Effects of Audit Firm Attributes on Earnings Quality of Listed Consumer Goods Firms in Nigeria

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Abstract

External auditors have been identified by researchers to have an immeasurable role in enhancing the discretional accrual of companies. However, an important audit attribute which is audit tenure have not been considered in the non-financial sector in Nigeria and available literatures in this area have not considered the consumer goods sector in Nigeria. Therefore, this study investigates the effect of audit firm attributes on earnings quality of listed consumer goods firms in Nigeria. Discretional accrual is the dependent variable with audit tenure is the independent variables and firm size as control variable. Data for the study were obtained from the audited annual report of the 15 sampled consumer goods firms for a period of 10 years covering 2011 to 2020. The study employed fixed effect model regressions as tool for analysis. The result shows that audit tenure has no significance effect on discretional accrual of the firms. For consumer goods firms to achieve higher discretional accrual and provide quality financial information for effective decision making, it is therefore recommended shareholders of consumer goods firms should be more inclined in employing the services of audit firms that have experience and understands the financial complexity of firms in the industry. This is because such auditors will be able to select and implement audit procedures that are precise and effective when delivering their service. This may go a long way in improving discretional accrual.

Keywords: Audit Firm Attributes, Audit Tenure, Firm size, Earnings Quality and Consumer Goods

INTRODUCTION

It is a common norm that investors and all stakeholders use financial statements which provide information about the economic activities of an entity for major decision making. One of the vital variables of financial report that investors, creditors, employees, shareholders, financial expertise and regulators use for efficient decision making is the accounting earnings which are expected to be reliable, verifiable, understandable and timely. A quality accounting information gives certainty that the report provides is sensibly free from error and bias and it truly represents what it intends to represent and the presentation is not misleading or ambiguous to Users (Shehu, 2013). Investors and other users are interested in high- quality financial accounting information for effective decision making. The need for auditors to ensure high quality in the financial report prepared by managers is of great importance to regulators, as a result the International Auditing and Assurance Standards Board (IAASB, 2013) stated that audit service gives an assurance that the financial report prepared by managers is true, fair and free of both intentional and unintentional errors. Auditing mechanism has been considered useful in ensuring integrity of the financial report by scrutiny managers' excesses that usually arise as a result of information asymmetry (Abubakar, 2014). External auditors have been commended in playing a highly crucial role in ensuring the credibility, validity and reliability of the financial report, as such shareholders employs external auditors who will serve as third parties in providing assurance that the financial report is accurate (Wallace, 1980 & Larcker, 2011).

The ability of auditors to report managers' opportunistic behavior in the financial statement depend on the quality of the auditor and auditor independence (DeAngelo, 1981). Audit quality needs to be in accordance with certain accounting rules and it adds value if the quality enables financial statements to reflect the economic performance position of a firm and ensure that good performing firms can be distinguished from bad performing firms (Abbasali, Naser, Milad & Elham, 2013) Researchers such as Jessen, Willian, Mark and Mohan (2015), Rasha and Andrew (2012) and Dechow and Dichev (2002) predict that an auditor's ability to detect errors is a function of auditor effort and effectiveness and that an auditor's incentives to report or correct errors depend on factors such as litigation risk, reputation costs, and auditor independence. The ability of auditors to provide high earnings quality is credited to some attribute of the audit firm, which include audit firm type, audit independence, industry specialize audit, audit fees, joint audit service and audit tenure (DeAngelo, 1981).

Hence, this study is motivated by the crucial role of auditor in ensuring quality of financial reporting with regard to earnings quality. The study focused on three major audit firm attributes (audit compensation, audit firm size - Big 4, and audit tenure) in relation to earnings quality, using data from the consumer goods firms in Nigeria. This is informed by the fact that Nigeria as a country was not left out in the corporate accounting scandals that cause the failures of companies like Cadbury (Nig) Plc, Lever brothers (Nig) Plc, Oceanic Bank, Savannah bank, Afribankplc and Intercontinental bank among others, which shortly before their failures their financial report did not show any signal of collapse despite the auditors' endorsement that the financial reports are true and fair, and are in accordance with the relevant rules and regulation. The consumer goods sector of every country plays a vital role to the economic development of a country, consumer goods firm are mostly in to manufacturing and they deals with heavy assets, large volume of transactions and accruals. Managers can use this large transactions and accruals to hide accounting irregularities, misstatement and earnings management, which have adverse effect on reporting quality (Shehu, 2011, & Augustine, 2014). Therefore, the adverse consequence of poor-quality report and the need to ensure quality financial report necessitated this study on earnings quality in Nigeria. Every firm that is tilting toward growth, need reliable financial information for proper economic decision. Hence achieving quality financial statement also depends on the integrity, independence and objectivity of external auditors in discharging their responsibility, among other factors (Larcker, 2011). External Auditors report serves as assurance to the shareholders of the credibility of the financial statement (Gallegos, 2004). Ling and Nopmanee (2015) opined that the near meltdown in financial services of 2008 and 2009, which auditors fail to mitigate or at least warn of the potential disaster ahead has made the issue of auditor's independence tighter. Auditor's independence is always questioned when a firm goes bankrupt shortly after its financial statement shows no indication of any failure.

Many studies have been conducted on the relationship between audit attributes and earnings quality. Some of these studies include Imen and Pascal (2014), Lin and Hwang (2010) and Habbash (2010) which were conducted in UK, Australia and Europe respectively. Few studies such as Abubakar (2014), Fariba and Hassan (2014), Umar (2014), Augustine, Famous and Augustine (2014) and Masoyi, Abubakar and Peter (2015) were conducted in Nigeria. The studies which were conducted in the developed countries did not cover companies in the developing countries like Nigeria. However, most of the studies which were conducted in developing countries including Nigeria did not make use of industry specialized auditor as an audit attribute. It has been found in the literature that most of the studies that have been conducted such as Ibrahim (2017) &Tyokoso (2017) produce mix result concerning all the variable under this study. The presence of these lingering divergent views in the literature could be attributed to difference in country or domain, methodology, variables, and time variation in which the studies were carried out.

Hence this current study attempts to include an important variable of audit attribute which is industry specialized auditor which was not used by most of the studies conducted. This variable is important as it enables the auditor to understand the financial reporting complexity of a firm in an industry by auditing more than one- third of the firms in that industry. To the best of the researcher's knowledge few studies conducted in developed countries such as Lin & Hwang, 2010; Imen & Pascal, 2014; Habbash, 2010 and one Nigerian study conducted by Abubakar (2014) made used of audit compensation as a proxy for audit firm attributes. However, the study conducted in Nigeria was in the financial services and it made used of loan loss provision as proxy for earnings management and found a contrary result from those studies conducted in the developed countries. This study is an attempt to further examine the impact of external audit attributes on earnings quality of listed consumer goods firms in Nigeria using audit compensation as one of the audit attributes and accruals quality as proxy for earnings quality with data from non-financial services. Another motivation for this study is that the consumer goods sector in Nigeria has been considered but scope are limited to 2014 by previous works in the area of audit attribute and earnings quality. The consumer goods sector is involved in both manufacturing and marketing of its products and also plays a significant role in the economic development of the country because of the wide used of its product and the employment its generate. Give the foregoing, it is imperative therefore to undertake the study in other examine effect of audit firm attributes on earnings quality of listed consumer goods firms in Nigeria. The hypothesis underlying this study is stated thus:

H_{01}. Audit tenure has no significant effects on earnings quality of listed consumer goods firm in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Concept of Earnings Quality

Financial report should always provide reliable, relevant understandable and comparable information to assist users in decision making (Kamaruzaman, Mazlifa & Maisarah, 2009). Jonas and blanchet (2000) state that financial reporting is not only a final output of financial transaction but the quality of the process on each part, including disclosure of the company's transactions, information about the selection and implementation of accounting policies and knowledge of the judgments made. Accounting earnings is a major factor that conveys signals to the capital market, and it is considered as high quality if the chances of errors and misstatements are low or absent (Ewert & Wagenhoper, 2010). As such, firms' earnings quality is measured in terms of accruals quality; that is, earnings with less accruals and high cash flow components. The concept of earnings quality is fundamental in accounting, yet there are deep disagreements about how to define earnings quality and how to measure it (Dichev, Campbell, Shiva, 2012). Penman and Zhang (2002), defined earnings quality from the perspective of an analyst as reported earnings before extraordinary income statement that is good indicator of future earnings. Their assertion is that the use of accounting method consistently will lead to sustainable report which is deemed of high quality that can be used to predict future earnings. Tate (2001) defines earnings quality as accounting earnings that reflect information about value of company. Similarly, Schipper and Vincent (2003) defined the earning quality as the degree to which reported earnings of an entity truly reflect the Hicksian income. In their notion earnings quality is measured with reference to Hicksian income, that the closeness of earnings to hicksian income infers higher quality. Dechow and Schrand (2004) define earnings quality as a measure of how well earnings reflect the actual performance of a firm. In their assertion what makes earnings qualitative is when it presents the true firms performance.

According to Vincent (2004), the quality of earnings is decision usefulness of the reported earnings to the users. In this context, the quality of earnings is how earnings information is indispensable to users in making decision on resources allocation. Subsequently, Chan, Jegadeesh and Lakonishok (2006) defined earnings quality as the degree to which reported earnings indicate operating fundamental of an entity. This measure of quality is interested on the ability of reported earnings to predict future performance of entity.

Dechow, Ge, and Schrand (2010) state that higher quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker. They further explained that Earnings quality is conditional on the decision-relevance of the information and the quality of reported earnings number depends on whether it is informative about the firm's financial performance. This definition suggests that quality could be evaluated with respect to any decision that depends on an informative representation of financial performance, and it does not restrain quality to imply decision usefulness in the context of equity valuation decisions. Srinidh, Gul and Tui (2011) describe earnings quality as the ability of current reported earnings to reflect the future cash flow and earnings. In this context earnings quality refers to how best current reported earnings can predict future performance of entity.

According to the various definitions, there seems to be two underlying concept that earnings quality reflect firm performance as an indication for future earnings and for decision purposes. For the purpose of this study earnings quality is defined as the extent to which reported earnings reflect the actual economic activities and financial performance of an entity in order for effective decision making by stakeholders. Earnings quality is the product of accounting system that reflects unobservable construct that inherently involves estimations and judgment, and thus has the potential for unintentional errors and intentional bias like earnings management (Ewert & Wagenhoper, 2010). They further explain that earnings quality is one of the most important characteristics of accounting systems. High quality financial report improves capital market efficiency; as such investors and other users should be interested in high-quality financial accounting information. For that reason, standard setters strive to develop accounting standards that improve earnings quality, and many recent changes in auditing, corporate governance, and enforcement have a similar objective (Dechow, Ge. & Schrand. 2010).

Audit Firm Attributes

Auditors are mediators between the management of a firm and external parties having interests in the firm (Porter, Simon, & Hatherley, 2014). External audit is a monitoring mechanism that review and evaluate a firm's internal control and audit financial statement in order to prevent material misstatement and provides reasonable assurance that financial statements are reliable and thus the interests of stakeholders are protected (Larcker. 2011). Investors demand audited financial statement, because it provides information that is useful for proper investment decision, therefore auditors are expected to reduce manager's incentives to manage reported earnings (Wallace 1980). Auditing research uses several proxies for audit attributes, such as audit firm size (DeAngela, 1981), the tenure of firm (Lin & Hwang 2010), audit fees (Reynolds & Francis, 2004) and joint audit (Mahmoud, 2015). Recent auditing research has made use of audits by industry specialists firms and found more consistent and reliable results. Audit firm size is considered as financially independent and highly experienced, and hardly subjected to pressure from the clients to overlook their role of reporting accounting irregularities (DeAngelo, 1981). Auditors have more to lose if any scandal arises, because they attach high value to their reputation than the nonBig N audit firms. Prior research such as the study of Francis, Maydew and Sparks (1999), Brenda and Ann (2005) reported that Big 4 audit firms have reported higher accrual quality (Earnings quality) as measured by lower absolute values of discretionary accruals, and their clients are less likely to manage earnings.

Similarly, industry specialized auditor is another characteristics of audit quality that is used in relation to earnings quality, auditor industry specialist is the ability of an auditor to understand the complexity of financial reporting system of firms in an industry and to report lower discretionary accruals (Krishnan, 2003) . Solomon, Shields and Whittington (1999) and, and Gaver (1994) states that industry specialized auditors have deeper knowledge of complexities in financial report of firms the audit than non-industry specialized auditors due to greater experience in the industry, and this enables them to make more accurate audit judgments and thus to conduct higher quality audit work and they exhibit greater compliance with auditing standards than non- industry specialized auditors. Auditor's compensation is also a measure of audit quality that is use in relation to earnings quality. The perception of some researchers is that audit fee reflects additional audit effort which will lead to a higher level of audit quality (Carcello, Hermanson, Neal & Riley, 2002). Francis, LaFond, Olsson and Schipper (2004) has a contrary opinion that quality may decrease with fee dependence if marginal forces associated with managerial influence overwhelm those associated with the scope of activities involved.

In the same vein audit tenure is another characteristic of audit quality and is use in studies of earnings quality as a proxy for audit attribute. Audit tenure is the length at which an audit firm has been auditing financial report of a company. There are two arguments in relation to auditor's independence in the audit client relationship (Odia, 2015). Some are of the opinion that as audit client – relationship lengthens, independence will be impaired leading to poor audit quality (Lys & Watts, 1994). Others are of the opinion that as the audit client – relationship lengthens auditors' gain better understanding of their client business and there by develop their expertise (Ling & Nopmance, 2015). **Empirical Review**

Emmanuel and Emem (2020) examined the impact of audit firm attributes on the financial reporting quality of quoted manufacturing firms in Nigeria for the period of 2011 to 2015. Ex-post facto research design was adopted in the study. Data were obtained from the published annual reports and accounts, notes to the financial statements of the sixteen firms that represent the sample of the study. Multiple regression analysis was employed in analyzing the data and testing the stated hypotheses. The results of the findings showed that auditor fees have significant influence on the financial reporting quality of quoted manufacturing firms in Nigeria. However, it was discovered that audit firm size and audit delay have insignificant impact on the financial reporting quality o fmanufacturing firms in Nigeria. This study concluded that audit fees, audit delay and audit firm size exerted great influence on the financial reporting quality of quoted manufacturing firms in Nigeria. It was therefore recommended that the manufacturing firms should create enabling environment that will ensure the conduct of proper audit by the auditors and also for a timely release of their reports to users thus promoting quality decision making.

Omoregie and Dibia (2020) explored impact of audit firm attributes and audit quality in Nigeria. For the study objective to be accomplished, the study fundamentally embrace the survey of panel data in other to properly scrutinize the concept of audit firm attributes as it relate to audit quality in Nigeria for the period of 5-years (2014-2018). Fifteen (15) companies from the banking industries were used in total. Due to the cross-sectional nature of the study, the panel multiple regression was employed with the aid of E-view 8.0 econometric packages for the analysis of data. The result of the findings appears that the variable of Audit Independence (AUDI) and Audit Fees (AUDF) were observed to be significant and positively related with Audit Quality (AUDQ), Audit Firm Rotation (AUFR) was positively and insignificantly related with Audit Quality (AUDQ) while Audit Delay (AUDY) indicated a negative and a relationship that is insignificant with Audit Quality (AUDQ). In view of the findings, the study therefore strongly recommends that audit independence and audit fees should be given more attention in the course of considering the attributes of audit firm as well as the quality of audit in Nigeria.

Udeh, Chinedu and Okwo (2020) investigated the influence of attributes of audit quality on return on assets of selected quoted manufacturing firms in Nigeria from 2006 to 2016. Its specific objectives were to examine the effect of audit firm size and auditor's tenure on return on assets of quoted manufacturing firms. Ex-post facto research design was employed. Secondary data from published financial statements of 24 out of the 80 quoted manufacturing firms on the Nigerian Stock Exchange were used. Stratified purposive random sampling technique was utilized to select the sample size. Ordinary Least Square statistical method was the analytical tool. It was discovered that audit firm size had a positive and significant effect on return on assets of quoted manufacturing firms in Nigeria, among others. It was therefore, concluded that attributes of audit quality influence return on assets of quoted manufacturing firms in Nigeria. The study recommended, in addition to others, that auditors should be given subsequent opportunities for any audit assignment as this will enable them to discover inadvertent errors thereby improving the quality of the audit.

Nwoye, Anichebe and Osegbue (2020) examine the effect of audit quality on earnings management in insurance companies in Nigeria with special consideration on accruals and performance measures of earning manipulations using insurance companies in Nigeria. Preliminary analyses were conducted, such as descriptive statistics and correlation matrix. In analyzing the data, the study adopted panel multiple regression to identify the possible effects of audit quality on earnings management of financial institutions in Nigeria We interpreted fixed effect analysis after using Hausman test. The result shows that audit quality had a significant effect on earnings management. The study conclude that longer stay of auditors in financial institutions increases accrual and performance manipulation. However, financial institutions audited by the Big 4 auditing firms are associated with less accrual and performance earnings manipulation while financial institutions that have executive and non-executive directors as members of audit committee have greater accrual and performance earnings manipulations. Higher number of financial experts in audit committee increases accrual manipulation while higher number of experts with accounting background in audit committee reduces performance manipulating. Finally, increase in auditors' fees, lead to choice of using accounting method to manipulate both accrual and performance earnings. Therefore, the study recommends that, financial institutions should have maximum number of years for auditors to stay. They should focus more on increasing the number of experts with accounting background in audit committees. Accounting bodies should regulate auditors' fee in line with the size of the financial institution.

Mustapha, Rashid, Abdullahi and Ademola (2019), examined the effect of Audit Quality on Accruals Earnings Management in Nigerian Listed Firms. Audit Quality is one of the tool academicians use in measuring the level of earning practices in the organizations. However, this study investigated the possible effect of audit quality towards the change of earnings management level among the Nigerian listed firms. The study used all the public listed firms in the main flow of the Nigerian Stock Exchange (NSE) as a population from the year 2012 until 2017. Sixty-three selected companies were selected as a sample based on the filtration criteria of the study. The financial data was obtained from the Thompson Reuters DataStream, and the corporate governance data was from the annual reports and accounts of the companies. Audit quality and accrual model was used to test the relationship between the study variable. The study applied multiple regression to test the model. It was revealed from the regression that audit quality is negatively significant with accrual earnings management. This finding is indicating that any increases in the unit of audit fees will decrease the earnings management of the selected firms. Thus, the finding is supporting agency theory and is contrary to the assumption of creative accounting theory. The result of this study will assist the relevant authorities in decision making and policy setting towards the best practices of the Nigerian listed firms. Therefore, this study is recommending for further research on this area to employ more measures of audit quality and also to apply the use of other earnings management indicators in order to have the robustness of the study.

Theoretical Framework

Agency Theory

Agency theory was developed by Jensen and Meckling (1976). The agency theory is based on the relationship between the principal (owners) and the agent (Managers). It arises as a result of separation of owners from managers. Eisenhardt (1989) opined that agency relationship is a contract under which principal(s) engages an agent to perform some service on behalf of the principal and delegate some decision-making authority to the agent. Whenever there are conflict of interest between the principal and the agent, the agent may act in his own interest not the principal's. This quest for self-interest increases costs to the firm, which could also include the costs of the formation of contracts, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Leuz (2003) opined that the effects of such behavior usually reflect in the firm earnings. Management has an incentive to manage the company's reported earnings in order to meet earnings targets with the hope to receive any bonuses that may be tied to the company's earnings (performance-related pay). This creates an information asymmetry in that managers can apply the discretion they have on accruals, which in turn reduces the relevance and reliability of reported earnings, and the whole financial statements. Davidson *et al*. (2005) argued that when management provides inaccurate financial reporting information, it introduces earnings management as a type of agency cost.

In order to avoid conflict of interest, the principal can establish monitoring system. One of the monitoring mechanisms to establish is financial statement audit which will help to reduce information asymmetry and protect the interest of the principal and all shareholders by providing assurance that financial statement prepared by management reflects the 'true' economic condition and operating results of the entity (Watts and Zimmerman, 1986). The quality of the auditors that are employed as monitors determines how effective they can detect and report material misstatements or omissions in the financial statements. Hence high-quality information should be positively correlated to high quality auditor, because of their ability to reduce misstatement to a reasonable extend. The study is align with agency theory, because it explains the relationship between the firm and its stakeholders, and explicates better and clearer unethical practices in accounting and financial issues such as earnings management. The theory assumes that managers are motivated by their personal gains and work to exploit their personal interest and not the interest of the shareholders (Jensen & Meckling, 1976) and hence require monitoring mechanisms such as high-quality audit services. The research work therefore draws on the theory to test the relationship between audit firm attribute and the incidence of earnings quality in listed consumer goods firms in Nigeria.

METHODOLOGY

The study adopts correlational research design, and correlational research design is used to describe the statistical relationship between two or more variables and the making of predictions regarding these relationships. The population of the study consists of all the twenty-seven (27) listed consumer goods firms on the Nigeria Stock Exchange as at 31st December 2020. In order to arrive at the sample size, the purposeful sample techniques were employed, the following criterion was used: A firm must be listed before the year 2010 and remain in operation during the period of the study (2011 to 2020). This is so because the model of accrual that was used in this study required one year before the start period and one year after the end period. As a result of the above criterion fifteen (15) firms meet the requirement to form the sample size of the study. These includes 7-up Bottling company plc, Cadbury Nigeria plc, Flour mills of Nigeria plc, Guinness Nigeria plc, National salt company of Nigeria plc, Nestle Nigeria plc, Nigeria breweries plc, Northern Nigeria flour mill plc, PZ cusson Nigeria plc, Unilever Nigeria plc, Union dicon salt plc, Vitaform Nigeria plc, Vono product Plc, UTC Nigeria plc and P.s Mandrides & Co.

The data for this study was sourced from the financial report of the sampled consumers' goods firms in Nigeria for the period under study 2011 to 2020. The data was collected from the company's annual report. The study considers the use of secondary data more reliable; based on the objective of the study and the nature of the research it was best achieved using secondary data. In analyzing the collected data, descriptive and panel multiple regression analysis were used. The technique will be made possible with the use of the STATA 13 package. For the purpose of this study, the researcher adopts the accrual quality model of Dechow and Dechev (2002) as modified by McNichols (2002) and used by Francis et al., (2005) and Chen *et al.*, (2007).

$EQit = \beta_0 + \beta_1 ATit + \beta_2 FSit + \mu t$ ……………………….………………………..….i t

……………………….………………………..….i Where;

$\beta 0$ = is the intercept

β_1-β_2= are the parameters estimate or coefficients in the equation it=
firm i, time t

EQ= Earnings Quality(dependent variable) discretional accrual

AT = Audit tenure

FS = Firm Size (Control Variable)
µt
……………………..…………
………..….i = error.

RESULT AND DISCUSSION

Descriptive Statistics

The descriptive statistics of the dataset from the sampled consumer goods companies are presented in Table 4.1 where the mean, standard deviation, minimum and maximum values of the data for the variables used in the study are described. **Table 1: Descriptive Statistics of the Variables**

```
.
. summarize EQ AT FS
```

Variable	Obs	Mean	Std. Dev.	Min	Max
EQ	150	.537838	.1552443	.1761	.8195
AT	150	.9466667	.2254501	0	1
FS	150	3.941131	.6555078	2.7042	5.4913

Sources: STATA 13 Output

Table above shows the detail account of the descriptive statistics for the explained and explanatory variables. Earnings quality (EQ) which is the dependent variable of the study has a minimum value of 0.1761 and a maximum value of 0.8195. The average value of the EQ is 0.537838which represent 54%, with standard deviation of 0.1552443, signifying that the data deviate from the mean value by 16%. This implies that there is no variation across the sample firms because the standard deviation is not close to the mean. The result also indicates that Audit Tenure (AT) has minimum and maximum value of 0 and 1 respectively since it is also a dichotomous variable. The average value of the audit tenure is 0.9466667 and a standard deviation of 0.2254501. The high average is an indication that more than 94% of the audit client relationship last for three years and above. Firm size as a control variable has an average of 3.94 and a standard deviation of 0.66 showing large variations across the sample firms.

Normality Test

Table 2: Normality Test Result

```
. swilk EQ AT FS
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
EQ	150	0.97307	3.133	2.589	0.00481
AT	150	0.78446	25.079	7.304	0.00000
FS	150	0.93316	7.777	4.650	0.00000

Sources: STATA 13 Output

Data normality test was conducted to ensure that the sampled data does not contain outliers that will produce spurious regression results. The test was conducted using Shapiro-Wilk test for normal data. The result of the test is shows that Earnings Quality and audit tenure which has z- statistics value that is significant at 1%, the two variables are significant. The result implies that the datasets for the study are not normally distributed. As pointed out in econometric literature, parametric tests like linear regressions are better carried out with data that are normally distributed, and data that deviate from normality have tendency to bias coefficients by extending the non-normality to the residuals (Roberts, 2008). In addition, Roberts (2008) continues that taking log of the data reduces the data outlier and makes the data to appear to be normal.

Test of Research Hypothesis

H01. Audit tenure have no significant effects on earnings quality of listed consumer goods firm in Nigeria.

The regression results of audit firm attribute variables and earnings quality are presented and analyzed. In view of the nature of the data, both fixed effect and random effect models were tested. Hausman specification test was then used to decide between the two results. **Table 3: Hausman Specification Test**

```
. hausman re fe

                 ---- Coefficients
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
re           fe          Difference          S.E.
-------------------------------------------------------------------------------
       LOGAT |  -.0454571    -.0248984       -.0205587               .
          FS |   .0444204     .0342557        .0101647               .
b = consistent under Ho and Ha; obtained from xtreg             B = inconsistent
under Ha, efficient under Ho; obtained from xtreg     Test:  Ho:  difference in
coefficients not systematic

                  chi2(2) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =    -0.84    chi2<0 ==> model fitted on these
data fails to meet the asymptotic
assumptions of the Hausman test;                                        see
suest for a generalized test
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Source: STATA 13 Output

The result from the Hausman test revealed a Chi2 value of -0.84 with p-value of less than 0.000 that is statistically significant at 1%. This implies that the test considered the fixed effect as the most appropriate estimator.

Table 4: Fixed Effect Regression Result

```
. xtreg LOGEQ LOGAT FS, fe

Fixed-effects (within) regression               Number of obs      =       150
Group variable: COY                             Number of groups   =        15

R-sq:  within  = 0.0114                         Obs per group: min =        10        between =
0.1683                                        avg =      10.0        overall = 0.0969
max =        10

                                                F(2,133)           =      0.77 corr(u_i, Xb)  = 0.2314
Prob > F           =    0.4667
       LOGEQ |       Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+-----------------------------------------------------------------
       LOGAT |   -.0248984   .0828606    -0.30   0.764    -.1887936    .1389967
          FS |    .0342557   .0277778     1.23   0.220    -.0206876    .0891991
       _cons |    .4264021   .1246402     3.42   0.001     .1798686    .6729357
-------------+-----------------------------------------------------------------
                                                                         .11711752
sigma_u
     sigma_e |   .10353297
         rho |   .56133341   (fraction of variance due to u_i)
-------------------------------------------------------------------------------

F test that all u_i=0:     F(14, 133) =    11.98             Prob > F = 0.0000
```

Source: STATA 13 output

In line with the panel nature of the data used in this study, the fixed effect regression model shows R^2 within, between and overall, of 1%, 16% and 10% respectively. Within R^2 means that independent variables explain 1% variations in the earnings quality in this panel from year to year. Between R^2 indicates that independent variables explain 16% variations in earnings quality from firm (cross-sectional unit) to other firm. While overall R^2 shows that independent variables explains 10% variations in the whole panel. The table also shows that the model is fitted as evidenced by the F- stast of 11.98 (as indicated by the P-value of 0.0000).

Discussion of Findings

The study found that audit tenure has no significant positive effect on earnings quality of listed consumer goods firms in Nigeria. This implies that whether there is an increase or decrease in audit tenure, the earnings quality may not necessarily change either by increasing or decreasing. This finding collaborates the postulate of Becker *et al.* (1998) and Lys and Watts (1994) that as audit –client relationship lengthens; the auditor may develop a close relationship with the client and impair independence which will eventually result in poor earnings quality. However, the finding contradicts the view of Nopmance & Ling, 2015 that as audit tenure lengthens it leads to expertise and better insights into the clients operation resulting to higher earnings quality. The result also contradicts the findings of Lin and Hwang (2010), Mohammed (2016). However, the result support the finding of Augustine *et al.* (2013) that audit tenure does not improve the quality of earnings. From the table also firm size (FS) has positive but insignificant effect on earnings quality of listed consumer goods firms in Nigeria. This is evident from the coefficient of 0.342557 with a P-value of 0.220 which is insignificant at 5% level of significance. This contradicts with the a priori expectation that larger firms have a lot of pressure by regulators to ensure credibility in their financial report and that makes it difficult for them to manage earnings. However, it concurs the postulate of Jensen and Meckling (1976) which says that when the firm's size increases, the agency costs are expected to increase and this allows for greater managerial discretion and opportunism.

CONCLUSION AND RECOMMENDATIONS

The need to ensure earnings quality in the financial report by companies is inevitable as stakeholders relies on it for effective decision making, and external auditors are theoretically considered to have an effect on the firm monitoring mechanisms and the incidence of earnings management. This study was an attempt to empirically examine the effect of audit firm attributes on earnings quality with data from the financial reports of 15 listed consumer goods firms in Nigeria for the period of 2011-2020. After careful review of the results and discussion, as well as relevant literatures, the study concludes that no matter the length of audit- client relationship, earnings quality of listed consumer goods firms in Nigeria remains unchanged. It is also concluded that the larger the size of a firm the higher the earnings quality, that is less earnings management. In line with the findings and the conclusions of this study, the following recommendations made:

i. The shareholders of consumer goods firms should be more inclined in employing the services of audit firms that have experience and understands the financial complexity of firms in the industry. This is because such auditors will be able to select and implement audit procedures that are precise and effective when delivering their service. This may go a long way in improving earnings quality.
ii. Policy makers should make policies that guide the selection of audit firms by companies as quality and independence is paramount in dictating and reporting errors in the financial report.
iii. The shareholders of consumer goods firms should ensure employ the service of auditors who are financially independent. The Big4 audit firms are financially independent on fees of a particular client as such they are to some extent less likely to be subjected to pressure by

client to compromise in an event were they discover accounting irregularities. They also have their reputation to protect should any scandal arises.

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