.3433	-6.333152	0.0000
AUDTSIZE	674.1990	295.2017	2.283859	0.0240

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.343134	Mean dependent var	253.7596
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Adjusted R-squared	0.239690	S.D. dependent var	908.0270
S.E. of regression	791.7610	Akaike info criterion	16.31715
Sum squared resid	79614449	Schwarz criterion	16.74243
Log likelihood	-1186.469	Hannan-Quinn criter.	16.48995
F-statistic	3.317110	Durbin-Watson stat	1.520088
Prob(F-statistic)	0.000021		

Source: Authors' Computation, (2019)

Table 4 presents the results of panel multiple regressions. The result shows that the P value of F-statistics is 0.000021 which is less than 5%, this shows that the model is fit and that the model is statistically significant as it implies that all the independent variables are statistically significant. The R square value of 0.343134 means that the independent variable contributes 34% to the dependent variable. It also indicates that 34 percent of the variation in financial reporting quality can be explained by variability in audit type, audit tenure and audit size. The remaining 66% are the value of other variables that are not captured in the model. The adjusted R square of 0.239690 indicates that any variations that can occur as a result of the introduction of additional independent variable are being taken care of and cannot affect the R square more than 24%. Durbin-Watson value of 1.520088 shows there is no serial or auto correlation. Durbin (1970), states that when the Durbin Watson statistic value is above 0.5 or 50 percent, independent observation is assumed. In other words, there is no auto correlation among the residuals of the study. The Durbin Watson statistic value of 1.520088 therefore indicates that there is no autocorrelation among the residuals of this study. But the presence of serial correlation will be confirmed with Breusch Godfrey LM serial correlation test.

4.4 Test of Hypotheses

4.4.1 Test of Hypothesis One

H₀₁. Audit type has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

The regression line $FRQ = 636.5761 + 943.0382 \text{ Audit type} - 1161.141 + 674.1990 \text{ Audit tenure} + 674.1990 \text{ Audit size}$ shows that for every 1percent increase in Audit type, financial reporting quality increase by 943.0382. The p-value of 0.1315 is more than the t-value of 0.05. This simply means that the null hypothesis is accepted that Audit type has no significant effect on the financial reporting quality of quoted consumer goods firms in Nigeria. It indicates that the Audit type do not have any influence on the financial reporting quality of listed consumer goods companies in Nigeria.

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4.4.2 Test of Hypothesis Two

Ho₂. Audit tenure has no significant effect on the financial reporting quality of quoted consumer goods firms in Nigeria.

The regression line $FRQ = 636.5761 + 943.0382 - 1161.141 + 674.1990$ shows that for every 1percent increase in Audit tenure, financial reporting quality decreases by 1161.141. The p-value of 0.0000 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that Audit tenure has significant negative effect on the financial reporting quality of listed consumer goods companies in Nigeria.

4.4.3 Test of Hypothesis Three

Ho₃. Audit size has no significant effect on the financial reporting quality of listed consumer goods firms in Nigeria.

The regression line $FRQ = 636.5761 + 943.0382 - 1161.141 + 674.1990$ shows that for every 1percent increase in Audit size, financial reporting quality decreases by 674.1990. The p-value of 0.0240 is less than t-value of 0.05. This simply means that the alternative hypothesis is accepted that Audit size has significant positive effect on the financial reporting quality of listed consumer goods companies in Nigeria.

4.5 Discussion of Findings

The empirical evidence derived from the panel regression model indicates that Audit type has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. The insignificant association between Audit type has no significant effect on the financial reporting quality is consistent with prior findings of Laith (2015); Merawati (2015) Vuko, Maretic and Cular (2015); and Hussaini and Gugong (2015); Ojeka, Iyoha and Obigbemi (2014); Ebrahim, Faudziah and Abdullah (2014); Yahya, Abdullah, Faudziah and Ebrahim (2012); Thoopsamut and Jaikengkit (2009); But contradicts Chechet, Yancy and Akanet (2013); Salloum, Azzi and Gebrayel (2014).

This study found that Audit tenure has significant negative effect on the financial reporting quality of listed consumer goods companies in Nigeria. The significant association between Audit tenure and financial reporting quality is consistent with prior findings of Abdullahi, Qaiser, Ashikur, Ananda and Thurai (2014); Hamdan, Sarea and Reyad (2013); Tornyeva and Wereko (2012); Chan and Li (2008); Ilona (2008);. But contradicts Kajola (2008); and Ghabayen (2012). This study also found that Audit size has significant positive effect on the financial

reporting quality of listed consumer goods companies in Nigeria. This result supports the findings of Ilaboya and Ohiokha (2014) and contradicts the study of Zare, Khedri and Farzanfa (2013).

5. CONCLUSION AND RECOMMENDATION

This study concludes that Audit type has no significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. This is informed on the bases of the result of the analysis which shows that audit type has a positive and insignificant relationship with financial reporting quality of listed consumer goods companies in Nigeria. The study submits that an audit tenure influences the financial reporting quality of listed consumer goods companies in Nigeria. But the influence is negative which by implication the period an audit firm is engaged to audit a firm will affect the financial reporting quality of listed consumer goods companies in Nigeria. It therefore concluded that audit tenure has a significant effect on the financial reporting quality of listed consumer goods companies in Nigeria.

This study found that Audit size has significant positive effect on the financial reporting quality of listed consumer goods companies in Nigeria. It is therefore concluded that audit size has a significant effect on the financial reporting quality of listed consumer goods companies in Nigeria. It means that the status of the external auditor that audits consumer goods company, whether big 4 or not, have effect on the financial reporting quality of listed consumer goods companies in Nigeria. Based on the conclusions of this study, the following recommendations are made:

- i. Listed consumer goods companies in Nigeria should improve on the type of audit firm that are employed to audit their companies as this will strengthen their financial reporting quality as the study found that the coefficient of audit type is positive but not significant at five percent, it is only significant at forty-seven percent.
- ii. Listed consumer goods companies in Nigeria should reduce the period of tenure of audit firm as it has a negative influence on their financial reporting quality. The more an audit firm stays with a particular company, the more acquainted and can help the company in the manipulation of reports, therefore it is advised that they should reduce the audit tenure.
- iii. Since audit firm size reflected a positive relationship and significant effect, it is recommended that big auditor firm with big size should be patronized by listed consumer goods companies in Nigeria so as to have a reliable financial reports.

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