Auditors Autonomy and Financial Performance of Food and Beverage Companies in Nigeria

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ABSTRACT

Audit quality has a vital role in strengthening confidence in the credibility and integrity of financial statements which is essential for enhanced firm financial performance. This study empirically examined the impact of auditor's autonomy on firm's performance in food and beverages companies in Nigeria. Secondary data used in this study were sourced from the audited financial statements of a food and beverages companies quoted on the Nigeria stock exchange (NSE) between the period of 2007 to 2017 and Nigeria Stock Exchange Fact Book. The auditor's autonomy variables for which the data were sourced include auditor independence index and auditor committee meeting. Return on asset and Return on equity was used to proxy financial performance for the period of study. Descriptive analysis, correlation and the panel fixed effects regression analysis was adopted. Results showed that auditor independence index and audit committee meetings has direct effects and insignificant impact on Return on Asset respectively while auditor independence index and audit committee meetings has direct effects and insignificant and impact on return on equity respectively. The study recommends that Management should establish and implement *periodic review of audit report to ensure that its performance and value to the companies is maximized and to ensure compliance with appropriate standards and guidance.*

Keywords: *Auditor' Independence Index, Auditor Committee Meetings, Return on Asset and Return on Equity.*

1. Introduction

Audit quality has a vital role in strengthening confidence in the credibility and integrity of financial statements which is essential for enhanced firm financial performance (Farouk and Hassan). Investors depend on the information from management as regards the financial position of the firm. Managers have the duty to uphold the continuity of the company's profit and growth.

Managers thus, have their own goals and interest in mind apart from the investors, which is to make the company appear to be in good standing at all times. The investors are interested in knowing the correct position of the company, so they can decide whether or not they will continue to invest in the corporation. Therefore, an intermediary is involved the auditor to protect the investors from the self -interest of managers. The investors' confidence in the auditor depends on the auditor credibility on how well the intermediary has been correctly verifying manager assertions of the financial statements. External users of financial statements including current and potential investors, creditors and others that needed reliable financial information on which they base their resources allocation decisions. As a result, auditors have to maintain their independence at all times (Austin and Herath 2014). Independence is described as having a position to take an unbiased viewpoint in the performance of audit tests, analysis of results, and attestation in the audit report (Rick Hayes, Rogar Dassen, Arnold Schilder, and Philip Wallages, 2004).

This study focuses on auditor's independence and throw more light on factors which have acted to limit its effectiveness and to consider whether they are likely to continue doing this in the future. Auditor's independence is a key element in improving audit quality. Audit quality emphasizes the legitimacy of financial statement for users of accounting data. Farouk and Hassan (2014) researched the effect of audit quality on financial performance of quoted cement firms in Nigeria. Their study aimed at determining the impact of auditor independence and audit firm size as proxies for audit quality on financial performance. The findings of their study shows that audit firm size and audit independence have significant impact, but the auditor independence is more influential on firm financial performance. Matoke and Omwenga (2016), test the relationship between audit quality and financial performance through the proxies of auditor independence, auditor size and audit team attributes, auditor experience and net profit margin of listed firms in Kenya.

The study analyzed data by applying multiple linear regression analysis. The study found that the effect of audit quality on financial performance is positive and significant and the higher the degree of auditor independence, the more likely the firm is to have higher profitability.

The external users of financial statements, which includes potential investors and current investors need a reliable financial data on which to base their decisions for resource allocation. Often the different stakeholders need different information, but they all depend on the information they receive is reliable and correct and that is where the auditor's role becomes crucial (Deegan and Jeffrey, 2011). Therefore, the stakeholders needs to trust that the auditors perform good reviews that help the companies provide accurate financial position figures. Since the auditor reviews the reports on behalf of the stakeholders it should be done without impartially and without bias. The auditor should be independent (Wines, 2011).

In most cases, it is difficult for an auditor to act with independence. If there is a threat to his independence, the auditor must reduce it to an acceptable level before he continues with the audit assignment. If the auditor cannot reduce the threats using safeguards he or she must resign from the engagement or choose to reject it (Gordon, 2003). The importance of the auditor's independence has been controversial in recent years due to several auditing scandals being revealed. These events led to stricter guidelines on how the financial statements should be prepared, an example is the Sarbanes-Oxely Act which was a result of the Enron's collapse (Healy and Palapu, 2003). The questionable role of auditors in ensuring the quality, reliability and credibility of financial report has been a dabate (Ejeagbasi, Nweze, Ezeh and Nze, 2015). Lack of reliable financial statement has been responsible for collapse in many business organization through the pull out of current and potential investors, leading to insolvency of firm.

Nigeria's corporate Governance code stipulates that a high integrity, independence, and competent external auditor should exist. In essence, auditing is used to provide the needed assurance for investors when relying on audited financial statement (Rahman and Saima 2018). The independence of auditor can be compromised by bad regulation and auditing practice oversight. The role of auditors is regarded in audit quality to ensure the accuracy of financial reports. This in turn boosts the overall firm financial performance and market value of firm in the share market.

From the foregoing discussion on the impact of auditors autonomy on financial performance of food and beverages companies in Nigeria, researchers and financial experts are becoming more curious and attracted to their impact. However, various researches have been conducted to investigate the impact of auditor autonomy and financial performance, but the results have been mixed and inconclusive and none has used food and beverages companies in Nigeria that covered this length of period (2007 to 2017) as a focal point. This is the fundamental framework that has informed the present study. The objective of this study is to examine and analyze the impact of auditor's autonomy on financial performance of food and beverages companies in Nigeria.

2. Literature Review

Conceptual Review:

Concept of Auditors' Independence

Mautz and Sharaf (1961) developed a concept of independence with components: practitioner's independence and professional independence. According to them, practitioner's independence, on the one hand, is a state of mind and equates the notion of integrity and objectivity of the individual auditor. Professional independence on the other hand, is apparent independence of auditors, as a professional group, to the public. Auditor independence refers to the independence of the internal auditor or of the external auditor from parties that may have a financial interest in the business being audited. Independence requires integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner. Independence of the internal auditor means independence from parties whose interests might be harmed by the results of an audit. Specific internal management issues are inadequate risk management, inadequate internal controls, and poor governance. The Charter of Audit and the reporting to an Audit Committee generally provides independence from management, the code of ethics of the company (and of the Internal Audit profession) helps give guidance on independence from suppliers, clients, third parties, etc. Independence of the external auditor means independence from parties that have an interest in the results published in financial statements of an entity. The support from and relation to the Audit Committee of the client company, the contract and the contractual reference to public accounting standards/codes generally provides independence from management, the code of ethics of the Public Accountant profession) helps give guidance on independence from suppliers, clients, third parties. Autonomy without proper accountability can lead to managerial abuse of the system (Mercy and Zachary 2015).

Concept of Audit Committee

An audit committee comprises mainly or wholly of independent directors with the responsibility for the oversight of financial reporting and auditing activities (Birkett, 1986; Collier, 1992; Collier & Zaman, 2005). With a bigger audit committee, potential issues in the financial reporting process are more likely to be detected and resolved. This could arise if a larger committee size increases the resources available to the audit committee and improves the quality of oversight (Mohamad Naimi Mohamad-Nor, Rohami Shafie & Wan Nordin Wan-Hussin, 2010). The audit committee shall be composed of an equivalent amount of managers and representatives of the company's shareholders (subject to a maximum amount of six members) and shall review the auditor's report and make suggestions to the annual general meeting as it may deem appropriate (Okolie, 2014). The number of audit committee meetings is also recommended in numerous corporate governance codes across the world, and is used by accounting firms to assess the effectiveness of audit committees. For example, the Blue Ribbon Committee (1999) recommends a minimum of four meetings a year for an audit committee to be effective. KPMG (1999) proposes between three and four meetings a year while PwC (1993) recommends a minimum of four meetings a year for an audit committee to be effective.

Concept of Financial Performance

Financial performance is the measure of how well a firm can use assets from its primary mode of business and generate revenues. It is measuring the results of a firm's policies and operations in monetary terms. This term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes.

Investors and financial analysts rely on financial data to analyse the performance of a company and make predictions about its future direction of the company's stock price. One of the most important resources of reliable and audited financial data is the annual report, which contains the firm's financial statements. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

Accounting ratios, an important sub-set of financial ratios, are a group of metrics used to measure the efficiency and profitability of a company based on its financial reports. They provide a way of expressing the relationship between one accounting data points to another and are the basis of ratio analysis.

Concept of Return on Equity

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers. Net income is calculated before dividends paid to common shareholders and after dividends to preferred shareholders and interest to lenders.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholder's Equity}}$$

Net income is the amount of income, net of expense, and taxes that a company generates for a given period. Average shareholders' equity is calculated by adding equity at the beginning of the period. The beginning and end of the period should coincide with the period during which the net income is earned.

Net income over the last full fiscal year, or trailing 12 months, is found on the income statement, a sum of financial activity over that period. Shareholders' equity comes from the balance sheet, a running balance of a company's entire history of changes in assets and liabilities.

It is considered best practice to calculate ROE based on average equity over a period because of the mismatch between the income statement and the balance sheet.

Theoretical Review:
Stakeholder's Theory

Stakeholder theory proposes that as we study the relationships between a business and the groups and individuals who can affect or are affected by it, then there is better chance to deal effectively with these three problems. Viewing from a stakeholder perspective, business can be understood as a set of relationships among groups that have a stake in the activities that make up the business (Freeman, 1984; Jones, 1995;). It is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.), communities and managers interact to jointly create and trade value. To understand a business is to know how these relationships work and change over time.

In a review of the stakeholder theory, John and Senbet (1998) states that the multiplicity of principals tends to give rise to conflicting interests. Within the stakeholder theory context, the agency problem has been expanded to allow numerous directors. So, instead of treating shareholders as the only group whose interest the officer should safeguard, the theory of stakeholders considers other groups such as company staff, creditors, government, etc. also as having equally vital stakes in the performance of the firm. A fact amply demonstrated by the thousands of job losses, reduced tax revenues, high costs of litigation etc. that came in the wake of such high-profile corporate frauds as occurred at Enron, Global Crossing, Parmalat & World.com. . Since there are many stakeholders, the agent is sometimes confronted with the difficult choice of meeting competing stakeholder interests.

Jensen (2001) proposes the enlightened stakeholder theory suggests that by pursuing the goal of maximizing long-term value of the Company, executives could serve all stakeholders ‘ interests. “Stakeholder Theory” is basically a theory about how best company could operate. It is at the same moment descriptive, prescriptive and instrumental and, as Donaldson and Preston (1995) argued, it is managerial. The theory of stakeholders is about value creation and trade and how to effectively manage a business. If stakeholder theory is to solve the problem of value creation and trade, it must show how business can in fact be described through stakeholder relationships. If it is to solve the problem of the ethics of capitalism, it must show how a business could be managed to take full account of its effects on and responsibilities towards stakeholders. And if it is to solve the problem of managerial mind set, it must adopt a practical way of putting business and ethics together that is implementable in the real world. As outlined originally in Freeman (1984), stakeholder theory is concerned with the problem of value creation and trade.

Empirical Review

Farouk and Hassan (2014) examined the impact of audit quality on financial performance of quoted firms in Nigeria. Multiple regression analysis was employed in analysing the data and testing the stated hypotheses. The results of the findings show that auditor size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria. However, auditor independence has more influence than auditor size on financial performance; Ziaee (2014) examined the relationship between audit quality and financial performance of companies in Iran. For this population the financial manager is accepted in Tehran Stock Exchange and 2008 to 2012 have been selected. Using primary data, he found that audit quality could affect the financial performance of companies; Yassin and Nelson (2012) used audit fee as proxy for audit quality. They suggested that, a higher audit fees indicates that auditors provide more efficient audit service to the companies compared to lower audit fee;

Tatiana, Mihaela and Roxana (2015), examined the internal control and internal audit activities in some Nigerian firms. Generally internal control being an integral part of corporate governance has faced a lot of regulatory reforms due to the corporate scandals and financial crisis in the economic environment. Regulators have been faced with increased disclosure requirement. Nigeria has continually been faced with high level of financial loss due to fraudulent practices. Specifically, the study looks at audit report, and its major effect on financial performances. The study adopt analytical survey method to gather information on audit activities. Data collection was used by means of the questionnaire with response options graduated into five like to scale designed to capture information on the effect of audit report on financial performance in an organization. Logistic regression analysis was used to test the hypothesis and the result shows a positive and significant relationship existed between the audit report and financial performance. Aoife (2021), The findings from the report confirm our view that autonomy misrepresented its financial performance through a series of calculated sham transactions and the deliberate failure to disclose its substantial hardware reselling business. Abdullahi, Isah, okeke and martin (2021). Evaluated the role of internal auditors autonomy in ensuring financial accountability in kogi state local government. The study revealed that internal auditors in kogi state local government are faced with numerous challenges which range from corruption and regular influence from the chairmen. Ezejiofor and Okolocha (2020), Examined the effect of internal audit function on financial performance of commercial banks in Nigeria. The analysis revealed that internal audit control and procedures have positive effect on financial performance of commercial banks in Nigeria. Owolabi and Afolayan (2020), carried out a study on auditor's independence and the financial quality of financial reporting in listed deposit money banks in Nigeria. The study discovered that there exists a positive association amid auditor independence and financial reporting quality in deposit money bank in Nigeria. Muotolu and Nwadialor (2019), investigated the effect of audit quality on the financial performance of deposit money banks in Nigeria. The study reveals that audit committee size has a positive but insignificant effect on the financial performance of deposit money bank in Nigeria.

3. Methodology

A sample size is a segment or part proportion of the total population. The sample size is also adduced to be a representation of the whole population. Thus, the sample is made up of 8 listed companies as representatives of all food and beverage companies domiciled in Nigeria. The eight (8) companies are quoted on the Nigerian Stock Exchange for the period of eleven (11) years.

Firms with financial position indicators like auditors' independence index and audit committee meetings covering the time period of 2007 – 2017 were selected based on access to their annual reports and accounts. The time frame was also chosen to capture the financial position of the firms before and after the code of corporate governance was implemented in Nigeria. The sample frame consists of Dangote Flour Mill, Dangote Sugar Refinery Plc, Flour Mill Nigeria Plc, Guinness Nig. Plc., Nestle Nig Plc, Nigerian Breweries Plc, PZ Cussons, and Unilever Nigeria. The study involves time series and cross sectional data. Panel Least Square data regression analytical technique was used to observe all variables for the period. The dependent variable, Financial performance was measured using Return on Equity (ROE) and Return on Asset (ROA) while the independent variables, auditor committee meeting, auditor independence index and earnings per share.

Model Specification and Estimation Techniques

The theoretical foundation of this study hinged on the agency theory of corporate governances (He, Chiu and Zhang, 2015). The study used the static panel ordinary least square (OLS) to model the relationship between auditors autonomy and financial performance of listed multi-national firms on the Nigerian Security Exchange (NSE). The major advantage of this technique is that it answers the importance of questions that cannot be addressed using cross-section and time series data sets. The general form of the panel OLS model in respects to this study, where *i* indicates firms and *t* represents time. The model is stated as: $y_{it} = b' x_t + j' c_t + e_t$

Where $y =$ financial performance measured by return on equity (ROE) and return on assets (ROA); $x =$ auditors' autonomy and audit committee meetings; $c =$ control variables measured by total asset and earnings per share; $e_{it} =$ stochastic term which is uncorrelated with the independent variables indicating that x_{it} is a strictly exogenous vector of variables; b is a vector of coefficients of the vectors of independent variables x_{it} ; and j is a vector of control variables.

4. Empirical Results and Discussion

Presentation of Data

This section present the data sets used to present the results of the impact of auditors autonomy on firm performance in 8 selected firms from the listed Nigerian food and beverage industry. The datasets consist of auditors' independence index, auditors' committee meetings, firms' size (proxy by total assets), earnings per share for the explanatory variables and firm performance (measured by return on assets and return on equity).

4.1 Preliminary Analysis (Descriptive and Trend Analysis)

In this section, the preliminary analysis on descriptive statistics, trend and correlation analysis of auditors' autonomy and firm performance of 8 listed firms selected from the Nigerian Stock Exchange between 2007 and 2017. The stylized facts of auditors' independence index, auditors' committee meetings, firms size (proxy by total assets), earnings per share for the explanatory variables and firm performance (measured by return on assets and return on equity are presented in this section. Also, the summary statistics are depicted in Table 4.2. The table presents the average, standard deviation, minimum, maximum, Skewness and Kurtosis of the variables for 8 Nigerian listed food and beverages for the periods of 2007 to 2017.

Table 4.1: *Descriptive Statistics*

	ROA	ROE	AI	ACM	LACM	SIZE	LSIZE	EPS	LEPS
Mean	0.162677	0.340593	0.090909	3.477273	1.193021	1.2E+08	18.35092	235.4077	4.367026
Standard Deviation	0.142046	0.491452	0.050361	0.982341	0.360493	96635095	0.699165	276.7085	2.62173

Sample Variance	0.020177	0.241525	0.002536	0.964995	0.129955	9.34E+15	0.488832	76567.58	6.87347
Kurtosis	1.646846	41.8319	-0.65235	0.544764	3.503684	2.703497	-0.0956	1.74634	7.012061
Skewness	0.39451	5.461172	0.588999	-0.56794	-1.73581	1.782326	0.284065	1.336324	-2.57495
Range	0.894372	4.764358	0.173684	5	1.791759	4.59E+08	3.129264	1467	12.62878
Minimum	-0.25258	-0.63587	0.026316	1	0	21000000	16.86003	-251	-5.52545
Maximum	0.641789	4.12849	0.2	6	1.791759	4.8E+08	19.9893	1216	7.103322
Sum	13.99019	29.29096	8	306	104.9858	1.03E+10	1578.179	19774.25	366.8302
Count	88	88	88	88	88	88	88	88	88

Note: ROA - Return on assets; ROE - Return on equity; AI - Auditor independence index; ACM- Auditor committee meetings; LACM- Auditor committee meetings(log); size - Total assets; LSIZE - Total assets(log); EPS- Earnings per share; and LEPS - Earnings per share(log)

Source: Author's computation (2020) Extract from STATA output.

The descriptive statistic presented in Table 4.2 indicates that the average value of firm performance measured by return on assets and return on equity are 0.1627 and 0.3406 respectively. Their respective maximum values stood at 0.6418 and 4.1285 while their minimum values stood at -0.2526 and -0.6359. The dispersion between the maximum and minimum values of firm performance is large, which was further confirmed by their standard deviation values of 0.1430 and 0.4915 respectively. This shows that there is high disparity between the mean and the value of each firm's financial performance indices.

The mean values of the principal variable in terms of auditor independence index (AII) and auditor committee meeting (ACM) are also reported in Table 4.2. Correspondingly, their mean values were 0.909 and 3.4773 times/years. Their respective maximum values are 0.2 and 6ti,e /year while the minimum values stood at 0.0263 and 1/year. It suggests that the meetings held by the audit committee are approximately 4 times in a year on average in order to ensure quality control and avoid mismanagement of their firm businesses. However, the standard deviation value is low, implying low variation of data from mean unlike the value recorded for auditors' independence index.

In the case of the control variables, the average of firm's size measured by total assets (SIZE) and earnings per share (EPS) were ₦120 million and ₦2.35 respectively. It denotes that the size of the sampled listed firms is high indicating the level of contribution towards the growth of firm. Equally, the earning per share confirmed the success and prosperity of the companies as its average value is ₦2.35 while its maximum and minimum values are ₦12.16 and –₦2.51. Therefore, the differences between the maximum and minimum values shows high variation from mean. This was confirmed by the standard deviation value at 2.7671 which is greater than the mean. In addition, audit committee meetings skewed negatively with a value of -1.7358 respectively, while other indicators skewed rightward. Meanwhile, the Kurtosis at 3.0 implies normal distribution of variables. From Table 4.2, the variables failed to exhibit a normal distribution feature. Overall, only return on equity is leptokurtic while others are platykurtic in distribution. Furthermore, the trend of auditor independence index was presented against the variables of financial performance board size in Figure 4.1, auditors committee meeting in Figure 4.2, and total asset and earnings per share in Figure 4.3.

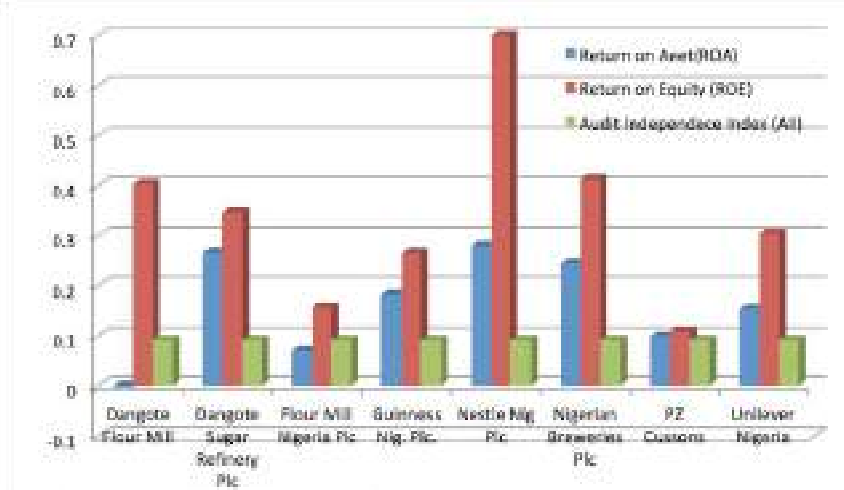

Figure 4.1: Avearge of ROA, ROE and Auditors Independence of sampled companies
Source: Companies Annual Report (various issues)

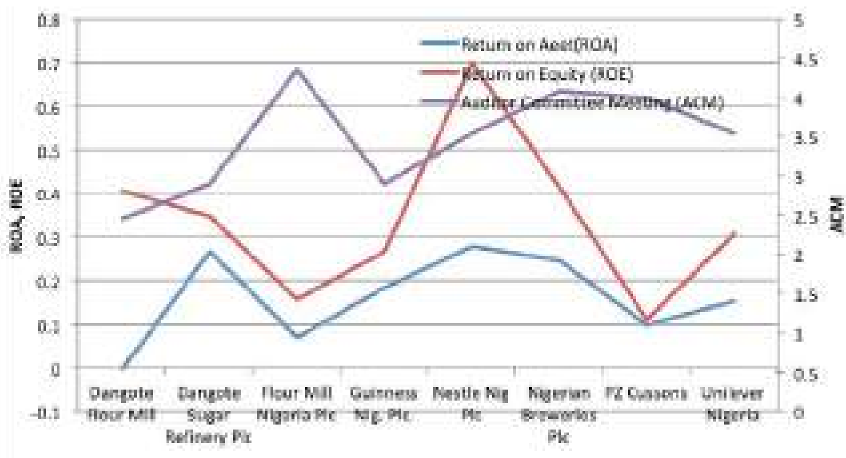

Figure 4.2: Avearge of ROA, ROE and Auditors committe meeting of sampled companies
Source: Companies Annual Report (various issues)

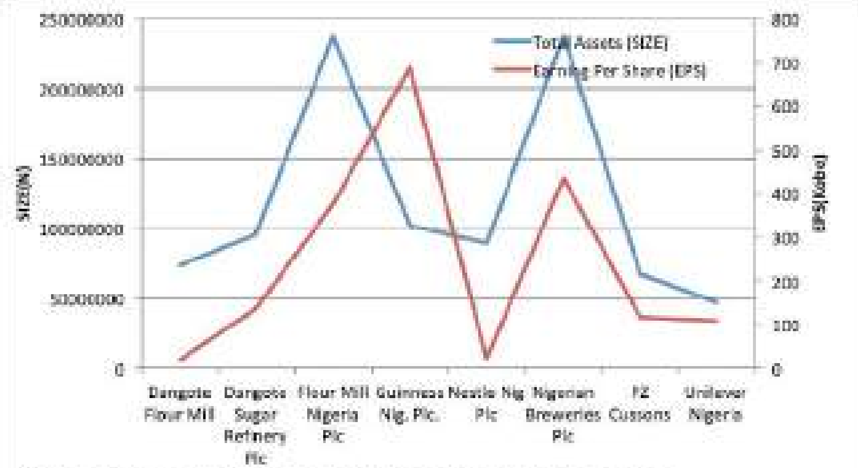

Figure 4.3: Avearge of total asset and earnings per share of sampled companies
Source: Companies Annual Report (various issues)

An overview of the firms' financial performance in Figure 4.1 shows that Nestle Nigeria Plc has the highest return on assets and return on equity among the listed food and beverage companies surveyed. Afterward, Nigerian Breweries Plc and Dangote Flour mill have the highest return on equity, followed by Dangote Sugar Refinery Plc, Unilever Nigeria Plc, Guiness Nigeria Plc, Flour Mills Nigeria Plc and PZ Cussons in that order. In the case of return on assets, the order of performance is Dangote Sugar Plc, Nigerian Breweries Plc, Guiness Nigeria Plc, Unilever Plc Flour Mills Plc and Dangote Flour Mills. It indicates that return on equity is higher than return on assets which implies that parts of the companies' assets are acquired through debt. For auditors committee meeting trend in Figure 4.2, more audit meetings were organized by Flour Mills Plc compared to Nigeria Breweries Plc, PZ Cussons, Unileve Nigeria Plc, Guiness Nigeria Plc, Dangote Sugar Refinery Plc and Dangote Flour Mills Plc respectively. Figure 4.3 shows that total assets and earnings per share follows the same trend, implying that a company with large size has a higher earnings per share vice-versa

Table 4.2: *Correlation Matrix*

	ROA	ROE	AII	ACM	LACM	SIZE	LSIZE	EPS	LEPS
ROA	1								
ROE	0.168414	1							
AI	0.032831	-0.08815	1						
ACM	-0.09148	-0.06082	0.051561	1					

LACM	-0.02037	0.014319	0.010769	0.966813	1				
SIZE	-0.20139	-0.16649	0.024336	0.318937	0.28810932	1			
LSIZE	-0.2374	-0.20405	0.035386	0.324302	0.27956698	0.921738	1		
EPS	0.280725	-0.10353	0.105752	0.04682	0.09668552	0.305192	0.331141	1	
LEPS	0.461718	-0.19654	0.081704	0.169689	0.19475081	0.274006	0.264698	0.67152	1

Note: ROA - Return on assets; ROE- Return on equity; AI - Auditor independence index; ACM - Auditor committee meetings; LACM - Auditor committee meetings(log); size - Total assets; LSIZE- Total assets(log); EPS - Earnings per share; and LEPS - Earnings per share(log)

Source: Author's computation (2020) Extract from STATA output.

4.2 Correlation Analysis

The partial correlation of the auditor independence indicators, control variables such as size and earnings per share and firm performance variables in the selected listed Nigerian food and beverage industry within the period of 2007 and 2017 were presented in Table 4.3. For the firm performance indicators, auditors' independence index has a positive level of association with return on assets while a negative correlation was reported in the case of return on equity. The correlation coefficients for both performance indicators are weak. A weak and positive correlation coefficient was also reported between auditor independence index and audit committee meetings, indicating that a direct relationship exist between them. For the control variables, firms' size in terms of total assets has an indirect association with performance i.e. ROE and ROA. Meanwhile, earnings per share have a positive correlation with return on assets while negative coefficient was reported for return on equity.

The correlation coefficients of the level of relationship among the controlling variables are also reported in the table. It is worth mentioning that the correlation values also indicate the absence of perfect and/or strong multicollinearity among the predictive variables. The values indicate positive relationships among the variables of interest in varying magnitudes and signs which are far lesser than 0.7.

4.3 Presentation of Regression Result

In this part, this study presents the empirical results in regards to the set objectives in first chapter. Prior to the presentation of findings as related to objectives, the pre-estimation test using Huasman tests are computed to choose the appropriate estimator between fixed effects and random effects. The outcomes are presented in the following sub-sections.

4.3.1 Regression Result of the links between Audit Autonomy and Return on Asset

The fixed effects methods were employed in estimating the panel regression models that examined the effects of audit autonomy on firm performance. The Hausman test results presented in Table 4.4 was computed to test the null hypothesis that "random effects are uncorrelated with the explanatory variables". The outcome were rejected, the null hypotheses at 5% significance levels based on the calculated Chi-Square values. Thus, fixed effects method were found to be consistent and efficient for the achieving the stated objective of this sub-sectio

Table 4.3: *Panel Fixed Effects Results of Audit Autonomy and Return on Asset*

Dependent Variable: ROA

Method: Panel EGLS (Cross-section weights)

Sample: 2007 2017

Periods included: 11

Cross-sections included: 8

Total panel (unbalanced) observations: 84

Linear estimation after one-step weighting matrix

White cross-section standard errors & covariance (d.f. corrected)

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	2.510915	0.365896	6.862365	0.0000
AI	0.093236	0.055689	1.674227	0.0802
ACM	-0.022353	0.039411	-0.567181	0.5724
SIZE	-0.128025	0.019864	-6.445225	0.0000
EPS	0.077462	0.009324	8.307676	0.0000
@TREND	-0.001035	0.004396	-0.235512	0.8145
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.856767	Mean dependent var		0.229853
Adjusted R-squared	0.832559	S.D. dependent var		0.192202
S.E. of regression	0.067419	Sum squared resid		0.322715
F-statistic	35.39134	Durbin-Watson stat		1.136853
Prob(F-statistic)	0.000000			

Extract from E-views output.

Model 1

$$ROA_{i.t} = 2.5109 + 0.0932AII_{i.t} - 0.0224ACM_{i.t} - 0.1280SIZE_{i.t} + 0.0775EPS_{i.t} + e_{i.t}$$

Interpretation

The estimated model indicates that the coefficient of auditor independence index is positive but statistically significant at 10%. It implies that auditor independence has direct effects on return on assets of listed Nigerian food and beverage industry. The sign was in tandem with a'priori expectation. In magnitude terms, it suggests that a 10% increase in auditor independence index will improve return on assets by 0.93%. However, the parameter and probability value of audit committee meetings was positive but not statistically significant at the conventional level. It implies that audit committee meetings have an insignificant impact on return on assets. As for the control variables, the parameters of firms' size and (earnings per share) were negative and (positive) which were statistically significant at 5% for ROA. It implies that earnings per share have direct and significant impact on return on assets whereas firms' size has an indirect impact on ROA. Thus, a 10% change in firms' size and earnings per share will make ROA to change by -1.28% and 0.78% respectively.

As well, the degree of variation in return on assets explained by audit autonomy and other financial variables are indicated by the adjusted R-squared value. It shows that audit autonomy explains about 83.3% changes in return on assets of listed Nigerian food and beverage industry between 2007 and 2017. The F-statistic reveals that the overall effect of audit autonomy on financial performance was significant at 5%.

The Decision Criteria:

The statistical significance of this model indicates that the study cannot accept the null hypothesis of this model hence the study accepted the alternate hypothesis which says that audit autonomy has a significant effect on firm performance in the Nigerian food and beverage industry. This result is consistent with a'priori expectation of this model.

4.3.2 Regression Result of the links between Audit Autonomy and Return on Equity

The fixed effects methods were employed in estimating the panel regression models that examined the effects of audit autonomy on firm performance measured by return on equity. The Hausman test results presented in Table 4.5 was computed to test the null hypothesis that "random effects are uncorrelated with the explanatory variables". The outcome reveals that we do reject the null hypotheses at 5% significance levels based on the calculated Chi-Square values. Thus, fixed effects method was found to be consistent and efficient for the achieving the stated objective of this sub-section.

Table 4.4: *Panel Fixed Effects Results of Audit Autonomy and Return on Equity*

Dependent Variable: ROE				
Method: Panel EGLS (Cross-section weights)				
Sample: 2007 2017				
Periods included: 11				
Cross-sections included: 8				
Total panel (unbalanced) observations: 84				
Linear estimation after one-step weighting matrix				
White cross-section standard errors & covariance (d.f. corrected)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	5.491304	1.141522	4.810511	0.0000
AII	0.386940	0.219883	1.759754	0.0760
ACM	-0.148459	0.091024	-1.630976	0.1073
SIZE	-0.277972	0.066073	-4.207064	0.0001
EPS	0.100296	0.028092	3.570318	0.0006
@TREND	0.011624	0.008768	1.325738	0.1892
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.826720	Mean dependent var		0.835009
Adjusted R-squared	0.797433	S.D. dependent var		0.757769
S.E. of regression	0.316919	Sum squared resid		7.131075
F-statistic	28.22837	Durbin-Watson stat		1.867568
Prob (F-statistic)	0.000000			

Extract from E-views output.

Model 2

$$ROE_{i.t} = 5.4913 + 0.3869AII_{i.t} - 0.1485ACM_{i.t} - 0.2780SIZE_{i.t} + 0.1003EPS_{i.t} + e_{i.t}$$

Interpretation

The estimated model indicates that the coefficient of auditor independence index is positive but statistically significant at 10%. It implies that auditor independence has direct effects on return on equity of listed Nigerian food and beverage industry. The sign was in tandem with a'priori expectation. In magnitude terms, it suggests that a 10% increase in auditor independence index will improve return on equity by 0.39%. However, the parameter and probability value of audit committee meetings was positive but not statistically significant at the conventional level. It implies that audit committee meetings have an insignificant impact on return on assets. For the control variables, the parameters of firms' size and (earnings per share) were negative and (positive) which were statistically significant at 5% for ROA. It implies that earnings per share have direct and significant impact on return on equity whereas firms' size has an indirect impact on ROE. Thus, a 10% change in firms' size and earnings per share will make ROE to change by -0.28% and 0.10% respectively.

As well, the degree of variation in return on equity explained by audit autonomy and other financial variables are indicated by the adjusted R-squared value. It shows that audit autonomy explains about 79.7% changes in return on equity of listed Nigerian food and beverage industry between 2007 and 2017. The F-statistic reveals that the overall effect of audit autonomy on financial performance was significant at 5%.

The Decision Criteria:

The statistical significance of this model indicates that the study cannot accept the null hypothesis of this model hence the study accepted the alternate

hypothesis which says that audit autonomy has a significant effect on firm performance measured by return on equity in the Nigerian food and beverage industry. This result is consistent with *a'priori* expectation of this model.

5. Conclusion and Recommendations

This research studied the impact of auditor autonomy on financial performance in eight (8) food and beverages industry quoted on the floor of the Nigeria Stock Exchange from 2007 – 2017. The estimated model indicates that the coefficient of auditor independence index is positive but statistically significant at 10%. It implies that auditor independence has direct effects on return on equity of listed Nigerian food and beverage industry. The sign was in tandem with *a'priori* expectation. In magnitude terms, it suggests that a 10% increase in auditor independence index will improve return on equity by 0.39%. However, the parameter and probability value of audit committee meetings was positive but not statistically significant at the conventional level. It implies that audit committee meetings have an insignificant impact on return on assets. For the control variables, the parameters of firms' size and (earnings per share) were negative and (positive) which were statistically significant at 5% for ROA. It implies that earnings per share have direct and significant impact on return on equity whereas firms' size has an indirect impact on ROE. Thus, a 10% change in firms' size and earnings per share will make ROE to change by -0.28% and 0.10% respectively. As well, the degree of variation in return on equity explained by audit autonomy and other financial variables are indicated by the adjusted R-squared value. It shows that audit autonomy explains about 79.7% changes in return on equity of listed Nigerian food and beverage industry between 2007 and 2017. The F-statistic reveals that the overall effect of audit autonomy on financial performance was significant at 5%. From the discussion and findings, it was concluded as obtained from the pooled regression models that audit autonomy has a significant effect on firm performance measured by return on equity in the Nigerian food and beverage industry.

The following are the researcher's recommendations based on the following findings from this study.

Management of food and beverages companies in Nigeria can improve the financial performance of their company by increasing the amount of audit fees paid to audit firm of their respective organizations. Although, this might seem like a profit reduction decision in the short run, but the benefits that will accrue to the firm far outweighs the cost. This will facilitate and ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of quality of audited reports. Management should establish and implement periodic review of audit report to ensure that its performance and value to the institution is maximized and to ensure compliance with appropriate standards and guidance. There should be proper check and balances in all financial transactions and also they should review their financial statement periodically and ensure that finance is used for the purpose in which they are meant for.

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