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EXTERNAL AUDITORS' INDEPENDENCE AND EARNINGS MANAGEMENT OF CONSUMER GOODS FIRMS IN NIGERIA

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Abstract:

There is little evidence available on whether external auditors' independence collaborates or mitigates earnings manipulation. Therefore, this study examines the effects of external auditor's independence on earnings management of consumer goods firms in Nigeria. The study relies on secondary data derived from various companies' financial statements to determine and measure the level of earnings manipulations, applying an all-inclusive multivariate analysis. Samples of 20 consumer goods firms quoted in Nigeria Stock Exchange were used for the period of ten years spanning 2010 to 2019. The study employed ex-post facto and longitudinal research design. The secondary sources of data were collected from annual reports of the selected consumer goods companies and three (3) specific objectives and hypotheses were tested and analyzed using descriptive statistics, Pearson correlation analysis, variance inflation factor and panel regression analysis. The empirical analysis using a total of 200 company-year observations, shows that audit tenure exerts positive non-significant effects and exhibit direct relationship with the amount of discretionary accruals of quoted consumer goods companies in Nigeria while a negative and significant effect were documented for firm size and Joint provision of audit and non-audit services at 95% confidence level respectively. Generally, the value of R- squared which is the coefficient of determination stood at 37% which implies that 37% of the systematic variations in individual dependent variables were explained in the model while about 63% were unexplained thereby captured by the stochastic error term. The study concludes that rendering joint services and lengthy auditor tenure are a mechanism through which management influence auditors to compromise their independence and therefore allow unethical practices such as earnings management. In line with the above findings, this study therefore recommends among others that, non-audit services that are likely to increase total audit fees and make the auditors closer to management should be abolished, and where it is deemed necessary, separate audit firm should be employed to provide non-audit services to a client.

Keywords: Earnings management, external auditor's independence, audit tenure, audit firm size, joint provision of audit and non-audit services.

1.1 Introduction

The recent corporate accounting scandals has cast doubt on the quality of reported earnings and the ability of audit process to effectively constrain earnings management of companies across the world and Nigeria in particular (Badawi, 2008; Enofe, 2010). Differences in quality of the audit process and auditors reports result in variations in the credibility of auditors and the reliability of the earnings reports of companies. There is an increasing concern by regulators, investors and the general public regarding the quality and reliability of audited financial statements, because auditors compromise independence and thus diminish the quality of earnings reported, by either providing non-audit services to clients or collecting abnormal audit fees from the clients (Romano, 2004). These recent corporate financial failures pose a great challenge to the authenticity, integrity, effectiveness and significance of the audit function. Badawi (2008) reports a list of companies involved in cases of accounting scandals related to poor audit quality and earnings manipulations in the past decade. In Nigeria, corporate scandals include the cases of Cadbury Nigeria Plc and African Petroleum (AP) (Okolie & Agboma 2008); Savannah Bank and African International Bank (Odia, 2007); Wema Bank, Nampak, Finbank and Spring Bank (Adeyemi & Fagbemi, 2010); and more recently, Diamond bank, Intercontinental Bank Plc., Bank PHB; Oceanic Bank Plc. and AfriBank Plc. The above are overtly reported cases that resulted in misleading financial reports. There is therefore an apprehension about the quality of accounting income and its relationship with the quality of the auditing process which has been observed to increase over time following the periodical clusters of business failures, frauds, and litigations.

Essentially, external auditors typically perform significant and greatly challenging tasks in guaranteeing the credibility of financial reports. However, the monitoring role of external auditor is critical in promoting the quality of financial statements prepared by management. By providing independent verification of financial statements, auditors lend credibility to accounting information and enhance its integrity. Watts and Zimmerman (1986) argued that financial statements audit is a monitoring mechanism that minimizes information asymmetry and protect the interest of the principals as well as existing and potential stakeholders, by providing reasonable assurance that the financial statements (prepared by management) are free from material misstatements. As such, external audit helps reduce agency costs between managers and external parties. However, these external parties cannot be expected to trust reported financial information without confidence in the external auditors' independence.

In view of the onerous challenges that face the audit function, some studies like Heninger, 2001; Ebrahim, 2001; Piot & Janin, 2005; Gerayli, Yanesari & Ma'atoofi, 2011) have attempted to ascertain any noticeable relationship between auditor tenure, fees, size, auditor independence and earnings management and have tried to demonstrate the impact of this relationship on the quality of the earnings reported by quoted companies in many countries. Prior studies like Yuniarti (2011) showed that there is a significant positive relationship between audit fees and audit quality. Enofe, Ngbame, Okunega and Ediae (2013) indicate that as auditors independence increases, the quality of audit. It means that the higher the auditor independence, the higher the audit quality.

However, the prior findings above were uncertain; some studies indicated a positive relationship while others showed contrary due to the type of study design employed, sample size, data collection instruments and analysis techniques used. Besides, these studies were conducted in time periods before the year of mandatory adoption of IFRS in the country; thus, may not provide a holistic picture of the status quo. In addition, most of the studies on this nature were centered on one or two of the threats and mainly conducted in foreign countries.

It is therefore evident from the above studies (Enofe, Ngbame, Okunega & Ediae; 2013, Heninger, 2001; Ebrahim, 2001; Piot & Janin, 2005; Gerayli, Yanesari & Ma'atoofi, 2011) that the extant literature has created more need for further studies to substantiate the direction of the relationship between external auditors independence and earnings management. Therefore, this study aims to investigate the effect of external auditor's independence on earnings management among quoted consumer goods firms in Nigeria. Against this backdrop, the following objectives were raised to guide this study. Specifically, we set to:

1. Investigate the effect of audit tenure on earnings management of quoted consumer goods firms in Nigeria.
2. Evaluate the effect of audit firm size on earnings management of quoted consumer goods firms in Nigeria.
3. Examine the effect of joint provision of audit and non-audit services on earnings management of quoted consumer goods firms in Nigeria.

2.1: THEORETICAL CONSTRUCTS

2.1.1 External Auditors Independence

The independence of the external auditor is a fundamental pre-requisite for an objective audit in order to boost confidence in the quality of the audited financial statements. In view of this, Aliu, Okpanachi and Mohammed (2018) conceptualized auditor's independence as an auditor's unbiased mental attitude in making decisions throughout the financial reporting auditing process. Auditor's independence refers to the ability of the external auditor to act with integrity and impartiality during the conduct of the audit engagement (Akpom & Dimkpah, 2013). Similarly, Okolie (2014) was of the opinion that auditor independence defines an auditor's quality of being free from influence, persuasion or bias, and hence the unbiased mental attitude in making decisions throughout the audit and financial reporting process. The absence of independence may greatly impair the value of the audit service and the audit report. On the other hand, an excessively long association between the auditor and his client may constitute a threat to independence. In this paper, we concentrated on audit tenure, audit firm size and joint provision of audit and non-audit services.

2.1.2: Audit tenure

Audit tenure refers to the length of time between the times auditor has served a client from the period of his initial engagement. Auditor tenure is defined as the length of the auditor-client relationship. There are two opposing views on the effects of auditor tenure on earnings management (Enofe, Mgbame, Okunega, & Ediae, 2013). The first view is that a longer tenure enables the auditor to develop competence because decisions are based on extensive client knowledge developed over time; secondly, the opposing view, is that it hampers independence because it enables an auditor gain so much familiarity and therefore likely to act in favour of management (Knechel & Vanstraelen, 2007). Adeyemi and Okpala (2011) observed that a long auditor-client relationship may cause an alignment of both interests and thus reducing the likelihood of a truly independent behaviour of the auditor. Auditor Tenure is defined in this study as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources.

2.1.3: Audit Firm Size

The size of an audit firm has been identified as one crucial factor affecting the auditor independence (Al-Ajmi & Saudagaran, 2011). The big four audit firm comprise Klynveld Peat Marwick Goerdeler (KPMG), Price Waterhouse Cooper (PWC), Ernst & Young (E&Y), and Deloitte Touche Tohmatsu (Deloitte). Studies have shown that large and internationally affiliated firms perform audit engagements faster than smaller firms (Al-Ajmi, 2008; Che-Ahmad & Abidin, 2008; Francis, 2004; Shukeri & Nelson, 2011; Skinner & Srinivasan, 2012). Another instance, recently the study by Rusmin and Evans (2017) using a sample of firms from Indonesia showed that Big-4 auditors conduct faster audits than their non-Big 4 counterparts. The literature documents several reasons for this; such as, for instance, larger firms have a greater reputation at stake and are able to give their client's financial statements a higher degree of credibility because, they often have greater resources at their disposal.

2.1.4 Joint Provision of audit and non-audit services:

This is a scenario where one auditor provides auditing work, audit services and other management consultancy services to the client. Non audit services (NAS) may include consulting services such as systems design, compliance-related services, such as taxation and accounting advice, and assurance-related services, such as due diligence. Non-audit services (NAS) may be any services other than audit provided to an audit client by an incumbent auditor. Such services may be referred to in the professional and academic press as management advisory services or consulting, but NAS also includes compliance related services (such as taxation and accounting advice) and assurance related services (such as due diligence and internal audit. The large accounting firms have, over the last 10 years, transformed themselves from audit firms into multi-disciplinary professional service organizations and the issue of auditor independence has strongly re-emerged as a concern. This has led to widespread beliefs that provision of NAS can cause the auditors to compromise their independence. Therefore, after the well-known financial scandals surrounding the beginning of this decade, and with the aim of restoring the apparent independence of the auditors and the reliability of financial information, regulators have placed particular attention on the provision of non-audit services by the incumbent auditor.

2.2 Theoretical Framework

The study is anchored on agency theory. Agency theory is one of the most widely applicable theories in corporate governance studies. The theory focuses on the nexus of contracts between principals and agents; such that the need for improved monitoring of the agents' activities leads to hiring of external auditors. Agency theory was developed by Alchain and Demsetz in (1972) and was extended by Jensen and Meckling in (1976). Jensen and Meckling (1976) highlighted the existing rift between ownership and control, the situation that gave rise to the issue of agency theory. One of the most important assumptions of this theory is the focus on the conflict between the leader (shareholders) and the agent (board of directors). This theory most commonly focuses on the contractual relationship between principals (shareholders) and agents (management) who have conflicting interests (Jensen & Meckling 1976), due to the separation of corporate ownership and control in modern corporations. Shareholders delegate decision making rights to managers who are compensated for their effort. When managers do not own the company, their behaviour is affected by self-interest that put off their goals of maximizing company value and consequently, the interests of the shareholders or owners (Ali, Salleh, &

Hassan, 2010; Chen & Liu, 2010; Eldenburg, Gunny, Hee, & Soderstrom, 2011). Consequently, agency theory suggests that a separation between ownership and control, leads to a divergence between manager and owner interests (Jensen & Meckling, 1979). However, managers may act in their own interests at the expense of shareholders (Dey 2008) by misallocating corporate funds and resources for their own use (Huang & Zhang 2012), or refraining from making investment decisions that increase firm and shareholder value because of perceived private risks. Managers may also withhold or distort information in pursuit of their personal aims (Huang, Chang & Yu; 2006). Withholding information impairs the ability of the uninformed investor to make optimal decisions about their investments (Easley & O'Hara 2004; Francis, LaFond, Olsson & Scipper, 2004).

2.3 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.3.1 Audit Tenure and Earnings Management

Aliu, Okpanachi, and Mohammed (2018) conducted a study on auditor's tenure and earnings management. The study adopts the ex post facto research design. The sample comprised of nine (9) companies listed in the downstream sector of the Nigeria Stock Exchange. The study relied on secondary data; obtained from annual reports and accounts from 2007 to 2016. The data were analyzed using descriptive statistics, correlation, and binary logit regression techniques. The results showed that a significant positive relationship exists between auditor tenure and earnings management. Odanga (2016) investigated the impact of audit firm tenure, client importance and auditor reputation on audit quality: Evidence from listed firms in Kenya. The study adopts the correlational research design. The sample comprised of thirty-three non-financial firms listed on the Nairobi Securities Exchange (NSE). The study relied on secondary data; obtained from financial statements for five years from 2011 to 2015. The study employed the Ordinary Least Square regression to analyze the data. The results showed that audit quality declined when audit tenure is long and client audited by big 4; however, in contrast, audit quality is high when audit tenure is short for non-big 4 relatives to big 4. The audit reputation, surrogate as tenure of audit firm, showed a positive and significant effect on the model of relevance of accounting profits, and a negative significant effect on the accounting conservatism model. In Nigeria, it is professionally required that audit tenure should not exceed three years but this does not appear to be enforced. Nevertheless, considering the contradicting theoretical argument, this thesis does not predict any sign for the effect of audit tenure on earnings management but propose that *there is a significant relation between audit tenure and earnings management (Hypothesis 1)*

2.3.2: Audit firm size and Earnings management

In a study done by Okolie (2014) titled audit quality and earnings response coefficients of quoted companies in Nigeria. The sample comprised of fifty-seven (57) non-financial firms quoted on the Nigerian Stock Exchange. The study relied on secondary data; obtained from the annual reports and accounts from 2006 to 2011. The study employs panel data regression techniques to validate the hypotheses. The results showed that audit firm size had a significant negative effect in fixed effects model; while, audit fees, and audit tenure were positive but non-significant in the pooled and random-effects models. In the same vein, Ilaboya and Ohiokha (2014) examined the nexus of audit firm characteristics and audit quality in Nigeria'. The sample comprised of eighteen (18) companies drawn from the food and beverages sector of the Nigerian Stock Exchange. The study relied on secondary data; obtained from the financial statements of the companies for the period 2007 to 2012. The data were analysed using the panel Logit and Probit regression techniques. The results showed a positive relationship between firm size, board independence, and audit quality; whereas, a negative relationship exists between auditor's independence, audit firm size, audit tenure, and audit quality. With regards to size the results support the fact that large audit firms were perceived as to enhance auditor independence; while, large clients impair auditor independence. However, there are some inconsistencies that existed in the literature, for that reason, the current study does not intend to propose any sign, rather we hypothesize that *there is significant relation between audit firm size and earnings management (Hypothesis 2).*

2.3.3: Joint provision of audit and non-audit services and earnings management

In Nigeria, Semiu and Kehinde (2011) and Semiu and Johnson (2012) empirically examine the perception of auditor independence in Nigeria and reported that the size of audit fee is the most influencing factor capable of deterring auditor independence in Nigeria. Similarly, they reported that, joint provision of audit and non-audit services affects auditor independence adversely. On the contrary, an investigation of stakeholders' perception of non-audit services provision vis-à-vis auditor independence in Nigeria by Umar (2012) reveals that non-audit services do not impair auditor independence. The regulators concern over the increase in the provision of management consultancy services impair audit firm independence is based on the premise that the provision of non-audit services increases the fees paid to the audit firm thereby increasing the economic dependence of the audit firm on the client (Ashbaugh, Lafond & Mayhew, 2003). They opined that non-audit services impair auditors' independence because of the presence of client's future quasi-rents (non-audit fee) provided to the auditors. They further stressed that it is the strength of the economic bond between the audit firm and its client that reduces auditor independence. This proposition holds true in some corporate collapse in USA and has forced regulators to ban certain kinds of non-audit services with the view that the financial reporting quality and investor confidence will increase. It is in light of this proposition that excessive audit fee (abnormal fees) is related to auditor's incentive to compromise independence. Okaro and Okafor (2014) ascertain the perceptions of Nigerian professional accountants on the issue whether the joint provision of audit and Non-Audit Services (NAS) does in fact impair the independence of the Nigerian auditor and, if so, what regulatory option/s could safeguard his independence. The findings suggest that professional accountants are of the opinion that provision of NAS to audit clients does impair the independence of the auditor. Nevertheless, considering the contradicting theoretical argument, this thesis does not predict any sign for the effect of joint provision of audit and non-audit services on earnings management but propose that *there is a significant relation between joint provision of audit and non-audit services and earnings management (Hypothesis 3)*

3 METHODOLOGY

Ex post facto research design was used to describe the effects of external auditors' independence on earnings management of 20 consumer goods firms in Nigeria by using existing secondary data on the selected proxies from financial statement of the quoted firms which cannot be manipulated or altered by the researcher. Earnings management was es*timated using Jones (1991) model as modified by Dechow et al (1995)* while audit tenure, audit firm size and joint provision of audit and non-audit services were adopted as proxies for external auditors' independence while firm size (FSIZE) and revenue growth were added as control variables to control for performance. The model adopted in this study assumed a linear relationship between external auditors' independence and earnings management and panel least square was adopted for the purpose of hypothesis testing and was guided by the following linear model:

$$ENMGT_{it} = \beta_0+\beta_1 AUDTEN_{it} + \beta_2 AUDFSZ_{it} + \beta_3 JANAS_{it} +\beta_7 FSIZE_{it}+\beta_8 REVG +\mathcal{E}_{it}\ldots\ldots\ldots 1$$

Where,

ENMGT stands for Earnings management, AUDTEN stands for Audit Tenure measured as the *length of auditor client relationship*, AUDFSZ stands for Audit firm size *measured as a dichotomous variable 1 if a firm is audited by Big4 audit firm and 0 if otherwise.*, JANAS stands for Joint provision of audit and non-audit services *measured as a dichotomous variable 1 if the same auditor provides both audit and non-audit services for the firm/client and 0 if otherwise*, FSIZE means firm size *measured as natural logarithm of total assets*

and REVG stands for revenue growth measured *as increase in sales measured as current year sales less last year sales divided by last year sales.*

4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

The study investigated the causal effect that exists between external auditor's independence and earnings management of listed consumer goods firms for a period of 10 years spanning 2010 to 2019. The study carried out some preliminary tests like descriptive statistics, correlations and variance inflation factor (VIF) analysis. The table below shows the descriptive statistics of the selected consumer goods firms that make up our sample.

4.1 Descriptive Statistics Analysis

	ENMGT	AUDTEN	AUDFSZ	JANAS	FSIZE	REVG
Mean	-0.045310	0.736041	0.583756	0.040609	7.360152	60.86132
Median	-0.055000	1.000000	1.000000	0.000000	7.450000	61.71000
Maximum	0.478000	1.000000	1.000000	1.000000	8.680000	113.4900
Minimum	-0.710000	0.000000	0.000000	0.000000	5.580000	4.280000
Std. Dev.	0.189219	0.441901	0.494191	0.197886	0.820386	18.62015
Skewness	0.172697	-1.071019	-0.339827	4.654818	-0.272028	-0.401427
Kurtosis	4.670273	2.147082	1.115483	22.66733	2.133114	3.661745
Jarque-Bera	23.87895	43.63384	32.94280	3886.425	8.598131	8.885356
Probability	0.000007	0.000000	0.000000	0.000000	0.013581	0.011764
Sum	-8.926000	145.0000	115.0000	8.000000	1449.950	11989.68
Sum Sq. Dev.	7.017544	38.27411	47.86802	7.675127	131.9145	67955.16
Observations	200	200	200	200	200	200

Source: researcher's summary of descriptive result (2020) using E-view 10

The descriptive statistics result in table 4.1 above shows the mean values for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera values which show the normality of the data. The result provides some insight into the nature of the selected listed consumer goods company in Nigeria that were used in the study. The aim of the descriptive statistics was to describe the general distributional properties of the data, to identify any unusual observations or any unusual patterns of observations that may cause problems for later analyses to be carried out on the data. Thus, initial exploration of the data using simple descriptive tools was provided to describe and summarize the data generated for the study. This section provides the descriptive statistics as per the objective of the study. That is effect of external auditors' independence on earnings management of consumer goods firms as shown in table 4.1 above. The researcher sought to establish the central tendency and distribution of external auditors' independence and earnings management among the 20 selected consumer goods companies in Nigeria.

Firstly, earnings management which was the dependent variable was measured as the difference between total accruals and residual accruals. The mean earnings management was -0.0453. It was observed that over the period under review, the sampled firms have average negative expected earnings of -0.0453. Within the period under review, the firms have maximum expected earnings value of 0.478 and minimum value of -0.7100. The large difference between the maximum expected earnings manipulated and minimum earnings manipulated, indicates that the expected earnings of the firms differs greatly among the firms selected and over the period under review, this shows that the firms are not homogenous. The standard deviation for earnings management was 0.189. The skewness for earnings management was 0.172 implying data on earnings management were skewed to the right hence most values were bunched to the left of the distribution. The kurtosis for earnings management was 4.67 that are greater than 3 hence the distribution is said to be leptokurtic hence it may have few outliers.

Audit tenure was observed to have a mean value of 0.736 which suggest that almost all (73%) of the firms in the sample have had engagement with their audit firm for over 3 years. The standard deviation of 0.441 further indicates that there is the existence of a considerable number of firms in the distribution. The minimum and maximum values of tenure as measured by dichotomous variable are 0 and 1 respectively. This implies that the data in the sample firms deviate from the mean by 44.06%. The skewness for audit tenure was -1.07 implying data on audit tenure were skewed to the left hence most values were bunched to the right of the distribution. The kurtosis for audit tenure was 2.147 that are less than 3 hence the distribution is said to be platykurtic and having few outliers. The Jacque-Bera statistic of 43.6 alongside its p-value (0.000) indicates that the data satisfies normality.

The table also indicates that our measure of auditor firm size (BIG4) has an average value of 0.583 with standard deviation of 0.494. While the minimum and maximum values which are dichotomous are 0 and 1 respectively. This implies that BIG4 auditors' service was about 58.46% during the period of the study and the deviation from the mean is 49.4%. The value of skewness of -0.339 indicates that the data is negatively skewed and therefore does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis 1.115 also indicates that audit firm size variable does not meet the Gausian distribution criterion.

The summary descriptive statistics in table 4.2.1 above shows that on average the joint audit and non-audit services provided by auditors (JANAS) during the period of the study is around 4.1% approximately with standard deviation of 19.78%, the minimum and maximum values of joint audit and non-audit services provided by auditors (JANAS) as measured by dichotomous variable are 0 and 1 respectively. This implies that the data in the sample firms deviate from the mean by 19.78%. The coefficient of Skewness 4.654 implies that the data is positively skewed, hence most values were bunched to the left of the distribution. The kurtosis for joint audit and non-audit services was 22.41 that are greater than 3 hence the distribution is said to be leptokurtic hence it may have few outliers.

Generally, the JB Probability values of 0.0000 shows that all the variables are normally distributed at 1% level of significance except the two control variables firm size and revenue growth that were normally distributed at 5% level of significance. It is an indication that all variables are approximately normally distributed. This means that there are no variables with outlier, even if there are, they are not likely to distort the conclusion and are therefore reliable for drawing generalization. This also justifies the use of panel least square estimation techniques. Hence, any recommendations made to a very large extent would represent the characteristics of the true population of study.

4.2: Pearson Correlation Matrix

Pearson's correlation matrix was applied to check the degree of association between external auditors' independence component and earnings management of quoted consumer goods firms in Nigeria so as to determine the nature or degree of association i.e. positive or negative correlation and the significance of the relationship between dependent variable (earnings management) and independent variables. Correlation coefficient measures the direction and degree of association between two or more variables. Therefore, in examining the association among the variables, we employed the Pearson correlation coefficient (correlation matrix) and the results are presented in the table 4.2. below.

Table 4.2: Correlation Analysis Result

	ENMGT	AUDTEN	AUDFSZ	JANAS	FSIZE	REVG
ENMGT	1.000000					
AUDTEN	0.056740	1.000000				
AUDFSZ	-0.103851	-0.155238	1.000000			
JANAS	-0.122840	0.006516	-0.243644	1.000000		
FSIZE	-0.195235	-0.029161	0.509572	-0.186090	1.000000	
REVG	-0.035191	-0.116846	-0.246500	-0.015661	-0.034445	1.000000

Source: researcher's summary of correlation result (2020) using E-view 10

The above results show that there exists a positive but weak association between earnings management and audit tenure (ENMGT/AUDTEN =0.056) while a negative and mild association exists between earnings management, audit firm size and joint provision of audit and non-audit services (ENMGT/AUDFSZ and JANAS = -0.103 and -0.122) respectively. It was discovered that another negative and weak association exists between earnings management and our two control variables firm size and revenue growth (ENMGT/FSIZE and REVG = -0.195 and -0.035) respectively. In the case of auditor tenure and other explanatory variables, there exists a negative and mild association between auditor tenure and audit firm size (AUDTEN/AUDFZ = -0.15) while there exist a positive but very weak association between auditor tenure and joint provision of audit and non-audit services (AUDTEN/JANAS = 0.006) There exists a weak and negative association between auditor tenure, firm size and revenue growth (AUDTEN/FSIZE and REVG = -0.029 and -0.116) respectively. It was observed that there exists a very weak and negative association between JANAS and other control variables (JANAS/ FSIZE and REVG= -0.186 and -0.015) respectively.

In checking for multicollinearity, the study noticed from the correlation table above that no two explanatory variables were perfectly or highly correlated and thereby ruled out the case of having an outlier. This indicates the absence of multi-collinearity problem in the model used for the analysis. This also justifies the use of the panel regression analysis and variation inflation factor (VIF).

4.3: Test of Multicollinearity or Variance Inflation Factor (VIF)

Multicollinearity was tested by computing the Variance Inflation Factor (VIF) and its reciprocal or the tolerance. Collinearity diagnostics measure how much regressors are related to other regressors and how this affects the stability and variance of the regression estimates. To further check for multi-collinearity problem or to know whether the independent variables used are perfectly correlated, we conducted Variance Inflation Factor (VIF) to check for the multi-collinearity problem. The result of the Variance Inflation Factor (VIF) is provided below in table 4.3 below:

Table 4.3. Variance Inflation Factor Result

Variance Inflation Factors
Date: 11/09/20 Time: 21:13
Sample: 2010 2019
Included observations: 197

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.019054	109.8706	NA
AUDTEN	0.000947	4.017977	1.060583
AUDFSZ	0.001124	3.784590	1.575312
JANAS	0.004792	1.122167	1.076597
FSIZE	0.000358	113.0919	1.380857
REVG	5.61E-07	13.10589	1.116528

Source: Researcher's summary of VIF result (2020)

As can be observed from the result of VIF in table 4.3 above, the mean value of the independent variables coefficient is less than 10. The variance inflation factor (VIF) values of all variables are less than 10; therefore, the effect of multi-collinearity is negligible. This implies that there was no multicollinearity problem with the variables thus all the variables were maintained in the regression model. Therefore, it can be concluded that there is no problem of multicollinearity. It can also be seen from the table that all the variables had a variance inflation factor (VIF) of less than 10: audit tenure (1.06), audit firm size (1.57), joint provision of audit and non-audit services (1.08) approximately, firm size (1.38) and finally, revenue growth (1.11). This implies that there was no multicollinearity problem with the variables, thus all the variables were maintained in the regression model. This means that there are no variables with outlier, and none of the variables are highly correlated. Even if there are, they are not likely to distort the conclusion and are therefore reliable for drawing generalization. This also supports the use of Jacque Bera (JB) in descriptive analysis to check for the problem of normality and multi collinearity. Our finding also justifies the use of panel least square estimation techniques. Hence, any recommendations made to a very large extent would represent the characteristics of the true population of study and thus can be used to draw conclusion.

4.4: Regression Results and Discussion of Findings

In order to examine the relationship between the Independent variable (ENMGT) and the independent variables (AUDTEN, AUDFZ and JANAS) and to test the formulated hypotheses, we employed panel regression analysis since the data had both time series (2010-2019) and longitudinal properties (20 quoted consumer goods firms). Our analysis is presented in table 4.4 below:

Table 4.4 Regression Result

Dependent Variable: ENMGT
Method: Panel Least Squares
Date: 11/09/20 Time: 21:12
Sample: 2010 2019
Periods included: 10
Cross-sections included: 20
Total panel (unbalanced) observations: 197

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.337592	0.138035	2.445704	0.0154
AUDTEN	0.016288	0.030768	0.529380	0.5972
AUDFSZ	-0.019123	0.033531	-0.570306	0.5691
JANAS	-0.166217	0.069225	-2.401097	0.0173
FSIZE	-0.046785	0.018911	-2.473973	0.0142
REVG	-0.000536	0.000749	-0.715709	0.4750

R-squared	0.370157	Mean dependent var	-0.045310
Adjusted R-squared	0.345816	S.D. dependent var	0.189219
S.E. of regression	0.184833	Akaike info criterion	-0.508739
Sum squared resid	6.525213	Schwarz criterion	-0.408743
Log likelihood	56.11083	Hannan-Quinn criter.	-0.468260
F-statistic	2.882213	Durbin-Watson stat	1.726574
Prob(F-statistic)	0.015600		

Source: Researcher's summary of regression result (2020).

The table 4.4 above shows the panel regression analysis of quoted consumer goods firms in Nigeria. From the result above, the study observed that the R. squared value was 0.37 (37%) and R-squared adjusted value was 0.345 (34.5%). The value of R- squared which is the coefficient of determination stood at 37 % which implies that 37% of the systematic variations in individual dependent variables were explained in the model. Again, the adjusted R-squared which stood at 34.5% indicates that all the independent variables jointly explain about 34.5% of the system variation in external auditor's independence of our sampled companies over the 10years period while about 65.5% of the total variations were unaccounted for, hence captured by the stochastic error term. Moreover, the F-statistics value of 2.882 and its probability value of 0.015 shows that the overall external auditor's independence model used for the analysis were statistically significant at 5% level. This confirms the appropriateness of our model used for the analysis. Again, the Durbin Watson statistic of 1.726 showed that the model is well spread since the value is approximately 2 and that there have not been self or auto correlation problem and that error are independent of each other.

In addition to the above, the specific findings from each explanatory variable were provided as follows:

Ho_1: There is no significant effect of audit tenure on earnings management of quoted consumer goods firms in Nigeria.

The regression result in table 4.4 above revealed that audit tenure has positive effect on earnings management of quoted consumer goods firms in Nigeria with a positive coefficient value of 0.016% and t-statistics value of 0.529 and a probability value of 0.5972 which is statistically insignificant. The study established that audit tenure has a non-statistically significant effect on earnings management ($\beta_1 = 0.016$, $p = 0.5972 \ngtr \alpha = 0.05$). The value $\beta_1$was positive showing that audit tenure has a positive causal effect relationship with earnings management of listed consumer goods firms in Nigeria hence when auditor length of service is elongated by one year, earnings management increases by 0.016 units, indicating that the more time an audit firm spends with the client, the more auditor independence decreases, and the greater the possibilities of not discovering earnings management, suggesting that tenure and/or familiarity between audit firm and the client did impairs auditor independence in the consumer goods companies in Nigeria during the period of the study. This relationship supports the view of regulators of mandatory audit rotation. The findings provide evidence that auditor tenure and auditor independence impact significantly on the level of discretionary accruals of a company. Hence, the null hypothesis of a no significant relationship between auditor tenure and discretionary Accruals is accepted. Our result is consistent with the findings of Aliu, Okpanachi, and Mohammed (2018), Tarak (2016) and Yuqing, Wuchun and Yong (2008) who found that auditor tenure exerts positive influence on earnings management but negates the findings of Odanga (2016), Okolie (2014), Dezoort (2007), Xinyuan and Lijun (2006), Shaobing (2008) Kramer, Georgakopoulos, Sotiropoulos and Vasileiou (2011) that found negative but significant effect on audit tenure. As a result of this insignificant effect we documented, we therefore accepted our first null hypothesis conclude that audit tenure has positive and insignificant effect on earnings management of quoted consumer goods firms in Nigeria.

Ho_2: Audit firm size has no significant effect on earnings management of quoted consumer goods firms in Nigeria.

Audit firm size which was measured using BIG4 audit firms was found to have a negative effect on earnings management having recorded a negative coefficient value of -0.019 and t-statistic value of -0.570. This shows that BIG4 audit firm has a negative effect on the earnings management of consumer goods companies in Nigeria as shown, from the coefficient of -0.019 which is not significant at all levels of significance (p-value of 0.5691). This implies that the large reputable audit firm with relevant expertise do not compromise independence in the course of their audit exercise, as indicated by a negative effect on earnings management, but the result is not statistically significant at all levels. Though not statistically significant, the result is consistent with the proposition that BIG4 audit firm has higher chances of detecting and preventing earnings management. This demonstrates that an audit with high quality is likely to limit the scope of discretionary accruals. Our finding agreed with the findings of Akpm and Dimkpah (2013), Zamzami, Tantri and Timur (2017) that documented negative and insignificant effect between audit firm size and earnings management. Based on this, the study fails to rejects the second null hypothesis (H_{02}) which states that, audit firm size has no significant effect on the earnings management of consumer goods firms in Nigeria. However, the study infers that, audit firm size and reputation has no significant effect on the earnings management of consumer goods firms in Nigeria.

Ho_3: Joint provision of audit and non-audit services does not significantly affect earnings management of quoted consumer goods firms in Nigeria.

Based on the regression result on table 4.4 above, it was found that joint provision of audit and non-audit services has a negative and statistically significant effect on earnings management having recorded a negative coefficient value of -0.166 and probability value of 0.0173 (β_3= 0.166 p = 0.0173 < α = 0.05). The value β_3 was negative showing that joint provision of audit and non-audit services has a negative effect on earnings management of listed consumer goods firms in Nigeria hence when an auditor undertakes both services, the auditors independence is affected thereby aiding earnings management practices. This suggests that, a 1% increase in total joint provision of audit and non-audit services decreases the auditors' independence which in turn affects earnings management by 0.166% and, this implies an evidence of compromise of independence through fees charged by this joint service, which is the main assumption of economic bonding theory. For this reason, the pricing of joint audit and non-audit services provision have been proved as a catalyst to detecting earnings management and thus a direct means of assessing external auditor independence. Our finding agrees with the findings of Semius and Kehinde (2011), Semiu and Johnson (2013) that documented negative but significant effect between joint provision of audit and non-audit services on earnings management but negates the findings of Akpom and Dimkpa (2013), Okaro and Okafor (2014), Marnet, Teng and Gwilliami (2014) that found positive and significant effect of joint provision of audit and non-audit services on earnings management. Furthermore, Ashbaugh, Lafond and Mayhew (2003) opined that non-audit services impair auditors' independence because of the presence of client's future quasi-rents (non-audit fee) provided to the auditors. However, a more conclusive test for cost interdependence would require explicit separation of the price and quantity components of fees, which would require data on the internal costing of audit firms. These findings do not suggest the existence of auditor independence problems but we rather conclude that joint provision of audit and non-audit services has negative and significant effect on earnings management of consumer goods firms in Nigeria which was statistically significant at 5% level of significance.

For our control variables, firm size has negative effect on earnings management of quoted consumer goods firms in Nigeria having recorded a negative coefficient value of -0.046% and t-statistics value of -2.473 and a probability value of 0.0142 which is statistically significant at 5% level of significance. The study established that firm size has a negative statistically significant effect on earnings management. The value of coefficient was negative showing that firm size has a negative causal effect relationship with earnings management of listed consumer goods firms in Nigeria hence when firm size is increased by one unit, earnings management decreases by -0.046 units. On the side of revenue growth and earnings management of consumer goods firms in Nigeria, the regression result in table 4.4 above revealed that revenue growth also has negative but insignificant effect on earnings management of quoted consumer goods firms in Nigeria having recorded a negative coefficient value of -0.0005% and a probability value of 0.4750 which is statistically insignificant. This means that increase in revenue of auditor is capable of influencing their independence and thereby reducing their capability of dictating earnings management.

5.1: Conclusion and Recommendations

This study has examined and documented evidences that are consistent with the relationship and effects which external auditors variables exerts on earnings management from the perspectives of discretionary accruals manipulations and the manipulations of economic operations of consumer goods companies listed on the Nigerian Stock Exchange (NSE). Based on a sample of 200 company – year observations from the NSE for the fiscal years, 2010 to 2019, and using five external auditors independence measures, a massive and all-inclusive multivariate analyses was conducted. The result showed that joint provision of audit and non-audit services and firm size has negative and significant effect on earnings management measured by discretionary accruals of quoted companies in Nigeria which were statistically significant at 5% level of significance respectively.

Based on the findings and conclusion of the study, the following recommendations were made as follows:

I. Long tenure of auditor should be discouraged while the maximum three years audit firm tenure policy of professional requirement for auditors in Nigeria should be backed up by law and strictly enforced.
II. Emphasis on the use of BIG4 audit firm should be encouraged since it has shown to have a higher chances of detecting and preventing earnings management.
III. Non-audit services that are likely to increase total audit fees and make the auditors closer to management should be abolished, and where it is deemed necessary, separate audit firm should be employed to provide non-audit services to a client and that firm should not be engaged in statutory audit of same client in the future.

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