

AUDIT QUALITY AND FINANCIAL PERFORMANCE OF LISTED FOOD AND BEVERAGES COMPANIES IN NIGERIA

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Citation: Animasaun R.A(Ph.D.), Balogun S.B, Fatogun O.I & Ajibola H.O (2024). Audit Quality and Financial Performance of Listed Food and Beverages Companies in Nigeria, *Fuoye Journal of Management Sciences; Volume 2, Number 1; 2024* .50-69

Abstract

Ensuring the accuracy and dependability of an organization's financial evaluation demands adherence to professional norms, legal requirements, and acknowledged best practices linked to audit quality. This study delves into the impact of audit quality on the financial performance of ten Nigerian food and beverage companies that have been publicly listed from 2012 to 2021. Audit quality is assessed based on the promptness of audit reports and the standing of the auditors, while financial performance is gauged through return on assets. The researcher employed convenience sampling to gather secondary data from the audited financial statements and annual reports of the selected firms, presented in a panel format. A static panel data regression model was utilized to analyze the results. Findings from the pre-estimation tests (Poolability, BPLM Radom Effect and Hausman) indicated that fixed effect model is appropriate in the prediction of the companies financial performance, taking into consideration the selected audit quality indicators. The Findings emanating from the model fitted indicate that the reputation of the auditing firm significantly and positively influences the financial performance of the examined companies ($t=2.2000$, $p\text{-value}=0.0305<0.05$). Conversely, delays in the issuance of audit reports have an adverse and substantial impact on financial performance ($t=-3.0412$, $p\text{-value}=0.0031<0.05$). Consequently, the report suggests that the continuous engagement of the Big Four accounting firms is crucial to correctly evaluate financial performance, as well as on the efficient management and control of auditor tenure. Moreover, lengthier reporting gaps may signal a delay in disclosing unfavourable financial performance, underlining the significance of timely financial reporting in retaining openness and confidence in the financial markets.

Keywords: Audit, Audit firm reputation, Audit report lag, Audit quality, Financial performance, Return on assets (ROA)

1. Introduction

Long-term viability of a corporation is often predicted by its financial performance over a specific period of time. "Numerous metrics are used to evaluate this performance, such as working capital, net profit margin, return on equity, return on assets, and gross profit margin. These metrics provide an overview of a company's overall financial health and are used to evaluate the likelihood that its core activities will generate a profit (Teru, 2021)".

Financial statements are important tools for stakeholders to assess a company's performance and financial status, as stressed by Ahmed and Hossain (2010). Part of the audit quality control procedure that is critical to improving the audit quality of the financial performance of listed food and beverage businesses in Nigeria is the impartiality and professionalism of the auditors. An audit is primarily characterised by its capacity to detect significant mistakes and inaccuracies in financial statements, as well as its efficacy in reporting these errors and inaccuracies. Researchers have utilised many indicators, including as audit size, audit hours, audit fees, reputation, lawsuit rate, and discretionary accruals, as proxies to assess audit quality. These indicators are predominantly intangible in nature (Krishnan & Schauer, 2000)

Numerous direct and indirect factors affect audit quality. Stakeholder views on audit quality vary depending on how involved they are and what their perspectives are, claims the stakeholder theory (Khan, 2006). Three fundamental lenses may be used to examine audit quality: inputs, outputs, and contextual aspects. The personal qualities of the auditor—such as their expertise, background, moral principles, and way of thinking—as well as the auditing standards they follow are all considered inputs.

Chae, Nakano, and Fujitani (2020) assert that companies subjected to audits by qualified professionals exhibit reduced vulnerability to risks. A primary goal for all institutions is to protect businesses against crash risks, and high audit quality plays a vital part in this regard.

The assessment conducted by auditors plays a pivotal role in validating the financial statements prepared by a company's management. Nevertheless, this assessment fails to enhance the reliability or credibility of the financial statements if the auditor's performance is biased. An impartial audit provides a solid foundation for an unbiased examination of the information presented in financial reports. High-quality audit reports are essential for mitigating investor risk within the company and improving stakeholder confidence in the financial disclosures (Rezaei & Shabani, 2014; Olowookere & Adebisi, 2013).

The effectiveness of an auditor's work is contingent upon the extent to which their independence, integrity, and objectivity impact their assessment of the accuracy of financial reports (Baah & Fogarty, 2018). From the standpoint of a company, the auditing process is ongoing, encompassing the identification of pivotal issues influencing audit performance, evaluation of circumstances, formulation of strategies, and monitoring of enhancements (Martin, 2013). Both auditors and investors consider the auditor's qualifications as a pivotal element in audit excellence (Christensen et al., 2016). A research conducted by Alsmairat, Yusoff, Ali, and Ghazalat (2019) revealed a robust and affirmative correlation between audit quality, audit firm magnitude, and audit duration.

The accuracy and consistency of financial reporting are crucial for achieving higher financial performance and ensuring efficient markets. Public trust in the transparency and fairness of financial reporting is essential for improving both financial performance and market effectiveness. This trust is bolstered by independent, high-quality audits. By adhering to rigorous auditing

standards, external audits enhance the reliability, transparency, and relevance of financial reports. Effective audits, supported by sound corporate governance, risk management, and internal controls, contribute to improved financial performance (Abdulsalam & Moshud, 2022).

Therefore, the principal aim of this study is to investigate the influence of audit quality on the financial performance of publicly traded food and beverage corporations in Nigeria. The specific objectives of this research are to ascertain the effect of audit firm reputation on return on assets of listed food and beverages companies in Nigeria; and to determine the effect of audit report lag on the return on assets of listed food and beverages companies in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Financial Performance

Attracting capital and lowering the cost of capital are largely dependent on the financial success of companies that are listed on stock exchanges. An organisation that does well financially gains the trust of investors. Audited financial statements serve as an essential resource for both investors and management in evaluating the business performance of companies listed on the stock exchange. Therefore, these firms' financial success is highly affected by high-quality financial statements. Financial success may be judged in a variety of ways and is a multidimensional notion (Santos & Brito, 2012; Salleh et al., 2006). This research examines financial performance through the lens of revenue generation and expansion rate and assesses it from the standpoint of stakeholder theory. Profitability is typically measured using indicators such as Return on Equity (ROE), Price Earnings Ratio (PER), and Return on Assets (ROA), and is generally assessed through net profit as reported by accountants (Bédard & Gedron, 2010). In this study, the key financial performance metric used is Return on Assets (ROA), which can be calculated as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100$$

2.1.2 Audit Quality

The idea of audit quality is complex and encompasses several aspects, including the overall efficacy, dependability, and legitimacy of the audit procedure and its results. It includes a number of elements that guarantee the status, performance, and disclosures of a firm are appropriately reflected in financial statements. According to De Angelo (1981), “audit quality is the potential, as decided by the market, that an auditor would uncover and expose substantial misstatements in the financial statements of a client. De Angelo says that an auditor's independence (willingness to report errors) and technical proficiency (ability to identify substantial misstatements) are what determine the quality of an audit.”

Palmrose (1988) characterizes audit quality by assurance levels, emphasizing that it is the likelihood that financial statements are free from major misstatements. Key factors influencing audit quality include the auditors' qualifications, training, and ethical standards, which are deemed more important than the auditing standards themselves (Geiger & Rama, 2006). The Financial Reporting Council highlights training, personal traits of audit partners and staff, and skill levels as crucial determinants of audit quality (Francis & Wang, 2014).

According to Ogbodo et al (2018) and Usifoh, et al, (2019), the goal of auditing is to minimise any residual harm caused by managers' dubious accounting methods and fill the information gap in financial statements. Comprehensive audits are therefore essential. A quality audit is completed

when an engagement team with the necessary skills obtains sufficient and pertinent audit evidence to back up the auditor's findings. (Chae, Nakano, & Fujitani, 2020; Olawookere et al., 2020) These qualities include suitable conduct, ethics, and values; sufficient expertise and experience; sufficient time allocated to the audit assignment; comprehensive audit procedures and quality control techniques; timely and helpful reports; and appropriate cooperation with many stakeholders. Despite numerous efforts, a universally accepted definition of "audit quality" remains elusive (IAASB, 2014; CAQ, 2016; Ajape, et al, 2021). One insightful definition emphasizes the auditor's technical skill in detecting significant errors and their objectivity in ensuring that these errors are addressed and disclosed in the audit report (Ibrahim & Ali, 2018; Zalata, et al., 2020; Oladejo et al., 2020).

A wide range of direct and indirect factors influence audit quality. Stakeholder views of audit quality differ among stakeholders according to stakeholder theory (Khan, 2006) because of their perspectives and level of engagement in audits. Three primary viewpoints are available for analysing audit quality: inputs, outputs, and contextual variables. Aside from auditing requirements, the auditor's qualifications and experience, moral principles, and way of thinking are also inputs into audit quality.

When assessing a company's investment prospects, prospective investors place a high value on the integrity of its financial statements. For the stock market to operate effectively, it needs information that is timely, accurate, relevant, and reliable. Here's where a quality audit comes into play. Aobdia, et al., (2015) "claim that audit quality helps the capital markets by guaranteeing the accuracy of the data in audited financial statements and sending a good signal to uneducated investors. As demonstrated by many court cases and regulatory penalties, there has been a resurgence of interest in audit quality despite substantial research because of perceived shortcomings".

2.1.3 Determinants of Audit Quality

From the perspective of the resource-based view (RBV), corporate reputation is a key intangible asset that significantly influences a company's performance (Pires & Trez, 2018). A strong firm reputation enhances stakeholders' trust and creates value for the company, contributing to a competitive advantage that distinguishes it from other firms. Research findings on the relationship between firm reputation and performance vary. Some studies suggest that corporate reputation is an outcome of high organizational performance accumulated over time. In contrast, other studies, such as Dowling (2006), argue that a good reputation drives future performance and adds value to the organization.

In the context of auditing, audit firm reputation pertains to the corporate image that an audit firm builds and maintains over time (Lin, 2020). A strong audit firm reputation results from providing high-quality audit services by competent and specialized auditors with industry expertise and access to adequate technical audit resources. This correlation explains why prior literature associates audit firm reputation with audit firm size (DeAngelo, 1981).

Several factors justify the link between Big4 audit firms and their reputable status:

- i. **Competence and Training:** Big4 audit firms employ more competent and well-trained auditors.
- ii. **Technological Investments:** They invest in advanced technological programs to detect errors and misstatements efficiently, producing accurate audit reports.

- iii. **Independence:** Big4 audit firms maintain greater independence due to a diverse client base across various sectors, reducing reliance on individual customer revenues.
- iv. **International Standards:** Their international affiliations provide access to global standards of the profession.
- v. **Litigation Risk:** Under the "deep pocket" hypothesis, Big4 firms face high litigation costs if accused of negligence (Lennox, 1999). Consequently, they strive to offer high-quality audit and non-audit services and invest heavily in training and technology to maintain their reputation.

Audit firms with strong reputations are motivated to continue delivering high-quality services to protect their reputation and attract more clients. According to the auditor reputational hypothesis, reputable audit firms are incentivized to maintain and safeguard their reputation, enabling them to command higher fee premiums and enhance audit quality (Bergner et al., 2020; Blum et al., 2022). According to the signalling hypothesis, corporate management also has an incentive to work with credible businesses. A good signal is sent to the market and stakeholders by hiring reputable auditors like the Big 4 (Sunarto et al., 2021). Because there is a correlation between good audit quality and audit firm reputation, stakeholders are more likely to have faith in a respected audit firm's financial performance and position.

Audit Report Lag

Audit report lag, or the period of time between the end of the fiscal year and the issuance of the audit report, can lower the calibre of financial reporting as it causes a delay in presenting investors with pertinent information (Mohamad-Nor, Shafie & Wan-Hussin, 2010). "These delays in disclosing the auditor's assessment of the fairness and calibre of financial information lead to a lack of clarity in investment decisions and an increase in information asymmetry (Mohamad-Nor, Shafie & Wan-Hussin, 2010). Investor trust in the capital market is weakened by this." Givoly & Palmon (1982), Chambers & Penman (1984), and Kross & Schroeder (1984) have all pointed out that the promptness of earnings releases—which is greatly influenced by audit lag—determines the market's reaction. Lower-quality data and unanticipated reporting delays are correlated (Knechel & Payne, 2001).

2.2 Theoretical Review

The theoretical framework for examining the impact of audit quality on the financial performance of beverage companies in Nigeria incorporates several well-established concepts from the fields of auditing, corporate governance, and financial management. These theories provide a foundational understanding of the relationships and dynamics at play:

Agency Theory

Understanding the function of audit committees in corporate governance necessitates a fundamental comprehension of agency theory. This theory posits that agency conflicts arise from the dichotomy between ownership (shareholders) and control (management) within organizations. Jensen and Meckling (1976) posit that audit committees serve as mechanisms crafted to alleviate these conflicts through autonomous supervision.

When ownership and control are divided, conflicts of interest may emerge between principals (shareholders) and agents (management). Audit committees, primarily composed of independent directors, help minimize these conflicts by overseeing financial reporting and management decisions. Acting as fiduciaries for shareholders, they ensure that shareholder interests are aligned (Jensen & Meckling, 1976). According to this theory, the effectiveness of audit committees, particularly their ability to maintain audit independence and quality, can directly influence financial performance.

Stewardship Theory

Agency theory is enhanced by stewardship theory, which highlights how managers' and shareholders' interests are aligned. According to Donaldson and Davis (1991), it sees managers as stewards who operate in the best interests of shareholders by guaranteeing accountability and transparency in financial reporting.

Stewardship theory asserts that managers are inherently driven to behave as responsible stewards of shareholders' wealth, in contrast to agency theory, which concentrates on conflicts of interest. As stewards for shareholders in their supervisory capacity, audit committees uphold accountability, openness, and the preservation of shareholder interests (Donaldson & Davis, 1991). Stewardship theory states that a strong audit committee with the right qualities to carry out its stewardship role can lead to better financial performance.

Signaling Theory

According to signaling theory, businesses utilize signals to let external stakeholders know how good they are. Transparency and dependability in financial reporting are conveyed to investors through excellent audit committees and audit reports (Spence, 1973).

Businesses employ signals to tell external stakeholders—especially investors—about their quality. Positive audit reports and top-notch audit committees serve as indicators of openness, dependability, and dedication to financial integrity (Spence, 1973). In this regard, Nigerian beverage businesses that have strong audit committees communicate well with the investing community. This signal has the potential to lower capital costs, boost investor confidence, and facilitate access to outside financial sources. Therefore, the beneficial effects of this signaling may be seen in financial performance measures like return on equity (ROE) and return on assets (ROA). Through the integration of these ideas, the framework highlights the complex role that audit quality plays in improving the financial performance of Nigerian listed beverage businesses. By maintaining a high standard of audit quality, efficient audit committees may reduce agency conflicts, serve as good stewards, and encourage the market—all of which improve financial results.

2.3 Empirical Review

The research conducted by Ezejiofor and Erhirhie (2018) delved into the impact of audit quality on the financial performance of domestic deposit money banks in Nigeria. Utilizing secondary data extracted from the annual reports and accounts of these banks, their study employed regression analysis and correlation coefficients to assess crucial variables. Their findings indicated a significant correlation between the quality of audits and the financial performance of Nigerian deposit money institutions. The research recommended an increase in the number of foreign directors, particularly those with the requisite education, experience, and ethical standards to uphold stringent criteria.

Egbunike and Abiahu (2017) looked at the relationship between audit company reports and the financial performance of money deposit banks in Nigeria. The study's sample population comprised all money deposit banks operating as of the end of the 2015 fiscal year, covering a five-year timeframe from 2010 to 2014. It employed an ex post facto and correlational research approach. The study found that the return on assets of Nigerian banks was significantly impacted by audit quality, but that the return on assets, profits per share, and net profit margin of Nigerian banks were not significantly impacted by audit fees or audit report latency.

Elewa and El-Haddad (2019) undertook a panel data analysis to explore the influence of audit quality on the performance of Egyptian enterprises. By using return on equity and return on assets as benchmarks for business success, the researchers evaluated audit independence and the involvement of Big Four firms as indicators of audit quality. Examination of the financial statements of thirty non-financial companies listed on the EGX 100 between 2010 and 2014 revealed that auditor rotation and the presence of Big Four audit firms did not have a statistically significant impact on return on equity or return on assets. These results suggest that stakeholders should take these factors into consideration when assessing high-profit organizations.

Enekwe et al. (2020) investigated the effect of audit quality on the financial performance of Nigerian listed manufacturing enterprises between 2006 and 2016. The study primarily looked at how listed manufacturing businesses' return on assets was affected by the independence of the auditor, the audit committee, and the audit fee. For this study, an ex post facto research design was used. 24 companies were chosen using the stratified purposive selection approach out of the 80 listed manufacturing companies in Nigeria. The firms' publicly available yearly financial statements provided secondary data. The data analysis technique used in the study was the Ordinary Least Squares regression approach. The study found that, among other things, listed manufacturing businesses' financial performance is positively and significantly impacted by the independence of their auditors. It was determined that the financial performance of Nigerian manufacturing enterprises is influenced by the features of audit quality.

Phan (2020) conducted an empirical investigation into the impact of audit quality on the performance of 228 Vietnamese firms. The study highlighted the positive influence of audit quality on financial success, particularly in terms of customer, employee, and overall loyalty.

A study by Khan et al., (2021) examined the effect of audit quality on the performance of 439 publicly traded companies. Initially employing ordinary least squares (OLS), they discovered a negative correlation between foreign ownership and company performance, but a positive relationship between foreign ownership and audit quality and efficiency. By utilizing weighted least squares (WLS) to address heteroskedasticity, the study revealed that CEO dualism and leverage negatively impacted performance, while audit quality, efficiency, and firm size had a positive effect. The adjusted R-squared value of 27% indicated that 27% of the variation in the financial performance of listed Pakistani firms can be explained by audit quality.

Iliemena and Okolocha (2019) conducted a research on the effect of audit quality and financial performance of listed industrial goods companies in Nigeria. However, the quality of the audit was measured by audit firm rotation and audit fees, while on the other hand, return on asset was used to quantify the financial performance. The research designs used in the study are ex-post facto and descriptive. The study covered a seven-year period spanned from 2012 to 2018. Twenty-four industrial products businesses that were listed as of September 4, 2019, on the Nigerian Exchange Group make up the study's sample size. Secondary data was extracted from the chosen firms, while

linear regression was utilized to analyze the data collected. The research findings indicate that there is a noteworthy and favourable effect of audit fees and audit firm rotation on return on asset of the chosen firms.

Ajape, et al. (2022) looked at how the quality of an audit affected the financial reporting quality of Nigerian listed firms between 2011 and 2020. An ex-post facto research approach employing panel data was utilized by the study while the study's population consists of the 25 consumer goods businesses mentioned on the Nigerian Exchange Group (NGX) as 31st December, 2020. With the use of purposive selection approach, a sample of 21 consumer goods firms were selected. Descriptive statistics and multiple regression analysis were employed to analyze the secondary data that were extracted from the annual reports of the chosen firms. The results showed that financial reporting quality is much enhanced by audit quality.

2.4 Theoretical Framework

The main causes of the need for audits are information gaps and agency conflicts between middlemen, external investors, and company management. In accordance with agency theory, Dang (2004) "claims that auditing financial statements serves as a useful monitoring technique that ensures stakeholders that the financial statements are free from material misstatements. The literature has widely used this theory to investigate the information asymmetry between principals (shareholders) and agents (management). An understanding of Agency Theory's principal-agent relationship is necessary to comprehend the growing role of auditors. The core thesis of agency theory is that conflicts of interest arise in business operations as a result of the differing goals that managers and shareholders pursue."

According to agency theory, the auditor's function is to regulate the owners' and managers' interaction. It is vital that management and owners realise that the auditor's obligation is in ensuring the audit's adequacy rather than in accounting (Emander & Andersson, 2005). In light of this, Agency Theory is a valuable economic theory of accountability that promotes and explains audit quality.

3.0 Methodology

For this paper, an ex-post facto research design was used. The study population comprises all officially registered beverage companies operating in Nigeria. In this context, beverage companies include entities involved in the manufacturing and distribution of both non-alcoholic and alcoholic beverages. According to the Nigerian Exchange (NGX, 2024), there are twenty-one (21) of such companies.

Using a random selection approach, food and beverage firms with current, thorough annual reports and financial statements covering the research period from 2012 to 2021 were carefully chosen. The justification of using the data ending at 2021 was as a result of the fact that data lag is common in many industries, due to the time required for data collection, processing, auditing and publication. However, this paper employs robust econometric methods accounting for unobserved heterogeneity, thereby making the results generalizable.

Finding businesses that may offer pertinent insights into the financial dynamics of the food and beverage sector was the main goal. A sample size of ten (10) food and beverage firms was chosen. Among them are the following: Nestle Nigeria Plc, Guinness Nigeria Plc, Champion Breweries Plc, Cadbury Nigeria Plc, International Breweries, Dangote Sugar Refineries, Flour Mills Nigeria Ltd,

Honeywell Flourmills Plc, National Salt Company Nigeria Ltd, and Northern Nigeria Flour Mills Plc.

This study employs both descriptive and inferential methods for data analysis. The descriptive approach utilizes measures of central tendency, including mean, median, minimum, maximum, and standard deviation. The Static Panel Data Approach is the inferential approach used. It is a strong analytical framework that is especially useful for looking at longitudinal data that spans numerous entities over a predetermined amount of time. This method makes it possible to investigate the data's cross-sectional and time-series dimensions, which makes it easier to have a thorough grasp of the correlations between the variables.

3.1 Model Specifications and Estimations

The static panel data model based on the predictors and explanatory variables is:

$$ROA_{it} = \beta_0 + \beta_1(AUDREP)_{it} + \beta_2(ARL)_{it} + u_{it} \dots \dots \dots \text{Eq (1)}$$

Where:

ROA_{it} represents the return on assets for firm i in time period t

AUDREP and ARL denote Audit Firm Reputation and Audit Report Lag correspondingly. The AUDREP was categorized into the prestigious big-4 audit firms and those falling within the standard medium (Non – big 4). This variable was delineated as a binary (0, 1) indicator, with 1 denoting the top-tier audit firms and 0 representing the medium-tier audit firms. Furthermore, the ARL was documented based on the duration in months of the temporal gap between the conclusion of a company's financial reporting period and the release of its audited financial statements by the external auditor.

The parameter β_0 denotes the intercept value, while β_1 and β_2 represent the coefficients pertaining to the independent variables AUDREP and ARL, respectively, illustrating the influence of each independent variable on financial performance.

The parameter u_{it} is the error term capturing unobserved factors affecting ROA for firm i in time period t .

In accounting for both cross-sectional and time-series variation, we specify the FEM and REM models. The fixed effects capture firm-specific characteristics that do not vary over time. The model is specified as:

$$ROA_{it} = \beta_0 + \beta_1(AUDREP)_{it} + \beta_2(ARL)_{it} + \alpha_i + u_{it} \dots \dots \dots \text{Eq (2)}$$

Where α_i represents the fixed effect for firm i .

More so, the REM assumes that firm-specific effects are random and uncorrelated with the independent variables. The model is specified as:

$$ROA_{it} = \beta_0 + \beta_1(AUDREP)_{it} + \beta_2(ARL)_{it} + \alpha_i + \epsilon_{it} \dots \dots \dots \text{Eq (3)}$$

Where α_i represents the random effect for firm i and ϵ_{it} is the error term.

3.1.1 Model Pre-estimation Techniques

3.1.1.1 Chow Test for Poolability

The model pre-estimation techniques are based on the Chow test for poolability (i.e. the coefficients are equal across cross-section. It is an F-test that compares the residual sums of squares from the pooled model and the FEM for each cross-section. The test statistic is calculated as:

$$F = \frac{(RSS_{Pooled} - RSS_{FEM}) / (K \cdot (N - 1))}{RSS_{FEM} / (T \cdot K - K \cdot N)} \dots \dots \dots \text{Eq (4)}$$

Where:

RSS_{pooled} = Residual sum of squares from the pooled OLS model.

RSS_{FEM} = Residual sum of squares from the Fixed Effect Models (where coefficients vary across cross-sections).

N = Number of cross-sections.

T = Number of time periods.

K = Number of estimated parameters (coefficients).

The numerator gives the improvement in fit by allowing different coefficients for each cross-section, adjusted by the degrees of freedom. The denominator is the average residual variance from the separate models.

If the computed **F-statistic** exceeds the critical value of the F-distribution at α level of significance, then we reject the null hypothesis of equal coefficients across section. Otherwise, we fail to reject.

3.1.1.2 Breusch-Pagan LM Test for Random Effect

The test is based on the **variance of the residuals** in the panel data model. It checks whether the variance of the unobserved individual (or time) effects is significantly different from zero. It is based on the residuals from the Pooled OLS regression. The main interest in the Breusch-Pagan LM test is whether the variance of σ_μ^2 is zero. If $\sigma_\mu^2 = 0$, then the individual effects (Random Effects) are not significant, and the Pooled OLS model is appropriate. It is estimated as:

$$LM = \frac{T}{2(N-1)} \left[\sum_{i=1}^N \left(\frac{(\sum_{t=1}^T e_{it})^2}{(\sum_{t=1}^T e_{it})} \right) - 1 \right] \dots \dots \dots \text{Eq(5)}$$

Where e_{it} , N and T were as discussed earlier.

In simplified form, (4) is often presented as:

$$LM = \frac{NT}{2} \left(\frac{\hat{\sigma}_\mu^2}{\hat{\sigma}^2} \right) \dots \dots \dots \text{Eq(6)}$$

3.1.1.3 Hausman Test of Cross-sectional Random Effect

The **Hausman test** is used to determine whether a **Fixed Effects (FE)** model or a **Random Effects (RE)** model is more appropriate for panel data analysis. The key idea is to test if the unique errors (individual effects) in the Random Effects model are correlated with the regressors. If they are, the Random Effects model is inconsistent, and the Fixed Effects model should be preferred. If not, the Random Effects model is more efficient. It compares the difference between the coefficients estimated by the FE and RE models. The test statistic is:

$$H = (\hat{\beta}_{RE} - \hat{\beta}_{FE})' \left(\text{Var}(\hat{\beta}_{FE}) - \text{Var}(\hat{\beta}_{RE}) \right)^{-1} (\hat{\beta}_{RE} - \hat{\beta}_{FE}) \dots \dots \dots \text{Eq(7)}$$

$\hat{\beta}_{RE}$ is the coefficient vector from the Random Effects model.

$\hat{\beta}_{FE}$ is the coefficient vector from the Fixed Effects model.

$\text{Var}(\hat{\beta}_{FE})$ is the variance-covariance matrix of the Fixed Effects estimator.

$\text{Var}(\hat{\beta}_{RE})$ is the variance-covariance matrix of the Random Effects estimator

It is noteworthy that the choice of equations (1), (2) and (3) is dependent on the Chow Test for Poolability, BPLM test for random effect and Hausman test for cross-sectional random effect. However, the Hausman test would be conducted based on the rejection of the Chow test, an indication of no presence of poolability in the panel data.

4.0 Results and Discussion

4.1 Descriptive Statistics and Correlation Analysis

Descriptive statistics summarize the distribution of observations within a dataset. Below are the measures of central tendency and dispersion for the data:

Table 1: Descriptive Statistics of Study Variables

Statistics	ROA	AUDREP	ARL
Mean	8.696500	0.840000	2.737100
Median	6.565000	1.000000	2.700000
Maximum	37.76000	1.000000	5.950000
Minimum	-35.39000	0.000000	0.000000
Std. Dev.	11.74013	0.368453	0.875817
Skewness	-0.073902	-1.854852	0.516375
Kurtosis	4.839840	4.440476	4.573962
Jarque-Bera	14.19524	65.98699	14.76637
Probability	0.000827	0.000000	0.000622
Observations	100	100	100

Source: *Researcher's Self Computation*

Table 1 presents the descriptive statistics of the predicted and explanatory variables. The mean value of 8.6965 on return on Asset (ROA) for the chosen listed food and drinks firms in Nigeria suggests that, on average, these companies create roughly 8.7% return on their assets with a median, lowest and highest value of 6.565, 37.76 and -35.39 correspondingly. The result of this is that this statistic indicates the effectiveness of the firms in utilizing their assets to make profits within the food and drinks sector in Nigeria. The mean audit report lag (ARL) of 2.797 for the chosen mentioned food and drinks firms in Nigeria implies that, on average, these companies take around 2.734 months to release their audit report following the conclusion of their financial reporting periods. This suggests that the indicator gives insights into the timeliness of the audit process within the food and drinks industry in Nigeria, with lower values suggesting a shorter turnaround time for audit reports. It can as well be seen that the audit committee reputation (AUDREP) as a dummy variable where 1 signifies highly reputed and 0 represents moderately reputed with mean value of 0.84 indicates that, among the selected listed food and beverages companies in Nigeria, on average, a significant proportion of them are considered to have a high audit reputation. This shows that a considerable percentage of these firms are seen to have good and trustworthy audit processes, which can boost investor confidence and credibility in their financial reporting. However, the variables were determined to be significant ($p\text{-value} < 0.05$) as indicated from the Jarque-bera test of normality, an indicator that the observed values for all cross sections are non-normally distributed.

Table 2: Examination of Linear relationship among Independent variables

Correlation (t-Statistic) [Probability]			
	ROA	AUDREP	ARL
ROA	1 0.096824 (0.963029) [0.3379]	1	
AUDREP	-0.103321 (-1.028328) [0.3063]	0.136276 (1.361763) [0.1764]	1
ARL			

Source: Researcher's Self Computation

Evidence from Table 3 showed that the variables of audit quality with correlation coefficients of 0.1366276 between AUDREP and ARL suggest a weak positive correlation. This implies that since the correlation coefficient is not statistically significant (t-statistic 1.36176 and p-value 0.1764 > 0.05), we thereby conclude that the issue of inflated standard errors and unreliable coefficient estimates in the regression analysis is avoided.

From the evidence of descriptive statistics results and correlation coefficient values, identifying the appropriate model for predicting the financial performance of the listed food and beverages companies taking audit quality as a proxy can be depicted in Tables 1 and 2.

4.2 Pre-estimation Test Results

Table 3: Pre-estimation tests

Test type	Statistic	df	p-value
Chow Poolability Test	3.247170	(2, 79)	0.0441
Breusch-Pagan LM	77.33230	45	0.0019
Hausman Test	11.4452	2	0.0033

Source: Researcher's Self Computation

From Table 3, the Chow F-statistic value of 3.247 with associated p-value **0.0441 < 0.05** implies the **rejection of same coefficients across different cross-sections, and indication** that the coefficients are not the same across the different cross-sections, and pooling the data may not be appropriate. A Fixed Effects or Random Effects model, which allows for differences across cross-sections, may be more suitable.

It can also be seen from the BPLM test for random effect. Since the **p-value 0.0019 < 0.05**, we **reject the null hypothesis of no random effects in the data**. This suggests that there are significant random effects present in the data, and a **Random Effects model** is preferable over the Pooled OLS model.

However, based on the fact that the pooled model fail in this regard, and either the REM or FEM model may be appropriate as evidenced from Table 3 and Table 4, Hausman test of cross-sectional random effects is inevitable for the choice of model selection.

Table 3 also presents the findings of the Hausman test, which yields a Chi-squared value of 11.4452 and a p-value of 0.0033, both below the significance threshold of $\alpha=0.05$. As the p-value of 0.0033 is less than 0.05, the null hypothesis is rejected, indicating that the fixed effects model is the most appropriate option for this case. Therefore, while estimating the parsimonious model of the financial performance variable, the fixed effects model will be the suitable assumption. Given that

the p-value for the Fixed Effects Model (FEM) is below 0.05, the test validates FEM as the more suitable model for this analysis. Consequently, this study's rationale and associated objectives hinge on the utilization of the FEM.

4.3 Fixed Effect Model Estimates

Table 4: Regression analysis of Audit Quality and Financial Performance
(Dependent = lnROA)

Variables	Fixed Effect		
	Coefficient	t-value	p-value
Constant	2.5191	5.4420	0.0000
AUDREP	0.7062	2.2000	0.0305
lnARL	-1.2191	-3.0412	0.0031
R ²	0.2389		
Adjusted R ²	0.1404		
F-statistic	2.4254		
p-value (f-statistic)	0.0111		

Source: *Extracted from Eviews Output, version 10*

The fitted linear relationship of the dependent and independent variables, using fixed effect is expressed in the regression equation (2) below:

$$\ln ROA_{it} = 2.5191 + 0.7062(AUDREP)_{it} - 1.2191 \ln(ARL)_{it} \quad (7)$$

According to the Fixed Effects Model's (FEM) coefficient of determination (R²) in Table 4, the predictor variable explains 23.89% of the variance in financial performance. This value reduces to 14.04% when considering the modified R², suggesting that factors beyond the predictors may influence financial performance. Nevertheless, the higher percentage indicates a better fit of the regression line to the data compared to the Random Effects Model (REM), implying a stronger predictive ability of the model.

With a p-value of 0.0111 below the 0.05 threshold, and an F-value of 2.4254, the results demonstrate a significant correlation between the financial performance of the listed food and beverage companies and the quality of their audits. The positive beta coefficient of AUDREP (0.7062) with a t-value of 2.2000 and a p-value of 0.0305 is statistically significant at the 5% level when assessing the explanatory variables' contributions. This suggests that a 1% increase in AUDREP corresponds to a 70.62% rise in ROA, aligning with the idea that higher AUDREP should positively impact the financial performance of manufacturing firms.

Considering ARL, the analysis indicates that a 1% increase in ARL correlates with a 122% decrease in ROA. The negative association of ARL implies that prolonged audit durations in delivering reports post-financial reporting periods could negatively affect how effectively the Nigerian food and beverage industry utilizes its assets to generate profits.

4.4 Post Estimation Tests

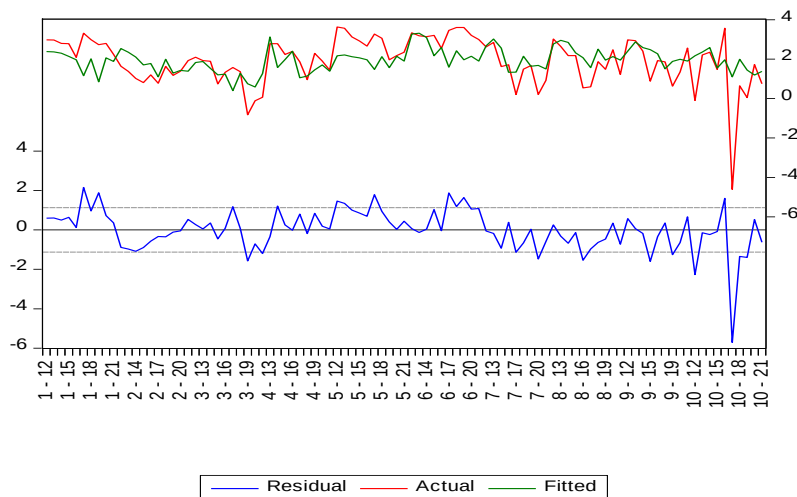


Fig. 1: Actual, Predicted and Residual of financial performance using FEM

It can be evidenced from Fig 1 that the fitted FEM is appropriate as the actual and predicted values do not have many deviations from each other. For most observations, the model appears to fit the data reasonably well, as shown by the close proximity of the actual and fitted lines. However, there are a few observations where the residuals deviate considerably, particularly toward the end. These large residuals may point to specific periods where the model underperforms, possibly due to unusual events in the data (e.g., market shocks or firm-specific anomalies).

Table 5: Cross sectional Dependence Test (Serial Correlation Test)

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM (BP-LM)	56.89142	45	0.1100
Pesaran scaled LM (PsLM)	1.253466		0.2100
Pesaran CD	-1.124880		0.2606

Source: Researcher's Self Computation

From the cross-sectional dependent tests in Table 5, result indicated that all three tests (Breusch-Pagan LM, Pesaran scaled LM, and Pesaran CD) suggest that cross-sectional dependence is not significant in the model (p -values > 0.05). This implies that the errors across cross-sections (i.e., different food and beverages companies) are not correlated, and the assumption of independence across cross-sections holds. Since cross-sectional dependence is not detected, there is no need to adjust for cross-sectional correlation. These results indicate that serial correlation or cross-sectional dependence is not a problem in the data used in this paper, thereby strengthening the reliability of the FEM estimates.

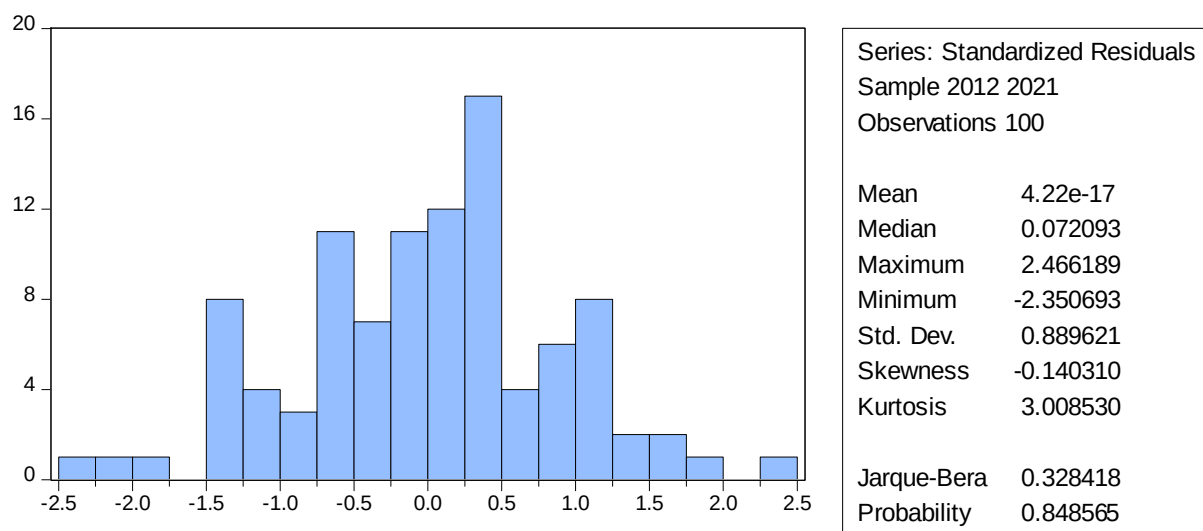


Fig. 2: Normality test of FEM Residuals

It can as well be evidenced from the histogram of residuals and Jarque Bera test statistic of 8.3435 with associated p-value $0.8486 > 0.05$ those residuals of the fitted FEM model is normally distributed, hence, holding the assumption of the classical linear regression modelling.

4.5 Discussion of Findings

A probability value of 0.0305, which falls below the conventional significance level of 0.05, signifies a robust correlation between the reputation of audit firms and the return on assets of listed food and beverage companies in Nigeria, as evidenced by the results of the initial objective. These findings align with the research conducted by Ado et al. (2020), who analyzed data from 84 non-financial entities over a nine-year span (2010 to 2018) to explore the impact of audit quality on corporate performance. Significantly, our study's R-square value of 23.89% surpasses that of Ado et al. (2020), whose explanatory variables only accounted for 17% of the performance variances across the mentioned entities. This underscores that our methodology offers a more profound understanding of the factors influencing performance in this context.

Moreover, Pham, Duong, and Quang's (2017) investigation delved into the correlation between audit quality, diverse audit attributes, and the prestige of audit firms. Their comprehensive eight-year analysis, encompassing 192 enterprises listed on the Hanoi and Ho Chi Minh Stock Exchanges in Vietnam from 2006 to 2014, concluded that Big-4 auditors in Vietnam consistently provided superior audit services compared to non-Big 4 firms. This underscores the pivotal role of audit firm reputation in shaping audit quality on a global scale.

The second objective of this study found that audit report delays also affect the return on assets of listed food and beverage companies in Nigeria. Evidence of this relationship is provided by a regression coefficient of -1.2191 and a p-value of 0.0031, which is below the conventional significance level of 0.05. The negative coefficient suggests that longer audit report delays are associated with lower returns on assets. This finding aligns with Agyei-Mensah's (2018) research on financial reporting timeliness. Agyei-Mensah's study, employing both descriptive and inferential statistics, showed that over a three-year period, the average reporting lag (ARL) was 86 days, with a standard deviation of 21 days. The study also revealed a minimum reporting delay of 55 days and a maximum lag of 173 days.

Furthermore, Agyei-Mensah's (2018) regression analysis identified a statistically significant negative relationship between financial reporting delays and firm performance. The negative

coefficient indicates that companies tend to release positive financial results more quickly, reducing reporting delays. In contrast, longer delays may indicate reluctance to disclose poor financial performance, potentially influencing investor perceptions and adversely affecting firm performance. This finding underscores the crucial role of timely financial reporting in promoting transparency and trust within financial markets.

5. Conclusion and Recommendations

The research evaluated how listed food and beverage businesses in Nigeria performed financially and the influence of audit quality. The data reveal that the financial performance of these businesses is considerably and positively influenced by the reputation of the audit firms. Statistical study demonstrates that audit report lag is statistically significant even if it has no favourable influence on financial performance.

The research concludes that the return on assets (ROA) of publicly traded food and beverage enterprises in Nigeria is significantly influenced by the prestige of the auditing firm and the delay in the audit report. The findings have led to the following recommendation being put forth: Firms should engage the services of audit firms possessing a reliable record of audit quality and reputation. Food and beverage companies should maintain their existing auditors for a reasonable period to enhance the timeliness of audit reports, thereby boosting the confidence of financial statement users and enabling informed decision-making.

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