EFFECT OF EXTERNAL AUDITOR'S ATTRIBUTES ON FINANCIAL REPORTING QUALITY OF LISTED FOOD AND BEVERAGE FIRMS IN NIGERIA

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ABSTRACT

Concerns have been raised about the conflict of interest between the auditor's statutory role and the other services it may perform for a client which causes shareholders and other stakeholders to question the credibility, reliability, and ultimately quality of financial reports. As a result, this study examined the effect of external auditor's attributes on the financial reporting quality of listed food and beverage firms in Nigeria. For the purpose of this study, secondary data were explored, and the study adopted an ex-post facto research design. The population of this study comprised of the of the seventeen (17) Foods and Beverages firms listed on the Nigerian Exchange Group as at 31st December 2022, and ten (10) firms were selected as sample size using the purposive sampling techniques. Data were analysed using the panel multiple regression technique (fixed effect regression model) with the help of Statistical tool, Stata version 17.0. The study found out that only audit independence had a significant and positive effect on the quality of financial reporting of food and beverage firms in Nigeria, but audit firm size and audit tenure had positive but insignificant effects on the quality of financial reporting of food and beverage firms in Nigeria. However, the study found out that there was an overall significance of all the variables indicating that they jointly affect financial reporting quality of food and beverage firms in Nigeria. On this basis, the study recommends that management should not only focus on external auditor's independence as a measure of their gross fees but on other parameters such as familiarity which could also undermine the independence of the external auditors. Besides, that management should not only engage audit firms whose reputation cuts across size but also the use of technology in assessing the accuracy of the financial reports. Finally, the study recommends auditors' tenure of three years and above in order to improve the financial reporting quality of firms in Nigeria.

Keywords: Audit Independence, Audit Firm Size, Audit Tenure, Discretionary Accruals

INTRODUCTION

Financial statements which provide information about an entity's economic activity, are commonly used by investors and all stakeholders to make key decisions. Accounting earnings, which are meant to be trustworthy, verifiable, intelligible, and timely, are one of the critical factors of financial reports that investors, creditors, employees, shareholders, financial expertise, and regulators utilize for efficient decision making. Quality accounting data ensures that the report is devoid of errors and bias, that it accurately represents what it claims to represent, and that the presentation is not misleading or confused to users (Shehu, 2021). Investors and other users are interested in high- quality financial accounting information for effective decision making.

The financial report is prepared primarily for decision-making. It plays a dominant role in setting the framework of managerial decisions. Financial reporting quality is used universally. This has to do with the accuracy with which financial reports of a firm reflects its operating performance and how useful they are in forecasting future cash flows. However, reliability and validity of the main objective of financial reporting is being questioned as a result of possible effect of earnings manipulations on the contents of information from such prepared statements. It is in view of the importance of the quality of financial reporting that the International Federation of Accountants (IFAC) and its audit arm International Auditing and Assurance Standards Board (IAASB), stated that audit services is an assurances service that the financial statements prepared by the managers is true and fair, and free from intentional and unintentional errors and misstatements, and conform to the relevant rules and regulations guiding the preparation and presentation of accounting information (IAASB, 2013).

Notwithstanding, in a study of financial reporting quality, Hassan and Farouk (2020) opined that quality financial reporting could be achieved by full disclosure and higher level of transparency; and regarded corporate transparency as the widespread availability of relevant and reliable information about the periodic performance that is free from errors and misstatements. Therefore, the quality of financial reporting is to promote transparency and deliver high quality annual report through comprehensive disclosure (Shehu, 2021). As such regulators and financial statements analysts as well as auditors should ensure that financial statements information is true, fair and free from opportunistic and unethical judgments, which destroy the quality of financial reporting.

Consequently, Dechow and Skinner (2020) reported that there are three categories of financial reporting quality proxies: properties of earnings, investor responsiveness to earnings, and external indicators of earnings misstatements. Category one, properties of earnings include earnings persistence and accruals; earnings smoothness; asymmetric timeliness and timely loss recognition; and target beating, in which the distance of earnings from a target (e.g., small profits) is viewed as an indication of earnings management, and earnings management is assumed to erode earnings quality. Category two, investor responsiveness to earnings, includes the use of an earnings response coefficient (ERC) or the R-square from the earnings-returns model as a proxy for earnings quality and that relate the ERC to another construct such as auditor quality. Category three, external indicators of earnings misstatements, includes Accounting and Auditing enforcement Releases (AAERs), restatements, and internal control procedure deficiencies reported under the Sarbanes Oxley Act, all of which are viewed as indicators of errors or earnings management. However, this study focuses on earnings persistence and accruals (Discretional Accrual).

One of the basic attributes of the auditor is his/her independence. Independence has traditionally been described as the ability to act with integrity and objectivity. Auditor independence covers both actual and apparent independence. Independence relates not only to the absence of prejudice and mental objectivity, but also to a reasonable investor's view of auditors' ability to exercise objective and unbiased judgment (Ojeaga & Okoye, 2021). Regulators are worried that an expanded economic bond between auditors and their clients as a result of non-audit services provided and protracted auditor-client tenure may weaken auditor independence and lead to low audit quality (Ojeaga & Okoye, 2021). One of the critical roles of auditors is that, they assure confidence to financial statements users about the reported information. Audit services have been critical to financial reporting quality since industrial revolution (that is, separation of ownership from management). However, the ability of auditors or audit firm to provide high audit quality capable of producing high financial reporting quality is attributed to some certain features of the audit committee characteristics which are, audit committee independence, audit committee size, audit committee expertise and audit committee meeting (Shehu, 2021).

Consequently, critical characteristics of an auditor are essential for audit success, which includes: audit independence, audit fee, auditors' expertise, audit tenure, audit committee gender, and audit firm reputation (Ojeaga & Okoye, 2021). However, this study focuses on audit independence, audit firm size, audit tenure, audit fee, and auditor's expertise.

This study is motivated by the fact that in recent time, concerns have been raised about the conflict of interest between the auditor's statutory role and the other services it may perform for a client which causes shareholders and other stakeholders to question the credibility, reliability, and ultimately quality of financial reports (Amahalu & Obi, 2022). However, auditor characteristics and financial reporting quality appear in today's business environment as tools to resolve this conflict. Besides, auditors' attributes have been linked to the quality of financial report especially because of a number of worrisome failures being recorded across the world; for instance Enron, in the US, Northern Rock in the United Kingdom, Parmalat in Italy; other corporate failures locally in Nigeria are Unilever, African Petroleum, Cadbury, African Petroleum, Savanna Bank, Wema, Intercontinental Bank, Diamond, and Access Bank; it became necessary that a high-quality external audit is conducted. Most audit independence researches, investigated how various factors affect user perceptions of auditor independence.

However, many studies were conducted in the past by many researchers with the aim of finding the extent to which audit attributes affected quality of financial report. Amongst others who have carried out extensive studies on audit attributes and quality of financial report, their results have not been in consensus. For instance (Duru *et al.*, 2019; Ibenre *et al.* 2020; and Amahalu & Obi, 2022) studies found audit attributes to impact positively on quality of financial report; while (Onaolapo et al., 2017; Shinta *et al.*, 2019; and Okunola, 2021) studies found a negative relationship. Consequently, the need to conduct another study to further re-examine the relationship audit attributes and quality of financial report to improve on the previous findings is very essential.

Financial reports are supposed to provide relevant information to the external parties of an organization. It is thus important that financial reports provide truthful and accurate financial information to enable shareholders and other interested parties to make decision wisely. The research problem statement identifies lack of accurate financial reporting quality in food and beverages firms in Nigeria. Lack of accuracy in financial reporting will lead shareholders and prospective investors to make wrong judgment about the organization (Ado *et al.,* 2020). Incidentally, the heavy reliance placed on accounting numbers (as it measures the direction of business entity as well as decision base by different users of accounting information) has provided an incentive for managers to manipulate earnings to their own advantage. This manipulation that is not supposed to go unchecked by auditors has often led to the eventual collapse of firms of various sizes and even called to questions the integrity of auditors and characteristics of audit firms (Bello, 2022). Therefore, this study aims to examine the effect of audit attributes on financial reporting quality of listed foods and beverages firms in Nigeria.

LITERATURE

This chapter covers conceptual, theoretical and empirical reviews. Concepts underpinning the study were critically examined to arrive at suitable variables for the study. Contending theories were also reviewed to provide a suitable theoretical framework for the study. Previous empirical studies were also reviewed to arrive at gaps in literature and provide basis for discussing the outcome of this study.

Conceptual Framework

The conceptual framework closely examines the concepts and views of scholars on the subject of audit attributes and the proxies used and its effects on the financial reporting quality. The basic concepts to be examined include: financial reporting quality, discretionary accruals, audit independence, audit firm size, and audit tenure.

Financial Reporting Quality

Otuya (2019) expressed financial reporting quality as to how well an audit is able to detect and document any material misstatements in corporate financial reports. It is the characteristics of providing assurance that the financial statement is devoid of material misstatement and can be relied upon by investors and other stake holders for decision making. Biddle *et al.* (2019) defined financial reporting quality as the presentation of an entity's economic activities and events with total correctness and accuracy. It is the quality of providing assurance about the reliability of the financial statement to investors and other relevant stakeholders. According to International Accounting standard Board (IASB), the financial reporting attributes determines fundamental qualitative characteristics and enhances qualitative characteristics (IASB, 2015). The quality of financial reporting is to promote transparency and deliver high quality annual report through comprehensive disclosure (Hassan, 2020).

The competence of the auditor mirrors this detection capability while the ability to disclose such material misstatement reflects audit ethics or auditor's integrity which forms auditor independence (Aren *et al.,* 2015). Business decisions are mostly dependent on the accuracy, timeliness and reliability of financial statements. Lack of relevant, accurate and reliable information in financial reports will hamper wise business decisions by shareholders and prospective investors (Daferighe & George, 2020). Greater attention therefore has to be paid to details from source documents to the point of preparation of financial statements.

Discretionary Accrual

Discretionary accrual are non-mandatory asset or liability but are recorded in the system and that would be realized later when settled. Edilson and Eliseu (2018) observed that the discretionary accrual generation process changes in line with variation in earnings and/or cash flow performance. Financial report are mostly measured in quantitative terms though some studies have followed the qualitative pattern, major studies on financial reporting quality in prior studies have deployed the use of earnings management which examines managers' use of discretionary accruals to shift reported income among fiscal periods. According to Onuorah and Imene (2016), the discretionary accruals are determined by separating the non-discretionary accruals from the total accruals.

Audit Attributes

Audit attributes refers to the extent to which an auditor's independence, integrity, and objectivity impact auditors' opinions on the quality of financial statements (Baah & Fogarty, 2018). It can also be defined as the accuracy of information an external auditor provides for the investors. It is the capabilities of the external auditor to detect and eliminate any misstatements and manipulations in financial statements (Hussainey, 2019). It is the quality of being accurate in the presentation of financial statements and this implies that all material facts have been considered before issuing an opinion. Idogho and Daniel (2020) viewed audit attributes as the capability of external auditor in discovering and reporting any errors in a financial statement.

Auditor's Independence

Audit independence is the composition of more non-executive directors than executive directors in the audit committee. Existence of the audit committee independence is the true and fair picture of the firm's commitment for better corporate governance practices. The notion that audits committee independence is important for its effectiveness draws from the widely accepted notion that independent directors are more likely to be effective monitors of management actions. According to Masoyi *et al.* (2015), independent audit committees are more likely to be free from management influence. Hence, they will ensure the quality and credibility of the reporting process, thus reducing information asymmetry.

Audit Firm Size

Rezaei and Shaban (2013) expressed audit firm size as a function of the number of employees in an audit firm. Arens *et al.* (2015) views audit firm size as a sum up of audit firm based on: total revenues, number of partners, number of staff professionals, and number of offices. An audit firm with the requisite capacity both financially and technologically can likely be more independent than a firm that is not in the same level. In order to perform their role effectively, audit committees should have adequate resources and authority to discharge their increasing responsibilities. Shinta, *et al.* (2019) argued that the larger the audit committee, the more likely it is to uncover and resolve potential problems in the financial reporting process, because it is likely to provide the necessary strength and diversity of views and expertise to ensure effective monitoring.

Audit Tenure

Omoregie and Dibia (2020) in his study see audit tenure as the length of the auditor-client relationship. Audit tenure take into recognition the length of time between acceptance of the audit engagement and the length of the relationship. Shinta, et al (2019) stated that audit tenure is the period of engagement between the auditor and client regarding audit services agreed upon as the period of the auditor's relationship with the client. Ogungbade *et al.* (2021) define audit tenure as "the audit firm's total duration to hold their certain client or number of consecutive years that the audit firm (auditor) has audited its certain client".

Empirical Review

A number of researches and studies have been carried out on audit attributes and financial reporting quality. Some of the notable empirical literatures which are considered relevant to this research effort are closely examined below.

Audit Independence and Financial Reporting Quality

Okunola (2021) investigated the effect of auditor's independence on the financial reporting quality of Parastatals in Lagos State, Nigeria. Financial reporting quality, enhanced qualitative characteristics, auditor's personal interest, reliance on internal auditors, qualified audit opinion and auditor's rotation were variables utilised in the study. A survey was conducted to gather data on auditor's independence and a content analysis procedure was adopted to extract secondary data from the audited financial statement of the parastatals. Data were analysed using binary logistic regression. Result from the study showed that when an auditor alienates his personal interest from audit and his ability to issue a qualified audit opinion where necessary, have a statistically significant effect on improving both the fundamental and enhanced qualitative characteristics of financial reporting quality. On the assessment of the findings of this research, the more an auditor allows his personal interests to becloud his judgement, the lower both the financial reporting quality, and enhanced qualitative characteristics of financial reporting. This study was of the view that rotation of auditors and the reliance on the findings of internal auditors promote the relevance and how faithfully represented the financial reporting are, while the enhanced qualitative characteristics has no effect on auditor's independence. The study recommended that parastatals must place a premium on promoting auditors' independence in order to minimize audit failure and the credibility attached to the financial reports. The time frame of this study should be clearly stated so as to help better understand the trend in financial reporting quality.

Ado *et al.* (2020) examined the direct influence of audit quality on the financial performance of listed companies Nigeria. The study employed 84 companies listed on the NSE with 756 samples for the period of nine years which is from 2010 to 2018 based on panel data approach. Furthermore, the research used secondary data retrieved from the financial statement of the listed companies. Multiple regressions were used to measure the model. The results reveal that audit fee shows a positively and insignificant relationship with ROA. However, auditor size displayed a significant positive relationship with ROA. Auditor independence was also seen to be positive and statistically significantly related to the ROA. Auditor independence was also found to be more powerful than auditor size on the financial performance. The study therefore recommended that the executives should engage the services provided by audit firms whose integrity and character is unquestionable. The above results cannot be generalized, because the variables used for the study are inadequate (Audit Fee and Independence), but this current study's results could be more reliable and robust, because the study used five audit attributes (i.e. Audit Independence, Audit Firm Size, Audit Firm Tenure, Audit Fee, and Audit Expertise).

Owolabi *et al.* (2020) evaluated the impact of the audit independence on the quality of financial reporting quality in listed Deposit Money Bank's in Nigeria for the period 2008 to 2017. The population for this research comprised of 20 listed DMB's in Nigeria. Purposive non-probability sampling method was employed to select the sample of ten (10) banks. Secondary data was adopted and likewise gathered from certified corporate annual report of the sampled DMB's. Descriptive tests, correlation analysis as well as panel OLS regression was adopted for analysis purposes. The research revealed that there exist a positive association amid audit independence and financial reporting quality in DMB's. The study recommended that auditors and professional accountants should follow the integrity of autonomy to realize credibility as well as reliability demanded from financial reports. This above study focused on the Nigerian Deposit Banks, but this current study focused on the Nigerian Foods and Beverages.

Chinedu *et al.* (2020) examined the effect of audit quality on financial performance of listed manufacturing firms in Nigeria from 2006-2016. The study specifically investigated the effects of auditor's independence, audit committee and audit fee on return on assets of listed manufacturing firms. Ex- post facto research design was adopted for the study. Stratified purposive sampling technique was used to select 24 firms from the 80 listed manufacturing firms in Nigeria. Secondary data were gathered from the published annual financial statements of the companies. Ordinary Least Square method of regression was employed in the analysis of data. The study revealed that auditor's independence has a positive and significant effect on financial performance of listed manufacturing firms, among others. It was concluded that attributes of audit quality influence financial performance of manufacturing firms in Nigeria. The study recommended, among other things, that auditor's independence should be increased through improved internal control, integrity tests and adequate utilization of auditor's experience in order to enhance financial performance of manufacturing firms. The results of the above study could be spurious and unreliable because the study failed to analyse the data using the laid down procedures for analysing a panel regression, but this current study followed all the laid down procedures for analysing a panel data.

Audit Firm Size and Financial Reporting Quality

Ogungbade *et al.* (2021) examined the effect of audit attributes on financial reporting quality of deposit money banks listed on the Nigerian stock exchange for the period spanning 2009-2018. Data were obtained from audited annual reports of all the 11 deposit money banks listed on the Nigerian stock exchange for ten years. The study used panel multiple regression and employed Hausman's test of which random effect model was chosen and interpreted. However, the study found out that audit firm size, audit tenure, and audit fees affect financial reporting quality but only the effect of audit fees was statistically significant. The study recommended that reasonable audit tenure, and audit fees should be encouraged to improve financial reporting quality. Consequently, future studies should consider measuring financial reporting quality in terms of faithful representation, comparability, verifiability, and understand ability of financial statements defined by the International Accounting standard Board (IASB) and also secondary data should be considered.

Monametsia *et al.* (2021) analysed the impact of audit quality on firm performance of listed companies in Botswana, and Uganda. The study sampled domestically listed financial and non-financial companies on the stock exchanges of Botswana and Uganda for the five years 2014-2018.Using auditor size and audit fees as proxies for audit quality and return on assets, and Tobin's Q as measures of firm performance. Regression analysis was used to determine the relationship between the variables. Results of the study show that audit quality has a negative but non-significant predictor of firm performance for financial performance. The study therefore recommended that policymakers should ensure that there is the enforcement of existing laws in cases were an auditing firm issues an unqualified audit opinion for companies that later collapse. Future studies should employ other variables to provide for robustness of data and a more informed can be made therefrom.

Ugwu *et al.* (2020) examined the impact of audit quality on the financial performance of all the 15 listed DMBs in Nigeria from 2011-2017. Independent variables used are audit firm size, joint audit and audit fee, while ROA, proxy for financial performance, is the dependent variable. Secondary data were used, which were extracted from the financial statements of the listed DMBs. The study employed correlation and ex-post facto research designs and multiple regressions were used for data analysis. The study revealed significant and positive relationship between audit firm size and ROA, negative and significant relationship between joint audit and ROA and negative and insignificant relationship between audit fee and ROA. The study, therefore, recommends that since joint audit showed significant relationship with firm performance in this regard regulatory bodies should try to make joint audit compulsory and any firms that fail to comply should be sanction. The study also recommends that since audit firm size positively and significantly affects firm performance, smaller audit firm should be encouraged as they are likely to carry out a more thorough audit assignment, because most of the DMBs engaged the service of the bigger audit firm.

Audit Firm Tenure and Financial Reporting Quality

Esezobor, et al. (2020) examined the impact of audit quality on financial performance of consumer goods companies in Nigeria. Proxies used for audit quality were: audit independence, audit tenure, audit firm size. Descriptive and cross sectional research design were adopted to investigate the relationship between variables of audit quality and financial performance of quoted firms in Nigeria over a period of 5 years. Panel Least Square Regression Model was used to test the formulated hypotheses. Findings showed that all the independent variables jointly and strongly have significant impact on the financial performance of the selected firms in Nigeria measured by return on assets except audit firm size. It was concluded that audit quality has significantly and positively impacted the financial performance of consumer goods companies listed on the Nigerian Stock Exchange. The study then recommends among others, the need for firms to adopt effective internal control processes and practices that address key auditing practice for effective audit quality. The results of the above study could be spurious and unreliable because the study failed to analyse the data using the laid down procedures for analysing a panel regression, but this current study followed all the laid down procedures for analysing a panel data.

Muhammad (2020) identified the effect of auditor attributes on the audit report lag of quoted service companies operating in Nigeria. This study employed a sample of sixteen (16) service companies operating on the floor of the Nigerian stock exchange from 2007 through 2016. The results of the regression technique indicate that longer auditor tenure significantly decreases audit report lag. The finding implies that auditors' expertise improves in the service industry as their tenure increases. The study recommends that service companies sustain their existing auditors to a reasonable period to enhance timeliness in the audit report. Timely audit reports will enhance the confidence of users of the financial statements to make good decisions.

Alsmairat *et al.* (2019) examined the effect of audit tenure and audit firm size on the audit quality of Jordanian auditors. Audit tenure and audit firm size were proxies for the independent variable while audit quality was the dependent variable. This study is based on two variables that are used to understand and analyse the level of audit quality within Jordanian auditors. The two variables that are measured in this current study are: audit tenure (AT) and audit firm size (AFZ). The data were collected through the distribution of questionnaires to 200 respondents in Jordanian auditors and processed using Partial Least Squares-Structural Equation Modelling (PLS-SEM) software for the purpose of this study. By using descriptive analysis and structural equation model, the findings of the study show that there is a positively and significant effects between audit tenure and audit firm size and audit quality Based on the results detected, the study concluded and recommended that the Jordanian Association of Certified Public Accountants must impose law (instead of instructions) encourages an increase the audit tenure to increase the audit quality by providing the auditor with an opportunity to understand the client's internal system. Future research should examine the other perceptions of interested parties, such as auditing professional associations, clients and legislators.

Theoretical Framework

Two theories were reviewed for this study. They are Agency Theory and the underpinning theory, the Lending Credibility Theory.

Agency Theory

The agency theory was propounded by Jensen and Meckling in 1976. The theory explains the existence of potential conflicts of interest between management as an agent with shareholders as principal. According to Adams, (1994), agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). In publicly listed companies, shares are sold and in the event that sales of shares are made, buyers of such share become owners of that entity and so are entitled to information with regards to that firm. Because these shareholders may not be part of managing the affairs of the business such as the day to day administration of the entity, agents are employed to oversee the affairs of these entities. By this action the principals place their trust in their agents to act in the principals' best interests (Hassan & Farouk, 2014). In a relationship between the owners and the agents, differences in interest could generate conflicts. The interest of the managers may not be at per with the interest of the owners.

Lending Credibility Theory

This study used the lending credibility theory as a theoretical background to develop an empirical framework for examining the effect of audit attributes on the financial reporting quality. This theory was propounded by Limperg in 1920. The theory provides insight into the usefulness of accounting information to third parties. Okpala (2015) states that the lending credibility theory argues that the audit's primary function is to increase the trustworthiness of the financial statements. The work of an auditor is to add credibility to the financial report in such a manner that reliance would not cause harm to the users of the accounting information. Investment decisions are most times made out of information issued out by auditors. In most cases, the underlying figures underpin the investment decisions of the investors. Therefore to spur the confidence of the users into believing in the report, auditors must ensure that what they are selling is credible. This is to say that users can believe and be convinced. Okoye and Ofoegbu (2011) posited that if the work of the auditor is to be relied upon, the information needs to faithfully present the business activity and other events, reproduce basic substance of events and cautiously represent estimates and uncertainties using proper disclosure.

However, the lending credibility theory underpins this study because since information provided by management could be laced with biasness, audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). With an audited financial stated, information asymmetry between management and the owners or users are reduced to a tin line. An increased credibility of financial statements has the potential of improving the quality of investment decisions made by investors based on reliable information available to them.

Besides, variables emerged from the theory, such as, auditors' qualities, auditors' credibility, and quality of financial reporting are closely related to this study.

METHODOLOGY

This study employed ex-post facto research design to explain the relationship between determinants of audit attributes and financial reporting quality. Ex-post facto research design is a quasi-experimental study and is appropriate for this study as it examines how independent variable affects a dependent variable. The population of the study consists of the seventeen (17) Foods and Beverages firms listed on the Nigerian Exchange Group as at 31st December 2022. All food and beverage firms in Nigeria listed on the floor of the Nigerian exchange group make up the population of the study. They include; Nestle Nigeria Plc, Nigeria Breweries Plc, Mcnichols Plc, Unilever Nigeria Plc, Nasconallied Industries Plc, Multi-Trex Integrated Foods Plc, International Breweries Plc, Honey Well Flour Mills Plc, Golden Guinea Breweries Plc, Guiness Nigeria Plc, Flour Mills Nigeria Plc, Dangote Sugar Refinary Plc, Cadbury Nigeria Plc, Champion Breweries Plc, Bua Foods Plc, Union Dicon Salt Plc, and Northern Nigeria Flour Mills.

Consequently, the purposive sampling technique was used in selecting the sample size for the study. However, a sample size of ten foods and beverages firms is selected for this study. In addition, in arriving at the sample size, the following criteria were also considered:

i. Companies are in operation during the study period that is, 2012 through 2022;
ii. Companies are not merged or taken over by another firm during the period of the study. This is to avoid the effect of changes in management, because the focus of the study is on auditors' characteristic (unethical managerial behaviour that affects financial reporting quality);
iii. Companies are not delisted throughout the period of the study. This is to avoid data attrition problem;
iv. Companies are active participants in the Nigeria stock exchange (NSE);
v. Companies earn profit from business activities within the period and provide complete annual account and report;
vi. Finally, companies do not have unfavourable issues with regulatory authorities

The ten (10) sample size of the foods and beverages firms that have been selected includes; Champion Breweries Plc, Nestle Nigeria PLC, Nigeria Breweries, Dangote Sugar refinery, Unilever Nigeria PLC, Guiness Nigeria PLC, Pz Cussons Nig. Plc, Cadbury Nigeria PLC, Bua Foods PLC, and Flour Mills Nigeria PLC.

Data for this study were collected from secondary source which are: Annual reports of listed food and beverages firms in Nigeria, corporate journals, academic journals, published books, seminar papers/projects, scholarly magazines, publications, documents, articles and online portals for 2012 to 2022.

Technique for Data Analysis and Model Specification

In this study, the model for the study examined the effect of audit attributes on financial reporting quality of listed food and beverage firms in Nigeria. Discretionary Accruals was used as a measure for financial reporting quality while the proxies for the independent variable (Audit Attributes) include Audit Independence (AI), Audit Firm Size (AFS), and Audit Tenure (AT). The data collected were analysed using Stata version 17. Descriptive statistics, Correlation Test, Multicollinearity Test, Heteroskedasticity Test, Panel Property Test, and Panel Regression Analysis carried out. In this study, the modified Jones Model (1995) was adopted to compute discretionary accruals.

Model Specification

Consequently, incorporating the variables of the study into equation, the study adapted the model used by Ado *et al.* (2020). In line with the research hypothesis stated in chapter one, the models of the study are clearly specified below:

$DACC_{it} = \beta_O + \beta_1 AI_{it} + \beta_2 AFS_i + \beta_3 AT_{it} + {}_t + \epsilon_{it}$

Where:

$DACC_{it}$ = Absolute Discretionary Accruals

β_O= firm-specific intercept representing unobserved individual characteristics.

AI_{it} = Audit Independence

AFS_{it} = Audit Firm Size

AT_{it} = Audit Tenure

β_1, β_2 and β_3= coefficients of all the independence variables

ϵ = stochastic error term

The *a priori* expectation: β_1, β_2 and $\beta_3 > 0$ or < 0. This implies all the explanatory variables are positively/negatively related to the dependent variable.

Table 3.1: Measurement of variables

Model 1: Effect of External Auditor Characteristics on Financial Reporting Quality		
Dependent Variable		
FRQ_{it}	Financial Reporting Quality	Discretionary Accrual: Residual from Modified Jones' Model by Dechow, *et. al.*, (1995)
ΔREV_{it}	ΔREV_t is net revenue that is revenue in year *t* less revenue in year *t-1*	Modified Jones' Model by Dechow, *et. al.*, (1995)
ΔREC_{it}	ΔREC_t is net receivables, that is, receivables in year *t* less receivables in year *t-1*	Modified Jones' Model by Dechow, *et. al.*, (1995)

A_{t-1}	A_{t-1} is total assets at the end of year *t* - 1; and (that is, total assets lag one period)	Modified Jones' Model by Dechow, *et. al.*, (1995)
PPE_t	Gross Property, Plant and Equipment for firm i in year t	Modified Jones' Model by Dechow, *et. al.*, (1995)
α1, α2, α3	are firm-specific parameters.	Modified Jones' Model by Dechow, *et. al.*, (1995)
TA_{it}	is total accruals in year *t;*	Modified Jones' Model by Dechow, *et. al.*, (1995)
Et	is the residual of the non-discretionary portion of total accruals.	Modified Jones' Model by Dechow, *et. al.*, (1995)
Explanatory Variable		
AT_{it}	Auditor Attributes	Audit Independence, Audit Tenure, Audit Firm Size, Audit Fees, and Auditor Expertise
AI	Audit Independence,	Ratio of Audit Fee to Company's Revenue
AT	Audit Tenure,	Length of the auditor-client relationship period and includes the period (measured in years) that the audit firm issued audit reports on the entity. Dummy variable of 1 for more than three years and 0 if less than three years.
AFS	Audit Firm Size	Big 4 firms (Deloitte, PWC, Ernst & Young and KPMG). Dummy variable of "1" for firms who employ the services of the Big four and "0" if otherwise.

Source: *Researcher's Compilation, 2023*

RESULTS AND DISCUSSION

Data Presentation

The result of regression analysis on the effect of working capital management on profitability of listed construction and real estate firms in Nigeria, using the panel regression analysis technique.

Descriptive Statistics

The study's data are described using the mean, standard deviation, variance, maximums, minimums, skewness, and kurtosis. Table 4.1 presents the descriptive statistics for the variables of the study below.

Table 4.1 Descriptive Statistics

	DACC	AFS	AI	AT
Mean	18.29009	0.736364	18.11600	0.863636
Maximum	20.54000	1.000000	20.54000	1.000000
Minimum	15.73000	0.000000	14.22000	0.000000
Std. Dev.	1.316779	0.442621	1.370766	0.344745
Skewness	-0.289822	-1.072906	-0.344013	-2.119252
Kurtosis	1.879807	2.151128	2.208236	2.491228
Probability	0.026105	0.000005	0.080343	0.000000
Observations	**110**	**110**	**110**	**110**

Source: *Stata 17 Output (2023)*

Table 4.1 shows that the total observations of eighty (110) indicating 10 sampled of listed foods and beverages firms in Nigeria for the period of 11 years (2012 to 2022). The descriptive statistics for the Model, from table 4.1 above, shows that the average discretionary accruals (DACC) of listed foods and beverages firms in Nigeria is 18.29009 with a standard deviation (SD) of 1.316779, which means that the data is widely dispersed from its mean; also, the DACC has a minimum and maximum value of 15.73000 and 20.54000 respectively. Besides, the average audit firm size (AFS) of listed foods and beverages firms in Nigeria is 0.736364 with a standard deviation (SD) of 0.442621, which means that the data is widely dispersed from its mean; also, the AFS has a minimum and maximum value of 0.000000 and 1.000000 respectively. Similarly, the average audit independence (AI) of listed foods and beverages firms in Nigeria is 18.11600 with a standard deviation (SD) of 1.370766, which means that the data is widely dispersed from its mean; als, the AI has a minimum and maximum value of 14.22000 and 20.54000 respectively. Finally, the average audit tenure (AT) of listed foods and beverages firms in Nigeria is 0.863636 with a standard deviation (SD) of 0.344745, which means that the data is widely dispersed from its mean; he AT has a minimum and maximum value of 0.000000 and 1.000000 respectively.

Consequently, Skewness which measures the shape of the distribution and equally shows the measure of the symmetry of the data set, indicated that all the four variables of the study are negatively skewed and have values less than zero which suggests that the distribution tails to the left-hand side of the mean. Kurtosis value measures the peakness and flatness of the distribution of the series. If Kurtosis value is less than 3, it means the distribution of the variable is normal, but when it is more than 3, the distribution of the variable is said to be abnormal. Variables with value of kurtosis less than three (3) are called platykurtic (fat or short-tailed) .Variables whose kurtosis values are greater than three are called leptokurtic (slim or long tailed). Based on this, all the four variables are platykurtic.

Correlation Matrix

Table 4.2 below shows the results of the association between the independent and dependent variables of listed foods and beverages firms in Nigeria. It contains the Pearson pairwise correlation coefficients of the variables under study. The correlation matrix is presented in Table 4.2 below.

Table 4.2: Correlation Matrix Result

```
. correlate DACC AI AFS AT
(obs=110)
```

	DACC	AI	AFS	AT
DACC	1.0000			
AI	0.9713	1.0000		
AFS	-0.0152	-0.0167	1.0000	
AT	-0.0091	-0.0250	-0.0574	1.0000

Source: *Stata 17 Output (2023)*

The correlation results in table 4.2revealed that the correlation coefficients between the dependent and independent variables. Audit Independence has a positive and strong relationship of 0.97 with Discretionary Accruals; Audit Firm Size **has a negative and weak relationship of -0.02 with** Discretionary Accruals; **and Audit Tenure has a negative and a weak relationship of -0.009 with** Discretionary Accruals.

Robustness Test
Pooled Ordinary Least Square (OLS) must be estimated first in order to test whether the regression model has problem of multicollinearity or not (Federici & Mazzitelli, 2015). This is because Multicollinearity can affect any regression model with more than one predictor. It occurs when there is a high correlation between the independent variables in the regression analysis which impacts the overall interpretation of the results. It reduces the power of coefficients and weakens the statistical measure to trust the p-values to identify the significant independent variables. Hence, we would not be able to examine the individual explanation of the independent variables on the dependent variable. Thus, we must perform multicollinearity test on Pooled OLS and solve the problem if there is any before proceeding to our estimations.

Multicollinearity Test
Multicollinearity arises in a regression model when two independent variables explain the same thing. This overlap between the two independent variables is known as multicollinearity. Variance Inflation Factor (VIF) is used to detect multicollinearity in regression analysis. VIF measures how much the variance of an independent variable is influenced or inflated by its interaction or correlation with other independent variables (Baltagi, 2010).

However, the general rule of thumb for interpreting VIFs is as follows:

i. A value of 1 indicates that there is no correlation between a given explanatory variable and any other explanatory variables in the model.
ii. Variable and other explanatory variables in the model, but this is often not severe enough to require attention.
iii. A value greater than 10 indicates potentially severe correlation between a given explanatory variable and other explanatory variables in the model. In this case, the coefficient estimates and p-values in the regression output are likely unreliable"

Table 4.3: Result of Variance inflation Test

```
. vif
```

Variable	VIF	1/VIF
AT	1.00	0.996030
AFS	1.00	0.996376
AI	1.00	0.999042
Mean VIF	1.00	

Source: *Stata 17 Output* (2023)

The above VIF test result on table 4.3 was obtained from the Pooled Ordinary Least Square (OLS) that was attached in appendix 2. However, based on the above VIF results, our regression model is free from multicollinearity problem; this because VIF values of variables are less than "10. Similarly, the VIFs and 1/VIF for Audit Tenure (AT), Audit Firm Size (AFS), and Audit Independence (AI) are 1.00, 1.00, and 1.00; and 0.9960, 0.9964, and 0.9990 respectively. As pointed out by Baltagi (2010), a VIF of less than 10, and a 1/VIF of less than 1 is an indication of an absence of multi-collinearity. This implied that there is no multi-collinearity in our model since the VIFs and 1/VIF are less than 10 and 1 respectively.

Heteroskedasticity

In order to validate the panel regression results, the Heteroskedasticity test was conducted as a robustness check. Heteroskedasticity happens when the standard errors of a variable, monitored over a specific amount of time, are non-constant. Heteroskedasticity is a violation of the assumptions for linear regression modeling, and so it can impact the validity of the result from any analysis while heteroskedasticity does not cause bias in the coefficient estimates, it does make them less precise; lower precision increases the likelihood that the coefficient estimates are further from the correct population value.

Hypothesis

Ho: There is no heteroskedasticity problem in the model (Residuals are homoskedastic)
Hi: There is heteroskedasticity problem in the model

Decision Rule:

Accept H_0 if the Prob. Chi-Square value is greater than 0.05 (5% level of significant). Otherwise, do not accept H_0.

Table 4.4 Heteroskedasticity Test

```
. xttest3

Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (8)  =     1099.41
Prob>chi2 =      0.6300
```

Source: *Stata 17 Output (2023)*

Based on the above rule of thumb, the Heteroskedasticity Test: Modified Walt Test result shows that the Prob. Chi-Square value is 0.6300, greater than 0.05; thus, we conclude that the regression model is free from Heteroskedasticity problem

Panel Properties

Choose between Fixed Effect Model and Random Effect Model Using the Hausman Test

The estimations of Fixed Effect Model and Random Effect Model are attached as appendix B4 and B5 respectively.

Hausman Test

The Hausman test is a test for model specification in panel data analysis and this test is employed to choose between fixed effects model and the random effects model. Due to the panel nature of the data set utilized in this study, both fixed effect and random effect regressions analysis were run (as shown in appendix 2). Hausman specification test was then conducted to choose the preferred model between the fixed effect and the random effect regression models. The test basically checked if the error terms were correlated with the regressors. Thus, the decision rule for the Hausman specification test is stated thus; at 5% Level of significance:

H_0: Random effect is more appropriate for the Panel Regression analysis
H_1: Fixed effect is more appropriate for the Panel Regression analysis

As encapsulated above, if the p-value is lesser than 0.05 the decision rule is to reject the null hypothesis which states that fixed effect is most appropriate for the Panel Regression analysis (meaning that the preferred model is random effects). Similarly, if the p-value is greater than 0.05 the decision rule is to accept the null hypothesis which states that fixed effect is most appropriate for the Panel Regression analysis (meaning that the random effect model is to be rejected)"

Decision Rule:

Reject H_0 if the Prob > F is less than 0.05. Otherwise, do not reject H_0.

Table 4.5: Hausman Test

```
. hausman fe re
```

	Coefficients (b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) Std. err.
AI	.7664287	.9334242	-.1669955	.0390864
AFS	.0210767	.0056695	.0154072	.
AT	.0773281	.0587356	.0185925	.

```
                    b = Consistent under H0 and Ha; obtained from xtreg.
     B = Inconsistent under Ha, efficient under H0; obtained from xtreg.

Test of H0: Difference in coefficients not systematic

    chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
            =  17.77
Prob > chi2 = 0.0005
(V_b-V_B is not positive definite)
```

Source: *Stata 17 Output (2023)*

The Result of the above Hausman test shows that the cross-section chi-square statistics value "is 17.77 while the probability values of is 0.0005. This implies that there is enough evidence to reject the null hypothesis which states that random effect is more appropriate for the Panel Regression analysis. Thus, we accept the H_1 and conclude that Fixed Effect Model (Estimate) is the more appropriate model.

Choose between Fixed Effect Model and Pooled OLS Model Using the Spam/F- Test
We performed the Hisiao test to determine if the effects of individuals and periods are fixed. If its value is higher than the parameterized value, then it is necessary consider fixed effects.

Hypothesis
Ho: Pooled OLS Model (Estimate) is the more appropriate model
Hi: Fixed Effect Model (Estimate) is the more appropriate model

DECISION RULE:
Reject H0 if the Prob > F is less than 0.05. Otherwise, do not reject H 0.

Table 4.6: Fisher Statistic -Test

sigma_u	.28103655	
sigma_e	.29726586	
rho	.47195838	(fraction of variance due to u_i)

```
F test that all u_i=0: F(9, 97) = 2.62                    Prob > F = 0.0093
```

•

Source: *Stata 17 Output (2023)*

Based on the Fisher Statistic (F-TEST) results highlighted in table 4.6, F, Prob > F is 0.0093, is less more than 0.05; thus, we reject the H_0 and conclude that Fixed Effect Model (Estimate) is the more appropriate model.

Consequently, based on above analysis for selecting the most appropriate model for the study among the Pooled Ordinary Least Square (POLS) Model, the Fixed Effect (FE) Model, and the Random Effect (RE) Model, Fixed Effect (RE) Model is the most appropriate model, because of the following reasons:

i. When testing between FE and RE, the Hausman Test results revealed, that FE is the more appropriate model.
ii. When testing between POLS and FE, the F-Test results revealed, that FE is the more appropriate model.

Thus, based on the above, we estimate the Fixed Effect Model as the most appropriate model for this study.

Test of Research Hypotheses
In panel regression analysis, the ultimate goal is the estimation of the relationship between dependent and independent variables. This goal can be achieve through the estimation of the coefficients of each independent variable in the model. The sign of coefficients of independent variables indicate their relationship with dependent variable, while the

magnitude of the coefficients implies the responses of dependent variables to independent variables.

Decision Rule: The decision rule for accepting or rejecting the null hypothesis for any of these tests was based on the Probability Value (PV) and the Probability (F-statistic). If the PV is less than 5% or 0.05 (that is, if PV < 0.05), it implies that the regressor in question is statistically significant at 5% level; and if the PV is more than 5% or 0.05 (that is, if PV > 0.05), it is categorized as not significant at that level. This implies that the level of significance for the study is at 5% (for the two-tailed test). Thus, the decision rule for accepting or rejecting the null hypothesis is based on both the Probability Value (PV) and the Probability (F-statistic)"

Table 4.7: Panel Regression Result (Fixed Effect)

```
. xtreg DACC AI AFS AT, fe

Fixed-effects (within) regression               Number of obs     =        110
Group variable: ID                              Number of groups  =         10

R-squared:                                      Obs per group:
     Within  = 0.7517                                         min =         11
     Between = 0.9965                                         avg =       11.0
     Overall = 0.9435                                         max =         11

                                                F(3,97)           =      97.87
corr(u_i, Xb) = 0.8546                          Prob > F          =     0.0000
```

DACC	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
AI	.7664287	.044934	17.06	0.000	.6772471	.8556103
AFS	.0210767	.066831	0.32	0.753	-.1115643	.1537177
AT	.0773281	.084061	0.92	0.360	-.0895097	.2441659
_cons	4.323165	.8162049	5.30	0.000	2.703224	5.943106
sigma_u	.28103655					
sigma_e	.29726586					
rho	.47195838	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(9, 97) = 2.62                      Prob > F = 0.0093
```

Source: *Stata 17 Output (2023)*

Table 4.7 (Panel Regression/Fixed Effect) results revealed the fixed effect regression result of the sampled listed foods and beverages firms in Nigeria. The table 4.7 established that, a unit increase in Auditor's Independence (AI), Audit Firm Size (AFS), and Audit Tenure (AT) on the average holding other independent variables constant will lead to a 0.7664287, 0.0210767, and 0.773281 -unit increase in Discretionary Accruals (DACC) of the sampled listed foods and beverages firms in Nigeria respectively. Besides, based on the probability value, Auditor's Independence (AI) was positively and statistically significant in explaining the variation in the Discretionary Accruals (DACC) of the sampled listed foods and beverages firms in Nigeria; Audit Firm Size (AFS) was positively but statistically insignificant in explaining the variation in the Discretionary Accruals (DACC) of the sampled listed foods and beverages firms in Nigeria; and Audit Tenure (AT) was positively but statistically insignificant in explaining the variation in the Discretionary Accruals (DACC) of the sampled listed foods and beverages firms in Nigeria.

Furthermore, the above table shows the relationship between Audit Attributes and Financial Reporting Quality of sampled listed food and beverage firms in Nigeria. The R^2 value is 0.99; it indicates the prediction capability of the independent variables. This indicates that 94% changes in the Audit Attributes were explained by the changes in the Financial Reporting Quality of sampled listed food and beverage firms in Nigeria. Also, that only about 6% other factors that could bring about changes in the model were not included. Furthermore, the value of 99% of the R^2 shows a strong relationship between the Audit Attributes and Financial Reporting Quality of sampled listed food and beverage firms in Nigeria.

Furthermore, the study revealed that the $\mathbf{H_{O1}}$ which stated that Audit Independence has no significant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria is **rejected**; this is because the p-value of 0.000 is less than 0.05. Also, the $\mathbf{H_{O2}}$ which stated that Audit Firm Size has no significant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria is not **rejected**; this is because the p-value of 0.753 is greater than 0.05. Similarly, $\mathbf{H_{O3}}$ which stated that Audit Tenure has no significant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria is not **rejected**; this is because the p-value of 0.360 is greater than 0.05. Finally, when Audit Independence, Audit Firm Size, and Audit Tenure of the listed foods and beverages firms in Nigeria are joined together, they can influence Discretionary Accruals of the foods and beverages firms in Nigeria. This is because; the Prob. (F-statistic) is 0.0000, less than 0.05. Therefore, it can be concluded that audit attributes has significant effect on the financial reporting quality of listed food and beverage firms in Nigeria.

Discussion of Finding

This study examined the effect of audit attributes on financial reporting quality of listed food and beverage firms in Nigeria. The study revealed that audit attributes has significant effect on the financial reporting quality of listed food and beverage firms in Nigeria. Consequently, based on hypothesis one, the study revealed that Audit Independence has a positive and a significant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria. This finding is consistent with the findings of Okunola (2021), Ado *et al.* (2020), Owolabi *et al.* (2020), and Chinedu *et al.* (2020). Besides, based on hypothesis two, the study also revealed that Audit Firm Size has a positive but insignificant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria. This finding is in agreement with the findings of Nega Ogungbade *et al.* (2021) and Monametsia *et al.* (2020), but not in agreement with the findings of positive Ugwu *et al.* (2020). Finally, based on hypothesis three, the study also established that Audit Tenure has a positive but insignificant effect on Discretionary Accruals of listed foods and beverages firms in Nigeria. This finding collaborates with the finding of Muhammad (2020), but does not collaborate with the findings with Esezobor *et al.* (2020) and Alsmairat *et al.* (2019).

CONCLUSION AND RECOMMENDATION

This study examined the effect of external auditor's attributes on financial reporting quality of food and beverage firms in Nigeria using audit independence, audit firm size, and audit tenure as proxies for audit quality and using discretionary accruals as a measure of financial reporting quality. The study found out that only audit independence had a significant and positive effect on the quality of financial reporting of food and beverage firms in Nigeria. In contrast, audit firm size and audit tenure had positive but insignificant effects on the quality of financial reporting of food and beverage firms in Nigeria. However the study found out that there was an overall significance of all the variables indicating that they jointly affect financial reporting quality of food and beverage firms in Nigeria. On the basis of the findings of this study, the following recommendations have been highlighted:

i. Management should not only focus on external auditor's independence as a measure of their gross fees but on other parameters such as familiarity which could also undermine the independence of the external auditors. Besides, shareholders in foods and beverages firms in Nigeria should make sure that their auditors are financially independent. The Big4 audit companies are financially independent of a particular client's fees, and as a result, they are less likely to be pressured by clients to compromise if they identify accounting errors. They also have their reputation to protect should any scandal arises.

ii. Management should not only engage audit firms whose reputation cuts across size but also the use of technology in assessing the accuracy of the financial reports.

iii. Finally, the study recommended among that auditor tenure of three years and above in order to improve the financial reporting quality of firms in Nigeria. The Nigerian accounting regulations should impose law (instead of instructions) encourages an increase in the audit tenure to increase the audit quality by providing the auditor with an opportunity to understand the client's internal system.

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