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RESEARCH ARTICLE

EXTERNAL AUDIT CHARACTERISTICS AND VALUE RELEVANCE OF LISTED FIRMS IN NIGERIA

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ABSTRACT

The spate of audit failures in the world has questioned the value relevance of firms' financial reports. This has made investors to have less confidence in the financial reports of firms. In addition, most of the auditing researches carried out globally had focused on the external auditors' attributes than the characteristics of the audit itself. As a result, this study examined the external audit characteristics on value relevance of listed firms in Nigeria. The study adopted an Ex post facto research design using a systematic sample design. The panel regression was used to test the hypotheses. The findings showed that, foreign audit characteristics had a little influence on market relevance of Nigerian listed enterprises. Among independent review attributes, audit impartiality had a negatively minimal influence on the value relevance of listed firms, whereas both external audit efficiency and timeliness had a positive insignificant impact on the earnings quality of listed firms' financial reports in Nigeria. It was suggested that firms modify the audit fee they pay to a more realistic average industry audit fee. External auditors must also work with the firm's audit committee and managers to ensure more timely audits that improve stakeholders' investment decision making in audits more valuable.

Keywords: External audit characteristics, value relevance and audit timeliness.

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1.0. INTRODUCTION

The demand for external audit services stemmed from agency difficulties that arose as a result of enterprises' separation of ownership and control. Firms are held by a variety of shareholders, but professional managers govern the day-to-day operations of the firms, who may or may not have major shareholdings in the firm. Shareholders have a residual claim on the firm's resources, and the firm's managers must convey their stewardship of the firm's resources to shareholders on a regular basis, typically through the publication of a set of financial statements; Nigerian Exchange Group (2000). In order to ensure that the financial information published by firms are reliable and of value relevance to users, it is required that an independent or an external examination are carried out to ascertain that the financial statements are credible and that the accounting numbers shows a true representation of the firm’s engagements, Akinjobi and Omowumi (2015). It is essential that the external audit possesses some characteristics that are adjudged to improve the value relevance of firms’ financial information.

In principle, auditing is utilized to give investors with the necessary certainty when relying on audited financial accounts. More specifically, the role of auditing is to lessen information asymmetry on accounting numbers and to minimize the residual loss caused by managers' opportunism in financial reporting, so making the reports of value relevant to investors, Adeyemi and Fagbemi (2010). Effective and perceived characteristics (commonly referred to as apparent quality) are required for auditing to be effective as a monitoring device.

There have been researches on the external audit characteristics and value relevance of organizations' financial reports. In both developed and emerging economies, most studies had not properly separated the terms "Audit" and "Auditor" in order to explore the characteristics of external audit on the value relevance of enterprises' financial reports, Craswell, Francis, et al. (1995); Becker, Defoud, et al. (2016); Dehkordi and Makarem (2011).

This study aimed to investigate the external audit features and the value relevance of enterprise’s financial reports, with a focus on the external audit rather than the auditor’s characteristics. The writer explored the factors that could impact on the attainment of high audit quality and its effect on the value relevance of enterprises' financial statements in Nigeria, having established that the auditor's contribution is primarily through the production of reports of value relevance.

The spate of audit failures in the world has continued to question the value relevance of firms’ financial reports. This could be attributable to the deficiency in the external auditors’ characteristics which invariably engender loss in investors’ confidence in the financial reports of firms. Researches on the effect of external auditors’ characteristics on value relevance are also very skimpy; rather, the focus had always been on external auditors’ attributes such as: auditors’ fee, auditors’ tenure and auditors’ firm’s

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size which in most cases did not translate to an effective quality audit (Amahalu and Ezechukwu, (2017). It was against this backdrop that, this study examined the effect of external audit characteristics on value relevance of financial reports of Nigerian firms.

Objectives of the Study

In view of the above, the specific objectives include:

i. To determine the effect of external audit objectivity on value relevance of listed firms in Nigeria.
ii. To ascertain the effect of external audit efficiency on value relevance of listed firms in Nigeria.
iii. To examine the effect of external audit timeliness on value relevance of listed firms in Nigeria.

Research Questions

The following research questions are formulated to guide this study:

I. What is the effect of external audit objectivity on value relevance of listed firms in Nigeria?

2. what is the effect of external audit efficiency on value relevance of listed firms in Nigeria?

3. what is the effect of external audit timeliness on value relevance of listed firms in Nigeria?

Research Hypotheses.

The null research hypotheses for the study were as follows;

Ho_1: External audit objectivity has no significant effect on value relevance of listed firms in Nigeria.
Ho_2: External audit efficiency has no significant effect on value relevance of listed firms in Nigeria.

Ho_3: External audit timeliness has no significant effect on value relevance of listed firms in Nigeria.

2.0. CONCEPTUALIZATIONS AND REVIEW OF LITERATURE

2.1. Conceptualizations

External Auditors

External auditors are entrusted by law with conducting statutory audits by offering an opinion on whether the financial statements reflect a ‘true and fair view’ of the company’s state of affairs. The objectivity and independence of auditors in the course of their duties therefore, is of paramount importance as it guarantees quality of external audit and compels trust and confidence in the users of the financial statements (Beredugo *et al*., 2014).

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External audit characteristics plays an important role in upholding an efficient market environment because it strengthens confidence in the credibility and integrity of financial statements which is essential for well-functioning markets, Salehi, and Mansoury (2019), therefore, auditors are expected to ensure that the audit has intrinsic values that ensures quality audit at all times. Thus, the role of external audit characteristics is to improve the quality of financial statements as high quality reporting can reduce information asymmetry problems between the firm and providers of financing. A substantial proportion of practicing auditors in Nigeria are members of the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN). These professional bodies have rules guiding the conduct of members in practice to ensure a qualitative audit. In the same vein, public limited companies in Nigeria are mandated by law to have their financial statements audited by an independent public accountant who is the external auditor, Okolie (2014).

According to the Consultative Council of Accountancy Body (CCAB), Audit is defined as an independent examination of and expression of opinion on the financial statement of an enterprise by an appointed external auditor, in pursuance of that appointment and in compliance with any relevant statutory obligation. To this end, audit is expected to improve the value of information presented in the financial statements and as a result of this, external audit characteristics has to do with a display of professionalism, diligence and care by auditors in the audit process which should lead to a true and fair view of financial statement, Adams and Ferreira (2017). Although audit characteristics do not have a universally accepted definition, different scholars in their studies explained the term audit characteristics to mean the quality of external audit. To mention but a few, Adane (2014), defined external audit characteristics as the quality and ability of the audit to detects and report material misstatements in financial statements, the detection aspects are a reflection of auditor's competence, while reporting is a reflection of ethics or auditor integrity, particularly independence.

According to Li and Lin (2015), an intrinsic characteristic of an external audit is the audit opinion contained in the financial report. Hussainey (2019) mentioned that another vital characteristic of external audit is the accuracy of information an auditor provides for the investors in each report. In this research, the basic characteristics of audits are defined as the objectivity of the auditor during the audit process, the efficiency of the audit and the timeliness of the audit. These are three major characteristics of external audit capable of yielding a quality audit report that can discover and report any errors in a financial statement. The research is based on both the agency and signaling theories. The agency idea is largely driven by external inspector acting in the interest and being expected to be independent of company management. The auditor oversees and verifies the accounting reports' dependability and accuracy.

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Under signaling theory, management of companies with agency problems have incentive to signal to the market that they have effective internal corporate governance and attempt to reduce agency costs and increase the value of the company by appointing a high profile external auditor who goes through strict and intensive audit to assure the stakeholders that management conform to their interest, Wang (2019). Firms with effective internal governance devote more time to monitor external audit more effectively than firms with low quality internal governance to minimize potential risk of litigation and maintain their reputation. This would increase the scope of external audit to ensure its quality.

According to the signaling theory, control mechanisms are complementary in the sense that the quality of one control mechanism is expected to be positively associated with the quality of another control mechanism. The notion underlying this viewpoint is that companies that need greater control would simultaneously utilize several different control dimensions. From this perspective, high audit quality should be positively associated with (other) high-quality governance structures. Similarly, this study expects positive association between high external audit quality and value relevance of firms financial report.

Determinants of external audit characteristics

A study by Bethitina (2015), on audit objectivity had to do with the levels of auditors' independence. This is the ability of an auditor to maintain an objective and impartial mental attitude throughout an audit. In a similar manner, Robert and Vanstraelen (2017) attributed the objectivity characteristics of an external audit to the independence of the auditor during the audit process. To have an objective audit, an auditor must be able to take an unbiased viewpoint in the performance of audit tests, analyses of result, and attestation in the audit report of an entity. Arens *et al*. (2010), explained that audit objectivity required an attitude of responsibility separate from the client's interest. The auditor must maintain an attitude of healthy professional skepticism.

Nishtiman, Nor, and Noor (2019), opined that the major determinant of an objective audit and an independent minded auditor is the amount of fee paid for the audit. According to Semiu, et al. (2016), the expenditure incurred to an external auditor goes a significant way toward defining the audit's independence and impartiality. Semiu *et al*. (2016), suggested that an auditor who is paid less than the audit market average rate did so due to low participation. As such, such audit firms receive such low fee in order to secure the role of audit to his client which might impede his/her independence and objective mind. On the other hand, Wijyaya, (2020), argued that an auditor that is paid above the market average is likely to compromise his/her independence and objectivity. This is because such auditor in a bid to secure such a client with a lucrative pay package would lose his/her objectivity.

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Since Wallace (2017), developed a model to determine the process by which the audit efficiency is determined, other researches arose in the context of determining audit efficiency as well. The empirical studies on the audit efficiency showed that it is a major determinant of external audit characteristics, as well as the companies' dimension to the cost of audit, Wallace (2017). It is predicted that large audit fee have is less efficient to firms when compared against the profit and scope of audit done; Choi, et al. (2010). A study by Hsieh (2015) on audit efficiency, confirmed the negative association of the firms (Client) profit and audit fee. These results taken together indicated that audit fee is an extremely critical explanatory variable for any model of audit efficiency.

Audit timeliness is defined in this study as the number of days it takes the audit process to be completed, the audit report signed and the financial statement made public. A rather too long audit may constitute a threat to time value relevance of the report and in some cases a relative short time audit is likely to be done in haste and might be characterized with errors. Watkins, Hillison and Morecroft (2014), argued that an audit done in a short timeframe is likely to be encompassing less vigilance on the part of the auditor and even to an extent have errors. Aside from this threat to quality of external audit, the audit timeframe of releasing report constitutes the quality of the audit.

Value relevance of firms' financial reports

The fact that listed companies utilize financial statements as one of their primary means of communication with their shareholders and the general public motivates value relevance research, Mozes (2020). Investors typically rely on financial reports issued by such organizations' management. To be effective, financial reporting must contain information that is both relevant and credible (Barth, Beaver and Landsman (2018). Value relevance referred to the ability of information shown in financial statements to capture and summarized a company's worth and predict future earnings; Gjerde, et al. (2016). Value relevance can be assessed using statistical correlations between financial statement information and stock market valuations; Gjerde et al (2016).

The information content studies on value relevance employing event studies investigated the reactions of capital market to financial information focusing primarily on earnings as the key product of financial reporting. Share price reactions around the release of earnings announcements indicated that the released earnings figures contain new information to market participants leading them to change their expectations about firms' future cash flows. Assuming market efficiency and no other information are causing price reactions, earnings announcement are thus regarded as useful for investment decision making and have information content, which then points to the response of market participants to reported earnings. The literature on earnings response coefficient and earnings coefficient on unexpected-earnings/abnormal-returns relation has provided deeper understanding of the return per

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earnings relation by showing how this relation varies across time and firms in addition to important methodological refinement to facilitate the design of more powerful tests.

Value relevance determinants

Value relevance is the ability of earnings to predict future dividends, future cash flows and future earnings or future book values; Francis and Schipper (2019). Value relevance is observed as favourable characteristics of accounting information as it is intended to addresses relevance and reliability, the primary criteria for standard setters to choose among accounting alternatives; Barth, and Landsman (2018). Earnings response is affected by risk, growth and interest rate which are referred to economic determinant of earning response. Economic determinant of accounting amount is not a major concern because investors are concerned on whether it contains information useful for market participants, but risk, growth and interest rate are major economic determinants of earnings response. If the investor is a risk averse, a higher risk for expected future return will have a lower value than a low risk sequence of future returns all things being equal.

In similar development, earnings response will be higher in firms that have opportunity for growth potential in certain investments that are expected to give above normal rate of return. In the case of interest rate, the risk-free interest rate of return in addition to the risk premium constitutes the discount rate, which is used to discount the revisions in expectations of future earnings innovations. Any increase in the interest rate would then cause an increase in the discount rate and therefore lower discounted value of earnings innovations all things being equal. According to International Financial Reporting Standards; IFRS (2007); the major objective of financial statement is to provide financial information about the financial position, performance and changes in the financial position of an entity that is, useful to wide range of users in making economic decisions. Basically, provision of financial information is concerned with the disclosure in the financial statement; it is paramount to discuss the concept of disclosure with regard to value relevance. To be effective, financial reporting must contain information that is both relevant and credible. Financial reporting standards provide guidance on how accounting information should be recorded, reported and interpreted.

Levitt (2016), in identifying what high quality accounting standard delivers, stated that educated investors need relevant useful information to make their investment decisions. Differences in quality of accounting standards, specifically, played a role in differences in value relevance of accounting numbers (Babalyan, 2016).

Value relevance refers to the ability of information shown in financial statements to capture and summarize a company's worth and predict future earnings; Sattem (2015). They posited that value

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relevance can be assessed using statistical correlations between financial statement information and stock market valuations. The metadata studies on value relevance utilizing event studies explored capital market reactions to financial information, with a primary focus on earnings as the primary output of financial reporting. Share price reactions to earnings announcements suggested that the reported earnings numbers provided fresh information to market participants, causing them to revised their projections regarding firms' future revenues. Considering economic efficiency and no other evidence is affecting price movements, earnings announcements are seen as valuable for investment decisions and have informativeness, which then refers to market participants' reaction to reported earnings. The literature on earnings response coefficient and earnings coefficient on unexpected-earnings per abnormal-returns relationship has provided a deeper understanding of the return-earnings relationship by demonstrating how this relationship varies across time and firms, as well as key conceptual improvement to expedite the configuration of the more potent evaluations.

To assess the quality of the accounting standards SEC (2000), emphasized that accounting standards must result in a consistent application, provide for transparency and full disclosure. The aim is that the standards produced relevant and reliable information that is useful for investors to make well-informed decisions. Accounting standards that fulfil such quality measures create high quality accounting information specifically information regarding firms' earnings. Bell (2000), provided evidence that accounting earnings in enhancing common-law accounting countries accounting standards, countries are substantially more timely and conservative than code law countries, particularly in incorporating loses.

2.2. Theoretical Review

Among the various theories upon which this study might be hinged upon, the following are considered predominant. These theories are economies of scale and agency theory. These are discussed hereunder.

The theory of Economies of scale

This theory describes cost advantage accruing to a firm as production becomes efficient. This is as a result of the increase in output; hence, the spread of cost is made possible over massive output. It is regarded as a cost competitive advantage associated with large firms, being able to reduce unit cost, culminating into an increase in profit margin. Consequently, large firms are linked with positive and significant financial performances.

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The agency theory

The agency theory is underlying auditors' engagement by firms. The shareholders, as resource owners, are principals whose interests need to be protected by directors, who are agents responsible for the day-to-day management of the firm. The shareholders then engage auditors to lend credibility to the stewardship report prepared by the agents (directors). Consequently, the auditor is expected to apply due diligence and skill in discharging his duties by examining financial statements prepared by management and giving an opinion as to whether in all material respects, such report is free from material misstatements. By so doing, quality audit engagements must reduce information asymmetry and gives credibility to financial information.

2.3. Empirical Review

Eneisik and Akani (2021), investigated the relationship between audit quality and market value of quoted banks in Nigeria. They proxied audit quality by audit fees, audit tenure and audit firms' size. Their study hypotheses were tested using panel least squares regression through pooled effect, fixed effect and random effect determined by Hausman test, fixed effect was accepted. Findings showed that audit fees had negative and insignificant impact on market price per shares. Empirical evidence indicated that audit tenure had negative and significant impact on market price per shares. Empirical evidence suggested that audit firms' size had negative and insignificant impact on market price per shares.

Wajiya (2020), examined the effect of audit quality on firm value in manufacturing companies listed on the Indonesian Stock Exchange in 2013 to 2017. The population in their study included all manufacturing companies listed on the Indonesian Stock Exchange. Sampling was carried out using a purposive sampling method and their research data were tested using multiple regression analysis. The results from their study showed that audit quality has a positive effect on firms' value in manufacturing companies on the Indonesian Stock Exchange.

Okezie and Egeolu (2019), examined the effect of audit independence on the reliability of financial reports in the banking sector. Ex-post facto research design was employed and data gathered from four (4) banks listed on the Nigerian exchange group and also operated within the African region. The data spanning across 5 years from 2014-2018, were analysed using multivariate linear regression. Findings revealed that audit independence had a significant effect on the value relevance of the financial reports of the banks under study. This was reflected in how the amount spent on audit fee had no significant effect on the reported earnings per share (proxy for reliance on financial reports by investors). Further findings reveal that audit independence has an insignificant effect on the timeliness of the financial reports.

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Nishtiman, et al. (2019), examined the impact of audit quality on accounting conservatism in Turkey. Using three different measures of accounting conservatism and correlation analysis, they reported that audit quality, in terms of brand name auditor and industry specialist auditor, is positively related to conservatism. Their results hold after controlling for operating cash flow, leverage, firm age and sales growth. Overall, their evidence is consistent that accounting conservatism complements firms in the Turkish business environment that engage with high quality auditors to mitigate agency costs.

Alireza and Kayhan (2017), investigated the effects of audit reports on financial information reported in Tehran Stock Exchange. Their method of research was practical in goal and was descriptive in nature. The types of auditor and auditor's assessment (audit organizations or institutions) were proposed as independent variables and financial information (stocks return) was proposed as dependent variable. They used 117 accepted companies in Tehran Stock Exchange during 2009-2014 as statistical sample. Their research hypotheses were tested by fitting of linear regression models of combined data. The results of their studies showed that the type of auditor and auditor's assessment have a significant relationship with stocks return (financial information).

Holtz and Neto (2010), looked at the effect of board characteristics on the quality of accounting information in Brazil. The study found that the characteristics of board independence and separation of the roles of chairman and executive director positively influence the quality of accounting information reported, especially regarding the values of equity. Similar study was conducted by Alkdai and Hanefah (2012), with particular reference to Malaysian shariah compliant companies. The findings indicated that board size was not an important factor to affect the value relevance of accounting information because of their negative and non-significant relationship and there was a positive and insignificant relationship between board independence and value relevance of accounting information.

Omokhadu and Amake (2018) studied the effect of corporate governance on value relevance of accounting information evidence from Nigeria. The study used a sample of 45 listed firms over 8 years (2008 – 2015). The results showed that accounting information is value relevant on the Nigerian market; and that corporate governance practices do not lead to noticeable increase in the value relevance of accounting information. The problem with this study is that two variables – dividend per share and cash flow from operation – were not specified in the model but used in the analysis and it failed to capture panel effect of the studied firms.

Musa and Masoyi (2018), studied the effect of board size on value relevance of accounting information of listed consumer goods firms in Nigeria using a sample of ten firms. The study used Generalized Least Square and found that board size has significant effect on value relevance of accounting

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information. But the study failed to capture board independence which is a significant variable. Also, the researchers did not test for normality of the data used.

Rani (2011), used primary variables – audit committee financial literacy and audit committee independence as proxies to study the effect of audit committee size expertise on the value relevance of accounting earnings. The study covered the period, 2007- 2009 with a sample of 105 companies listed on the New Zealand Stocks Exchange. Findings of the study revealed that there was no affiliation between audit committee characteristics and value relevance of accounting information in New Zealand. These findings might not be unconnected with the period covered by the study, which was only three years.

Alqatamin (2018), conducted similar but more recent study using a sample of 165 non-financial companies listed on the Amman Stocks Exchange (ASE) for a period of three years (2014 – 2016). The results revealed a significant positive impact of audit committee size, audit committee independence and gender diversity on firm's performance; while experience and frequency of meetings had insignificant relationship with firm's performance.

Mitra and Adhikary (2016), examined the determining factors of audit committee independence in the financial sector of Bangladesh using a sample of 72 firms. The study established a positive relationship between audit committee size and audit committee independence. The study did AE-FUNAI Journal of accounting, business and finance (FJABAF) 84 not used panel data but a cross sectional regression analysis on 72 firms for 2012 fiscal year only.

Kibiya, et al. (2016), investigated the effect of audit committee characteristics on quality of financial reporting of 101 Nigerian listed non – financial firms for the period 2010 – 2014. The results showed that audit committee monitoring mechanisms - audit committee size, audit committee share ownership and audit committee financial expertise – influenced the quality of financial reporting of the studied firms.

The study of Balagobei (2017), revealed that audit committee size, audit committee meetings and audit committee expertise have a significant impact on book value per share of listed Hotels and Travel in Sri Lanka but only audit committee expertise influenced earnings per share. The samples used in the study consisted of 15 Hotels and Travels listed on the Colombo Stocks Exchange during the period of 2012 – 2016 (five years).

Majiyebo, et al. (2018), conducted a study to examine the effect of audit committee independence and audit committee size on financial reporting quality of listed deposit money banks (DMBs) in Nigeria. After using a sample of 15 listed DMBs over a period of ten years 2007 – 2016, the study revealed that

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audit committee independence had a negative and significant effect, while audit committee size had a positive but insignificant effect on financial reporting quality of listed DMBs in Nigeria.

Ika and Regina (2011), examined the timeliness of financial reporting measured by audit lag and reporting lag in Indonesia Stock Exchange. The period covered was 2007-2009 of 700 firms using unbalanced panel data and ex-post facto research design. The results showed that property and real estate and building construction industries had the longest reporting lag, while trade, service and investment industries had the longest audit lag. The shortest audit and reporting lag were recorded by financial industries. Firm size positively affected audit lag and reporting lag while corporate governance and audit opinion negatively affected both audit lag and reporting lag, and Debt ratio only negatively affected reporting lag. Auditor's firm, profitability, price earnings ratio and dividend pay-out ratio did not significantly affect either audit lag or reporting lag. Audit lag and reporting lag both had mean of 74 and 94 days respectively.

Eneisik and Akani (2021), investigated the association between audit quality and market value of publicly traded Nigerian banks. Audit quality was estimated using audit fees, audit duration, and audit firm’s size. Panel least squares regression with a pooled effect, a fixed effect, and a random effect defined by the Hausman test was used to evaluate their study hypotheses. Findings revealed that Audit fees, had a negative and minor effect on market price per share. But audit tenure had a negative and significant effect on market price per share, while the study indicated that the size of an audit firm had both negative and minor effects on market price per share.

Wijyaya (2020) investigated the impact of audit quality on firm’s value in manufacturing firms listed on the Indonesian Stock Exchange between 2013 and 2017. In the study, the population covered all manufacturing enterprises registered on the Indonesian Stock Exchange. Purposive sampling was used for sampling, and their study data was tested utilizing multiple regression analysis. According to the findings of their study, audit quality had a favourable effect on firm’s value in manufacturing companies listed on the Indonesian Stock Exchange.

Okezie and Egeolu (2019), carried out study on the impact of audit independence on the dependability of financial reporting in the banking sector. Using an ex-post facto research design, data was acquired from four (4) banks listed on the Nigerian Exchange group that also operated throughout the African continent. Data from 2014 to 2018 were examined using multivariate linear regression. The findings demonstrated that audit independence had a considerable impact on the value relevance of the financial reports of the firms under scrutiny. The fact that the amount spent on audit fees had no discernable influence on the reported earnings per share confirmed this (proxy for reliance on financial reports by investors).

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The impact of audit quality on Turkish accounting conservatism was explored by Nishtiman et al. (2019). Using three distinct metrics of accounting conservatism and correlation analysis, they discovered that audit quality, in terms of brand name auditor and industry specialized auditor, is positively related to conservatism. Their results remained similar when controlling for operating cash flow, leverage, firm's age, and sales growth. Overall, their data indicated that accounting conservatism benefited Turkish enterprises that cooperated with high-quality auditors to cut agency costs.

Akinjobi and Omowumi (2010), investigated the impact of audit reports on financial data reported on the Tehran Stock Exchange. Their research method was descriptive and served a practical objective. The independent variables were auditor kinds and auditor assessments (audit organizations or institutions), while the dependent variable was financial information (stock returns). They sampled 117 accepted companies on the Tehran Stock Exchange from 2009 to 2014. Fitting linear regression models to pooled data allowed them to test their research ideas. Their research revealed that the type of auditor and the auditor's assessment had a significant impact on stock return (financial information).

In another study, Siyanbola (2016) established that to determine the relationship of variants of corporate governance and earning management in the firm. Six theories were reviewed out of which stakeholder theory was found to be more relevant. Data were collected from audited financial reports of 50 listed firms on Nigeria exchange group. Hypothesis was formulated and regression analysis was done on data obtained using OLS. The study revealed that out of all the independent variables, ownership of equity shares in a firm, either by board members or audit committee members; had positive impacts on earnings management. It was therefore recommended that both board of directors and audit committees should exclude people with high units of shareholding in the firm, to avoid tge risk of earnings management manipulation which reduced the quality of financial report.

Rani (2011), used primary variables – audit committee financial literacy and audit committee independence as proxies of audit committee characteristics to study the effect of audit committee size expertise on the value relevance of accounting earnings. The study covered the period, 2007- 2009 with a sample of 105 companies listed on the New Zealand Stocks Exchange. Findings of the study revealed that there was no affiliation between audit committee characteristics and value relevance of accounting information in New Zealand. These findings might not be unconnected with the period covered by the study, which was only three years. Alqatamin (2018), conducted similar but more recent study using a sample of 165 non-financial companies listed on the Amman Stocks Exchange (ASE) for a period of three years (2014 – 2016). The results revealed a significant positive impact of audit committee size,

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audit committee independence and gender diversity on firm's performance; while experience and frequency of meetings had insignificant relationship with firm's performance.

3.0. METHODOLOGY

Research Design

The study adopted *ex-post facto* design. The population of the study was made up of all the 52 listed non-financial firms in Nigeria Exchange group as at January, 2022. The financial firms were not considered as a result of market concentration of big size audit firms. A concentrated market will probably produce a skewed inference on the true position of external audit characteristics and value relevance of firms' financial reports. The study systematically selected 12 firms to form the sample size. The sample size surpasses 10 % and serves as a true representation of the population, Tapang, Bessong & Ujah (2015). Data was collected from the financial statement of the selected firms for a six (6) years period spanning from 2015-2020; while content analysis methodology was employed in deriving data for the value relevance of financial reporting. Content coding of annual report involves coding qualitative and quantitative into predefined categories in order to derive patterns in the reporting of information. Each reporting item of value relevance on the checklist was assigned a value between '5' if it is fully disclosed and '0' if the item is assumed relevant but not disclosed. Below are the selection criteria

Table 3.1 Sample size Determination

S/No	SECTOR	Number of Firms Listed		Sample size allocation
1	Agriculture	5	23% of 5 = approximately 1	1
2	Oil and gas	8	23% of 9 = approximately 2	2
3	Industrial goods	5	23% of 5 = approximately 1	1
4	Consumer Goods	16	23% of 16 = approximately 4	4
5	Natural resources	5	23% of 4 = approximately 1	1
6	Health care	8	23% of 5 = approximately 1	2
7	Conglomerates	5	23% of 5 = approximately 1	1
	TOTAL	52		12

Source: Authors compilation 2023

A comprehensive list of the firms used as sample is attached in appendix II of the work.

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Model Specification

$\mathbf{VR}_{it} = \alpha + \beta_1 EAO_{it} + \beta_2 EAE_{it} + \beta_3 EAT_{it} + U_{it}$ ....*Model 4*

Where;

α = Constant

VR = value relevance (This is measured using an aspect of the qualitative characteristics of financial reporting and was obtained by checklist)

EAO = external audit objectivity (The amount of money paid as audit fee by the firm in a given year)

EAE= External audit efficiency (The amount of audit fee divided by the net income of the firm in a given year).

EAT=External audit time lines; **it= Cross-section**($_i$) at time ($_t$); **U** = Error term used in the model.

$\beta_1 - \beta_3$= Beta coefficient of the independent variables.

Decision Rule: Accept the null hypothesis if the calculated value is greater than the significant level of 0.05.

4.0 PRESENTATION OF BRESULTS AND DISCUSSIONS

4.1 Data presentation

	VR	EAO	EAE	EAT
Mean	0.5561	6.162582	0.202424	1.744958
Maximum	0.75000	7.659756	0.964875	1.939519
Minimum	0.32000	4.918837	0.010433	1.653213
Std. Dev.	0.14117	0.747064	0.220949	0.073848
Skewness	0.283	0.224511	1.954421	0.456664
Probability	0.70292	0.249274	0.000000	0.190868
Observations	72	72	72	72

Source: E view result in study Appendix

The mean value relevance (VR) is 0.5561, with a standard deviation of 0.14117. VR also reveals a high of 0.7500 and a minimum of 0.3900. External Audit Objectivity (EAO) has a mean of 6.162582 and a standard deviation of 0.747064, with a low of 4.918837 and a high of 7.659756. External Audit Efficiency (EAE) has a mean of 0.202424 and a standard deviation of 0.220949, with a low of

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0.010433 and a high of 0.964875. External Audit Timeliness (EAT) has a mean of 1.744958 and a standard deviation of 0.073848, with a low of 1.653213 and a high of 1.939519. These different means and deviations demonstrate the degree of variance among the variables in the listed firms.

The Skewness statistics of the study variables fall between 0.061085 to 1.954421. This shows that the set of data are not skewed outside the accepted range of -2 to +2 which is considered the accepted range of skewness for a normalized data (Gujarati, 2007). The Jarques Berra probability statistics revealed values that are >0.05 which depicts stationarity of data except the EAE variable with a Jarques Berra Probability statistics of <0.05. To correct the non-stationarity of EAE data, further checks are conducted.

4.2 Data analysis

	COR	COR^2	COR^3	UNIT ROOT	ORDER	HAUSMAN
VR	1.000			LEVEL	I(0)	
EAO	-0.0940			LEVEL	I(0)	0.9078
EAE	0.0816	0.5317		LEVEL	I(0)	
EAT	-0.0018	0.0838	0.0261	LEVEL	I(0)	

Source: E view result in study Appendix II

The validity table above present result for further validity test to enable a non-spurious regression result. This test is necessary to ascertain the level of stationarity and multicolinearity amongst the study variables so as to filter out corresponding data in the model that is capable of distorting the validity of regression result (Outliers). From the unit root test, correlation test and Hausman test results, the table above is computed. From the table above, it is deduced that, all the variables under review are unit root at level. This necessitates the adoption of an ordinary least square method. To choose between the random and fixed effect model, the Hausman test is conducted. The Hausman probability value of

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0.9078 enabled the study to choose the random effect model. From the correlation result, it is noticed that the data for all the study variables are free from issues of multicolinearity owing to the low correlation statistics revealed by the result with the highest value being 0.5317 (Between EAO & EAE). This is in line with the postulate of Koutsoyiannis (2007), who asserted that correlation results of 0.75 above are course of concern. This means the data set are suitable for further regression result.

Regression of the Estimated Model Summary

This section presents the results produced by the model summaries for further analysis. Thus:
Dependent Variable: VR
Method: Panel EGLS (Cross-section random effects)
Date: 01/13/22 Time: 12:34
Sample: 2015 2020
Periods included: 6
Cross-sections included: 12
Total panel (balanced) observations: 72
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	.6902011	.4150123	1.663001	.10101
EAO	-.0430302	.0272031	-1.599001	.11503
EAE	.1150293	.0900212	1.284002	.20410
EAT	.0601203	.2280121	.2630012	.79320

R-squared	0.033128	Mean dependent var	-6.32E-16
Adjusted R-squared	-0.009529	S.D. dependent var	2.245406
S.E. of regression	2.256079	Sum squared resid	346.1126
F-statistic	0.776620	Durbin-Watson stat	2.630606
Prob(F-statistic)	0.511080		

Source: E view result in study Appendix III

The above analysis table shows the results of the regression between EAO, EAE, EAT, and VR. The following data can be gleaned from the model summary table above.

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R^2 stood at approximately 0.033.The R^2 otherwise known as the coefficient of determination shows the percentage of the total variation of the dependent variable (VR) that can be explained by the independent or explanatory variables (EAO, EAE&EAT). Thus the R^2 value of approximately 0.033 indicates that 3.3% of the variation in *value relevance* of the listed firms is explained by a variation in external audit characteristics (EAO, EAE&EAT) while the remaining 96.7% (i.e. 100-R^2) could be accounted by other factors not included in this model.

The corrected R2 of around -0.009 shows that if the model is changed and additional factors are taken into account, this result will depart from it by only 0.042. (i.e. 0.033 – -0.009). This result indicates that the sample variable tested and the factors to be addressed differ by 4.2%. The table also displays the fisher statistics of 0.776620 with a Prob. Value of 0.511080, demonstrating that the external audit features as a whole contribute to the value relevance of listed enterprises in Nigeria in a negligible way.

When the external audit variables are held stationary, the degree of value relevance is evaluated to be 2.683545, as shown in the table above. This essentially means that, given an intercept-only model, there will be an increase in the value relevance of listed firms of up to 2.683545 due to factors not included in this study. As a result, a unit increase in EAO results in a 57.9% drop in VR. A unit increase in EAE leads to an 186.8% rise in VR, while a unit increase in EAT leads to a 29% increase in VR.

4.3 Test of hypotheses

Ho_1: External audit objectivity has no significant effect on value relevance of listed firms in Nigeria. Given the stated decision criteria and considering the outcome of the regression result, the study accepts the null hypothesis and rejects the alternative hypothesis since the calculated significant level of 0.11503 is >0.05. Thus, external audit objectivity has no significant effect on value relevance of listed firms in Nigeria.

Ho_2: External audit efficiency has no significant effect on value relevance of listed firms in Nigeria.

Given the stated decision criteria and considering the outcome of the regression result, the study accepts the null hypothesis and rejects the alternative hypothesis since the calculated significant level of 0.20410is >0.05. Thus, external audit efficiency has no significant effect on value relevance of listed firms in Nigeria.

Ho_3: External audit timeliness has no significant effect on value relevance of listed firms in Nigeria.

Given the stated decision criteria and considering the outcome of the regression result, the study accepts the null hypothesis and rejects the alternative hypothesis since the calculated significant level of

0.79320is >0.05. Thus, external audit timeliness has no significant effect on value relevance of listed firms in Nigeria.

4.2. Summary of Findings

The study revealed that external audit characteristics contribute insignificantly to the value relevance of listed enterprises in Nigeria based on the findings of this study from the testing of the three research hypotheses previously developed in the study. Among the external audit qualities, audit objectivity has a negative negligible effect on the value relevance of listed firms in Nigeria, whereas both external audit efficiency and timeliness have a positive insignificant effect.

5.0. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From the conclusion above, it is recommended that firms must adjust the audit fee they pay to an average industry agreeable audit fee that is more objective. Perhaps too much is paid for a less complex audit function thus the objective mind of the audit exercise is questioned which reflects low value relevance in the audited financial reports. Inefficiency of audit fees constrains the firms' choice to less quality audit services who charge low audit fee but the consequences is reflected in the relevance of the firms' financial reported which has no influence of the value relevance of the firms.

5.2. Recommendation

External auditors must collaborate with the firm audit committee and managers to ensure a timelier audit that would enhance stakeholders' investment decision thus, making the audit more value relevant.

Competing Interest

The authors have declared that no competing interest exist in this paper.

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