

CAN AUDIT QUALITY AFFECT PERFORMANCE OF NON-FINANCIAL FIRMS IN NIGERIA?

Olusola Enitan Olowofela.

Department of Banking & Finance, Olabisi Onabanjo University, Ago-Iwoye, Ogun State.
Email: olowofelaolusola@gmail.com

Olufunke Olaide Sogbesan

Department of Accounting, Olabisi Onabanjo University, Ago-Iwoye, Ogun State.
Email: felasogbesan@gmail.com

And

Kehinde Isiaq Olaiya

Department of Banking & Finance, Olabisi Onabanjo University, Ago-Iwoye, Ogun State.
Email: kenkenolaiya@gmail.com

Abstract

This study examined the effect of audit quality on value of non-financial firms in Nigeria with reference to food and beverages quoted firms between 2008 and 2017. The study employed ex-post facto research design using panel data sourced from annual financial reports of nineteen (19) sampled quoted food and beverages companies. The findings of this study revealed that audit functions act as mechanism to attest accountability and stewardship of company management in order to reduce innocent mistakes and deliberate misstatements such as fraud and management manipulation which can reduced firm performance. It is therefore recommended that auditor should uphold the ethics of their profession by observing ethical codes such as integrity, objectivity and confidentiality as this will enable them to live up to the expectations of their clients, their professional bodies, and the general stakeholders.

Keywords: *Audit quality, financial performance, non-financial firms,*

INTRODUCTION

Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (Al-Dmour, Abbod, & Al-Balqa, 2018). Profit reporting is one of the items in financial statements that is used to evaluate firm performance because it symbolizes the value of the firm to their shareholders and stakeholders. Intently, firm performances are key features of communication to the general public about the firms' performance and financial position of an organization, this is a reflection of audit quality. The critical importance of credible high quality financial reporting necessitates the need for quality audit. Audit quality is vital for every organization to achieve efficient and effective management of resources. It leads to the improvement of financial performance as a key implementation strategy of the accounting system and helps management check the work of each department within the firm as a whole.

There have been massive fraud and unethical practices within and among a number of organizations in Nigeria on corporate accounting scandals which posed a great challenge to the veracity, credibility, utility or value relevance of the audit function. Okolie, Izedonmi and Enofe (2013) reported a list of companies involved in cases of accounting scandals related to poor audit quality and earnings manipulations such as the cases of Cadbury Nigeria Plc and African Petroleum plc, Savannah Bank and African International Bank; Wema Bank, Nampak, Finbank and Spring Bank and more recently Intercontinental Bank Plc; Bank PHB; Oceanic Bank Plc. and AfriBankPlc are known publicly reported cases that resulted in misleading financial reports.

Therefore, this continue to sparkle debate among researchers and practitioners on quality of accounting income and its relationship with the quality of auditing process, which has been observed to increase over time following the periodical clusters of business failures, frauds, and litigations. The issue is whether these corporate collapses are not the outcome of poor audit quality and the inability of the audit function to arrest earnings misreporting and financial misstatement.

In the context of the challenges that confront the audit function, some prior studies (Okolie, et.al, 2013; Mojekwu, Idowu & Sode, 2013; Daw & Susan, 2015; and Babatolu, 2016) have attempted to establish a more or less distinct relationship between audit quality and firm performance, and have tried to show the impact of this relationship on the quality of the earnings reported by quoted companies in many countries. The above studies show that the quality of audit is expected to minimize the extent of a firm's manipulations of reported income, influence investors response to earnings announcement but majority of the studies has seemingly contradictory and inconsistent results.

Given the above scenario, the major problem of this study is to determine whether audit quality can significantly influence performance of non-financial firms in Nigeria. Other sections are divided into four parts. Section two contains relevant literature reviews of past studies, Section three provided methodology employed for the study. Section four deals with data presentation and analysis and discussion of findings and Section five presents the concluding part of the study as well as policy options.

LITERATURE REVIEW

Stewardship theory suggests the motives of audit quality actor are aligned with objectives of the organisation and the actor has a focus on promoting value and organizational improvement (Beasley, 1996; Davis, Schoorman, & Donaldson.1997; Trotman & Trotman 2013). Stewardship theory incorporates alternative behavioral principles than agency theory by suggesting behaviour does not depart from the organizations interests (Davis *et al.*, 1997). The behavioral principles are based on two premises: first, that the steward is naturally honest and trustworthy motivated to do the best for the organisation and not for personal gain; and second, actors behave in an entrusting manner to not jeopardize their reputation (Nicholson & Kiel, 2007). Therefore, this theory challenges the agency theory perspective and the distinction is that motivation under an agency perspective is extrinsic, versus intrinsic motivation under stewardship (Davis *et al.*, 1997; Nordberg, 2011).

Hoitash, Markelevich and Barragato (2007) observed the relationship between audit fees and audit quality for period of 2000 to 2003. Their finding disclosed that fees paid to auditor can impact in way; large fees paid to auditor increases quality of audit. They furthered revealed higher audit fees are related to non- audit service makes auditors more dependent on their clients. This shows that there is a significant positive relationship between audit fees and audit quality.

Yuniarti (2011) studied the relation between factors that affect audit quality of 24 Bandung firm. He submitted that higher audit fees increase and improve audit quality due to auditors effort and accounting firm should enhance amount of audit fees that lead to higher audit quality. He also found that audit fees is significantly and positively affect audit quality which is in line with the study of (Zureigat, 2010)

Hua, Daw and Hassan (2016) discussed the impact of audit quality and FRS practices on firms on their financial success using samples of firm listed on Malaysia stock market within 2010 to 2013 with the aid of content analysis method. The study established that audit quality has a significant positive impact on business financial success.

Matoke and Omwenga (2016) investigated audit quality and financial performance of companies listed in Nairobi securities exchange using descriptive research design to drawn sampling frame from directories of the Nairobi Securities Exchange Limited. The study used simple random sampling to select 89 respondents while multiple linear regression analysis was used to analysis the data. Their findings indicated that the influence of audit quality on financial performance is positive and significant and the greater the degree of an auditor's independence, the better the propensity of a firm making substantial net profit margins.

Adeyemi, Okpala, and Dabor (2012) evaluated factors affecting audit quality in Nigeria using primary data in collecting data from four hundred and thirty (430) respondents across several stakeholders in the fields of financial reporting and auditing while secondary data were generated from the financial statements of forty (40) annual reports of companies quoted on the Nigerian Stock Exchange. Their outcome revealed that among others, multiple directorships is the most significant in affecting audit quality in Nigeria. It was also revealed that provision of non-audit service would likely have a significant effect on the audit quality in Nigeria. However, the major gap of this study is that the authors did not find audit firm rotation to be a significant factor for enhancing audit quality in Nigeria.

Ojeka, Odianonsen and Foyeke (2014) conducted research on the effectiveness of audit committee and firm financial performance in Nigeria. Their study explores the influence of audit committee effectiveness on firm's performance using four characteristics: independence, financial expertise, size, and meetings of the audit committee. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). Their finding shown that there is positive significant relationship between independence and financial expertise of the audit committee and ROA, ROE and ROCE. Conversely, the size and meetings of audit committee showed no significant relationship with all performance variables.

Musa, Oloruntoba and Oba (2014) studied relationship between audit committee characteristics and financial reporting quality of Nigerian deposit money banks. The study revealed a positive relationship between audit committee independence and quality of financial reporting. The findings also revealed that audit committee expertise has positive effect on the quality of financial reporting. Their findings revealed that audit committee size has an insignificant effect on quality of financial reporting; nevertheless, an aggregate significant effect of audit committee characteristics on financial reporting quality was established.

Egbunike and Abiahu (2017) investigated effect of audit firm characteristics on financial performance of money deposit banks in Nigeria. Their findings discovered that audit quality has a significant effect on return on assets of Nigerian banks; Audit fee whereas audit report lag had no significant effect on return on assets, earnings per share and net profit margin of Nigerian banks.

Nuhu, Umaru and Salisu (2017) studied the effect of audit committees' quality on financial performance of Nigerian food and beverages companies. Their findings revealed a significant positive effect between audit committee meetings, audit committee financial expertise and financial performance. Their study further revealed that effect of audit committee members on financial performance of the Nigerian food and beverages sector is negative and insignificant. The review of literature had shown that considerable empirical researches have been conducted on audit quality and firm value in both developed and developing countries. Developing countries have also started paying attention on this front to increase firm performance. In Nigeria, much research has been conducted on this issue and more efforts are being suggested to organizations especially the food and beverages companies where there is stiff competition in their productivity and demand for meeting up target sales is a becoming norm and where many organizations are striving to gain credibility among local and global investors. This study therefore is set out to test the impact of audit quality on the firm value of quoted food and beverages in Nigeria

METHODOLOGY

The ex-post factor research design was adopted for this study, the design for the study is appropriate because it assist in determining the influence of audit quality on firm performance of the selected manufacturing companies. The nature of this study necessitated the use of historic data which are generated from annual financial reports of the sampled manufacturing companies between 2008 and 2017.

Model Specification and Measurement of Variables

In analyzing the relationships between dependent and independent variables, the most commonly used audit quality proxies (Audit Tenure, Audit Firm Size and Audit Fee) are employed. The study applies ordinary linear regression analyses to test the relationship between the dependent variable (Firm Value) and the identified independent audit quality variables. The model develops for this study is a prototype of previous studies conducted by Heninger (2001); Ebrahim (2001); Piot, and Janin (2005); Gerayli, Yanesari and Ma'atoofi, (2010); Augustine, Famous, and Augustine (2013).

From the previous studies, the following linear regression equation was developed.

Model I: Firm Value and Audit Quality.

$$FV_{it} = b_0 + b_1AFS_{it} + b_2AT_{it} + b_3LAF_{it} + b_4CS_{it} + \mu_{it} \text{-----} 1$$

$$ROA_{it} = b_0 + b_1AFS_{it} + b_2AT_{it} + b_3LAF_{it} + b_4CS_{it} + \mu_{it} \text{-----} 2$$

Where

ROA = Return on Asset (Dependent Variable)

AFS = Audit Firms Size (Independent Variable)

AT= Audit tenures (Independent Variable)

*ln*AUFEE = log of Auditor’s Fees (Independent Variable)

CS = Company Size (Control Variable)

μ = Error Term

Model II: Direction of Causality between Firm Performance and Audit Quality.

To model the direction of causality that exist between Firm value and Audit Quality, the functional relationship is specified below;

$$FV_t = \sum_{i=1}^m \alpha_i FV_{t-i} + \sum_{j=1}^n \delta_j AQ_{t-j} + \varepsilon_{1t} \tag{3}$$

$$AQ_t = \sum_{i=1}^m \gamma_i FV_{t-i} + \sum_{j=1}^n \psi_j AQ_{t-j} + \varepsilon_{2t} \tag{4}$$

Where *AQ* is Audit Quality and *FP* is Firm Performance. ε_{1t} and ε_{2t} are the disturbances which are assumed to be uncorrelated. In this framework, there are four possible hypotheses.

Case 1: Unidirectional causality from FV to AQ. This is indicated if $\sum \alpha_i \neq 0$ and $\sum \delta_j = 0$

Case 2: Unidirectional causality from AQ to FV. This is indicated if $\sum \gamma_i = 0$ and $\sum \psi_j \neq 0$.

Case 3: Bilateral causality. This is indicated if $\sum \alpha_i \neq 0$ and $\sum \delta_j \neq 0$.

Case 4: No causality. This is indicated if $\sum \alpha_i = 0$ and $\sum \delta_j = 0$.

Table 1: Measurement of Variables

S/N			Variables	Definition	Type	Measurement	Construct validity source
1			FP	Firm Performance	Dependent Variable	Return on Asset at a given time t.	Egbunike and Abiahu (2017).
2			AFS	Audit Firms Size	Independent Variable	Dichotomous: ‘1’ if company is audited by a Big4, ‘0’ otherwise	DeAngelo, (1981); Deis and Giroux, (1992); Becker et al, (1998); Francis and Krishnan,

							(1999); Krishnan and Schauer, (2000); and Krishnan (2003)
3			AT	Audit tenures	-	Length of auditor-client relationship: '1' if 3yrs+ & '0' if otherwise.	Heninger (2001); Ebrahim (2001)
4			AF	Auditor's Fees	-	Natural Log of the Audit Fees Paid by the company	Palmrose, (1988), Copley (1991), Frankel, et, al, (2002)
5			CS	Company Size	Control Variable	Natural log of company Total Assets	Gerayli, et. al, (2011)

Sources: Author's Compilation, 2019

RESULTS AND DISCUSSION

In analyzing the relationship between audit quality and firm value of food and beverages companies in Nigeria. The study made use of a 3-stage econometric procedure. First, is the estimation evaluation of the data using the descriptive statistics method in order to show, describe and summarize the data in a meaningful way and also to know if the data are normally distributed through their averages and Jarque-Bera values, Gujarati & Dawn (2009). Secondly, correlation statistics is carried out to investigate the kind of relationship that exists between the variables. Then, panel regression analysis is carried out due to combination of time-series data observations. At the same time panel data, is an extension of pooled data which allows studies to provide accurate results where problems would have been created when certain variables were omitted, such as time and individual specific variables (Gujarati, 2003).

Descriptive Statistics

Table 2 shows the summary of descriptive analysis results for all the variables in the study in terms of the mean scores, the median, the standard deviation and the number of observations. The summary statistics indicate that the average value of Return on Asset (ROA) and Audit Firm Size (AFS), Audit tenures (AT), log of Auditor's Fee (logAUFEE), and Company Size (CS) stood at 21.13%, 22.9%, 23.4%, 22.3% and 24.9% respectively.

Table 2: Descriptive Statistics

	ROA	AFS	AT	AUFEE	CS
Mean	21.13802	22.89615	23.41328	22.30815	24.85680
Median	21.01993	22.51047	23.17786	21.80153	24.51059
Maximum	22.90277	25.13442	25.46821	25.18164	27.06628
Minimum	19.05813	21.37873	22.20064	20.68244	23.48258
Std. Dev.	1.117693	1.184357	1.068761	1.568301	1.051526
Skewness	0.070914	0.709652	0.748501	0.523057	0.839441
Kurtosis	2.028159	2.108524	2.193109	1.709234	2.469599
Jarque-Bera	1.406694	4.096681	4.217625	4.025628	4.520793
Probability	0.494926	0.128949	0.121382	0.133612	0.104309
Sum	42.47408	47.69184	38.83650	83.62527	37.59402
Sum Sq. Dev	21.13802	22.89615	23.41328	22.30815	24.85680
Observations	10	10	10	10	10

Source: Author's computation, 2019

The Table further indicated that the standard deviation of Return on Asset (ROA) and Audit Firm Size (AFS), Audit tenures (AT), log of Auditor's Fee (logAUFEE) and Company size (CS) from their respective long-term mean values every year point at 1.1%, 1.2%, 1.07%, 1.6% and 1.05% respectively. The probability value of the Jarque-Bera statistics for all variables shows their distribution level at mean zero and constant variance.

Table 3: Correlation Result Tests

	ROA	AFS	AT	logAUFEE	CS
ROA	1.000000				
AFS	0.61166	1.000000			
AT	0.7381	0.8874	1.000000		
logAUFEE	0.8903	0.7765	0.8468	1.000000	
CS	0.8133	0.8025	0.8430	0.7001	1.000000

Source: Author's computation (2019).

In addition, the table 3 above shows the level of association among the variables. From the table, the measure of association between Auditor Fee and return on asset has the highest positive value but not perfect while other level of associations are within the moderate magnitude.

Unit Root Test Results

Table 4 presents the results of the time series properties of the variables included in the model. This pre-test was carried out before estimating the long-run relationship among Return on Asset (ROA), Audit Firm Size (AFS), Audit tenures (AT), log of Auditor's Fee (logAUFEE), and Company Size (CS) of quoted food and beverages companies in Nigeria (2008-2017).

Table 4: ADF Unit Root Test Results

Variable	ADF Tau Statistics		Order of Integration
	Intercept	Linear Trend	
ROA	-3.5482(3) [-2.9640]**	-4.6375(0 [-4.2539]*	1(0)
AFS	-4.8310 (0) [-3.6463]*	-5.9045 (0) [-4.2627]*	1(0)
AT	-3.6816 (0) [-3.6463]*	-4.8857 (0) [-4.2627]*	1(0)
logAUFEE	-6.4521 (0) [-3.6463]*	-6.4286 (0) [-4.2627]*	1(0)
CS	-4.1670 (0) [-3.6463]*	-5.4562 (0) [-4.2627]*	1(0)

Note: * significant at 1%; ** significant at 5%; *** significant at 10% Mackinnon critical values and are shown in parenthesis. The lagged numbers shown in brackets are selected using the minimum Schwarz and Akaike Information criteria. All are in logarithm form.

Source: Author's computation (2019).

The Augmented Dickey Fuller (ADF) unit-root test results presented in table 4.3 indicate that all the variables Audit Firm Size (AFS), Audit tenures (AT), log of Auditor's Fee (AUFEE) and Company size (CS), Return on Asset (ROA) are stationary at levels [I(0)]. Thus, these variables converge to equilibrium at level.

Co-integration

The Johansen (1988) co-integration test was to test whether the linear combinations of the variables could result in a long-run relationship among the variables. However, since the number of observations is limited to just ten years covering the period of 2007-2016, it will not be possible to test for the long run relationship between the dependent variable and independent variables in this study. Hence, Johansen cointegration test is unable to be carried out.

Regression Analysis

The ordinary least square (OLS) method for the model estimate is presented in *Table 5*.

Table 5 reported that the Auditor Fee (AUFEE) has negative and significant impact on Return on Asset (ROA), and this conform with theoretical expectation. It implies that a 1% increase in Auditor fee retards Return on Asset (ROA) by 21%. This variable has significant impact on Return on Asset (ROA) at 5% significance level.

In addition, the Table 5 shows that Audit tenures (AT), Audits Firm size (AFS), and Company size (CS) have direct relations with Return on Asset (ROA). In magnitude terms, this implies that for a 1% increase in Audit tenures (AT), Audits Firm size (AFS) and company size (CS); Return on Asset (ROA) increases by 48.2%, 19.8% and 25.8% respectively. Audits Firm size

(AFS) is significant at 5%, whereas, Auditor Fee (AUFEE) and company size (CS) were found to be significant at 1%, while Audit tenures (AT) was insignificant at both 5% and 10%.

Table 5: Regression Result

Dependent Variable: ROA				
<i>Method: Least Squares</i>			Observation (n) = 10	
Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	2.158346	0.304511	7.087908	0.0023
AFS	0.198156	0.052371	3.783769	0.0053
AT	0.482602	0.052448	9.201532	0.1254
LOG(AUFEE)	-0.213112	0.066201	-3.220911	0.0032
CS	0.258112	0.085815	3.007772	0.0055
R-squared	0.77541		Durbin-Watson stat	1.8220
Adjusted R ²	0.75217		F-statistic	139.19
S.E. of regression	0.17436		Prob (F-statistic)	0.0006

* significant at 1%; ** significant at 5%; *** significant at 10%

Source: Author's computation (2019).

The F-statistic result shows that all the incorporated variables are simultaneously significant at 1% critical level. Also, the adjusted R-squared result reveals that 75.2% of the total variation in Return on Asset is accounted by changes in Audit Firm Size (AFS), Audit tenures (AT), Auditor's Fee (AUFEE) and Company size (CS) during the reviewed periods. The Durbin-Watson test result reveals that there is presence of semi-strong positive serial correlation among the residuals, because of the d-value (1.822) is approximately two.

Diagnosics Tests

In order to boost the robustness of the analysis, some important diagnostic tests were done and the results presented. Captured in this diagnostic include; the Breusch-Godfrey serial correlation LM test, the Breusch-Pagan-Godfrey heteroscedasticity test and the Ramsey RESET tests respectively.

The table 6 also reports the probability value of the Jarque-Bera statistic (0.1670) shows that the estimated residual series is normally distributed with zero mean and constant variance. This tends to improve the reliability of the estimated parameters and thus, necessitate other residual diagnostic test such as higher order serial correlation and heteroskedasticity tests.

The Breusch-Godfrey serial correlation test result from table 6 reported that we do not reject the null hypothesis "no serial correlation" at 5% significance level, and likewise for the Breusch-Pagan-Godfrey heteroskedasticity test, the result indicated that we do not reject the null hypothesis "no heteroskedasticity" at 5% significance level.

Table 6: Diagnostic Tests

<i>Residual Normality Test</i>			
Jarque-Bera	0.1670	Prob (J.B)	0.9199
<i>Breusch-Godfrey Serial Correlation LM Test</i>			
F-statistic	2.1172	Prob. F(2, 6)	0.1406
Obs*R-squared	4.9019	Prob. Chi-Square(2)	0.0862
<i>Heteroskedasticity Test: Breusch-Pagan-Godfrey</i>			
F-statistic	1.3302	Prob. F(4,8)	0.2769
Obs*R-squared	7.7634	Prob. Chi-Square(4)	0.2560

Source: Author's Computation (2019)

Granger Causality Test

The Table 7 shows the causal relationship among the audit quality indicators and firm value indicator (ROA) in selected manufacturing companies.

Table 7: Pairwise Granger Causality Tests

Sample: 2008 -2017 Lags: 2

Null Hypothesis:	Obs	F-	
		Statistic	Prob.
AFS does not Granger Cause ROA	8	11.0521	0.0003
ROA does not Granger Cause AFS		5.55203	0.0093
AT does not Granger Cause ROA	8	19.2440	0.6106
ROA does not Granger Cause AT		8.70122	0.0012
AUFEE does not Granger Cause ROA	8	14.5018	0.5125
ROA does not Granger Cause AUFEE		1.67698	0.2052
CS does not Granger Cause ROA	8	0.74687	0.0031
ROA does not Granger Cause CS		0.97205	0.3907
AT does not Granger Cause AFS	8	0.19789	0.8216
AFS does not Granger Cause AT		3.91969	0.0316
AUFEE does not Granger Cause AFS	8	4.54171	0.0196
AFS does not Granger Cause AUFEE		3.73413	0.0365
CS does not Granger Cause AFS	8	3.42485	0.0467
A FS does not Granger Cause CS		5.73447	0.0082
AUFEE does not Granger Cause AT	8	4.63209	0.0183
AT does not Granger Cause AUFEE		4.79377	0.0162

CS does not Granger Cause AT	8	8.74062	0.0011
AT does not Granger Cause CS		8.15045	0.0016
CS does not Granger Cause AUFEE	8	8.17201	0.0016
AUFEE does not Granger Cause CS		3.42657	0.0466

Source: Author's Computation (2019)

The table revealed that there is existence of bi-directional causality between AFS and ROA, AUFEE and AFS, CS and AFS, AUFEE and AT, CS and AT, CS and AUFEE while uni-directional causality exist between AT and ROA, CS and ROA, AT and AFS. Finally, there is no causality between AUFEE and ROA.

Discussion of Findings

The findings indicate that the audit quality variables (AFS, AT, AUFEE and CS) are relevant in predicting firm value (ROA) of listed food and beverages companies. The findings also indicated, the power of ROA could explain 77% of the variance in the firm performance. This finding suggests that audit quality variables have significant effect on firm performance of listed food and beverages companies in Nigeria stock exchange market. The findings of the study augment with the findings of previous studies (Nuhu, Umaru & Salisu, 2017; Matoke & Omwenga, 2016; Okolie & Izedonmi, 2014) whose studies show that audit quality explanatory variables taken individually as well as multiple audit quality measures taken together show that audit quality measures exert significant influence on the market value of quoted companies in Nigeria. Theoretically, the vast majority of studies that have used the audit quality as a theoretical foundation in their conceptual models have confirmed the audit quality as a significant factor influencing firm performance (FASB, 2013; Beest et al., 2009; Mamic, Sacar & Oluic, 2013). Furthermore, the analysis also provides empirical evidence that the variation of the firm value among public listed companies in Nigeria could be due to their size but not to their types of business. This result is supported by many studies (Huang, Rose-Green and Lee 2012).

The causal relationship between audit quality variables and firm performance also revealed that bi-directional causality relationship exists between AFS and ROA, AUFEE and AFS, CS and AFS, AUFEE and AT, CS and AT, CS and AUFEE. This means that audit firm size, auditor fee and company size granger cause return on asset of listed food and beverages companies in Nigeria stock exchange market. The result is consistent with the studies of Craswel (2002), Frankel et al (2002) they also agree that higher audit fees will increase the auditor's effort and result in a higher audit quality.

CONCLUSION AND RECOMMENDATIONS

This study has shown that audit quality effect positive influence on firm performance of quoted food and beverages companies in Nigeria. The finding of the study is credence to some of the previous literature that audit quality has significance influence on firm financial performance therefore audit quality plays a vital role in developing and enhancing investments and global

economy. The need for auditors may be seen as a response to the agency problem and the audit functions as a mechanism to attest to the accountability and stewardship of company management to reduce the possibility of innocent mistakes and deliberate misstatements such as fraud and management manipulation. Furthermore, the findings indicated that variables of audit quality, such as audit firm size, auditor fee and company size have significant effect on firm performance and the greater the degree of these variable, the greater the propensity of firm performance. However, the impact of audit tenure is insignificant to firm performance this suggests that a regular basis of auditor can engender audit quality.

These findings therefore add to the robustness of the studies regarding the relationship between audit quality and firms' performance of quoted food and beverages companies. The results highlighted the importance of the role played by the audit quality in the performance of the firms which have been the focus of prior studies. In this regard, the results provided support for the validity of the stated hypotheses. Meanwhile, the results indicated that some of the audit quality variables were associated with firm performance among quoted food and beverages companies in Nigeria.

The researcher recommended that Auditor should uphold the ethics of their profession by observing ethical codes such as integrity, objectivity and confidentiality as this will enable them to live up to the expectations of their clients, their professional bodies, the laws of the land and the general public.

The study also recommended that the auditor should be remunerated on the basis of work experience, qualification, duration of the audit assignment, and background profile. The payment of the adequate fee will encourage the auditor to do the assurance engagement assignment according to the high degree of standardization expected.

REFERENCES

- Abedalgader, A., Ibrahim, T. R., & Baker, R. A. (2010). Do audit tenure and firm size contribute to audit quality? *Journal of Managerial Auditing*, 26(3), 317 – 334.
- Adeyemi, S. B., & Fagbemi, T. O. (2010). Audit quality, corporate governance and firm characteristics in Nigeria. *International Journal of Business and Management*, 5(5), 169-179.
- Adeyemi, S. B., Okpala, O. & Dabor, E. L. (2012). Factors affecting audit quality in Nigeria. *International Journal of Business and Social Science*, 3(20), 198-209.
- Al-Dmour, A. H., Abbod, M. & Al-Balqa, N. S. Q. (2018). The impact of the quality of financial reporting on non-financial business performance and the role of organizations demographic' attributes (Type, Size and Experience). *Academy of Accounting and Financial Studies Journal*, 22 (1), 1-18.
- Augustine, O. O., Famous, O. I. I., & Augustine, O. E. (2013). Audit quality and accrual – based earnings management of quoted companies in Nigeria. *Journal of Economics and Finance*, 2(2), 7-16.
- Babatolu, A. T., Aigienohuwa, O. O. & Uniamikogbo, E. (2016). Auditor's independence and audit quality: A Study of selected deposit money banks in Nigeria. *International Journal of Finance and Accounting*, 5(1): 13-21.

- Beest, F. Van, Boelens, S., & Braam, G. (2009). Quality of financial reporting: measuring qualitative characteristics
- Chalaki, P., Didar, H., & Riahinezhad, M. (2012). Corporate governance attributes and financial reporting quality: Empirical Evidence from Iran. *International Journal of Business and Social Science*, 3(15), 223–229
- Daw H.I & Susan P.T. (2015). Efficiency of accounting information system and performance measures literature review. *International Journal of Multidisciplinary and Current Research*, 3(Sept/Oct 2015 issue).
- Davis, J. H., F. D. Schoorman, & L. Donaldson. (1997). Toward a stewardship theory of management. *Academy of Management Review* 22 (1):20-47
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3, (1981)183 – 199.
- Deis, D. R. & Giroux, G. A. (1992). Determinants of audit quality in the public sector. *The Accounting Review*, 67 (3), 462–479.
- Ebrahim, A. (2001). Auditing quality, auditor tenure, client importance, and earnings management: an additional evidence, *Working Papers, Rutgers University*.
- Egbunike, F. C. & Abiahu, M. C. (2017). The effect of audit firm characteristics on financial performance of money deposit banks in Nigeria. *The Nigerian Accountant*, 50 (1), 25-39.
- Financial Reporting Council (2006b). Promoting audit quality, Discussion Paper, London: Financial Reporting Council.
- Gerayli, M. S., Yanesari, A. M. & Ma'atoofi, A. R. (2010). Impact of audit quality on earnings management: evidence from Iran, *International Research Journal of Finance and Economics*, 66, 2011.
- Hay, D., & Davis, D. (2004). The voluntary choice of an audit of any level of quality. *A Journal of Practice and Theory*, 23(2), 37–53.
- Heninger, W. G. (2001). The association between auditor litigation and abnormal accruals, *The Accounting Review*, 76 (1), 111 – 126.
- Hoitash, R., Markelevich, A. & Barragato, C.A. (2007). Auditor fees and audit quality. *Managerial Auditing Journal*, 22 (8), 761-786.
- Khrawish, H.A. (2011) Determinants of commercial banks performance: Evidence from Jordan. *International Research Journal of Finance and Economics*. Zarqa University, 5(5), 19-45.
- Matoke, V. N. & Omwenga, J. (2016). Audit quality and financial performance of companies Listed in Nairobi Securities Exchange. *International Journal of Scientific and Research Publications*, 6 (11), 372-381.
- Mojekwu, J. N., Idowu, A., & Sode, O. (2013). Analysis of the contribution of imported and locally manufactured cement to the growth of gross domestic product (GDP) of Nigeria (1986-2011). *African Journal of Business Management*, 7, 360-371.
- Musa, F.I., Oloruntoba, F.O & Oba, V.C (2014). Examination of the relationship between audit committee characteristics and financial reporting quality of Nigerian Deposit banks. *EuroEconomica*, 33(1), 57-65
- Nicholson, G. J., & G. C. Kiel. 2007. Can directors impact performance? a case-based test of three theories of corporate governance. *corporate governance: An International Review* 15 (4):585-608.
- Nordberg, D. (2011). *Corporate Governance: Principles and Issues*. Los Angeles: Sage
- Nuhu, M. S., Umaru, S. Y. & Salisu, S. (2017). The effect of audit committee's quality on the financial performance of food and beverages industry in Nigeria. *International Journal of Business and Management Invention*, 6(9), 32-40.
- Nwaorgu, I.A., Abiahu, M.C., Iormbagah, J.A. & Egbunike, P.A. (2019). Creative Accounting, Audit Risk and Audit Failure in Nigeria: What is the Auditor's Perspective? *International*

- Journal of Economics, Business and Management Studies. 6 (2), 261-271. DOI: 10.20448/802.62.261.271
- Okolie, A. O., Izedonmi, F.O.I. & Enofe, A. O. (2013). Audit quality and accrual-based earnings management of quoted companies in Nigeria. *Journal of Economics and Finance*, 2 (2), 07-16.
- Ojeka, S., Odianonsen., I & Obigbemi F.I. (2014). Effectiveness of audit committee and firm financial performance in Nigeria: An Empirical Analysis. *Journal of Accounting and Auditing Research & Practice*
- Piot, C. & Janin, R. (2005). Audit quality and earnings management in France, working paper, IUT GEA – Piere Mendes France University, France.
- Trotman, A. J., & Trotman, K.T 2014. Internal audit's role in GHG emissions and energy Reporting: Evidence from Audit Committees, Senior Accountants and Internal Auditors. *Auditing: A Journal of Practice & Theory* (Forthcoming).
- Yuniarti, R. (2011). Audit firm size, audit fee and audit quality. *Journal of Global Management*. 2(1), 84-97.