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AUDIT QUALITY AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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Key words: *Audit Quality, Financial Performance, Audit Fee, Audit Firm Status, Audit Firm Tenure, Audit Firm Rotation, Cashflow Return on Investment*

ABSTRACT

The study examined the effect of audit quality on the financial performance of listed consumer goods companies in Nigeria. The specific objective was to determine the effect of audit fee, audit firm status, audit firm tenure and audit firm rotation on the cashflow return on investment. Ex-post facto research design was utilised in the study. Out of a population of twenty-one (21) listed consumer goods firms in Nigeria, purposive sampling was deployed to select a sample participant of fourteen (14) firms. Secondary data were manually collected from the financial reports of chosen firms over a span of 10 years (2013-2022). The hypothesis testing was conducted using panel data regression analysis with Panel Estimated Generalized Least Squares. The findings showed that: audit fee has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0016); audit firm status has a significant positive effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0001); audit firm tenure has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0000); audit firm rotation has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0000). In conclusion, while high audit fees and long auditor tenures tend to negatively impact the financial performance of listed consumer goods firms in Nigeria, the reputation of the audit firm can have a beneficial effect; meanwhile, frequent audit firm rotation, despite its intended benefits, may also pose challenges to a company's cashflow return on investment. The study recommends that board of directors should negotiate and monitor audit fees to ensure they are reasonable and commensurate with the scope of work required, avoiding unnecessary financial strain on the company's resources.

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1. INTRODUCTION

The heightened economic instability caused by the global financial crisis has highlighted the critical need for trustworthy, high-quality, and reliable financial reporting systems (Abed, Hussin, Ali, Haddad, Shehadeh & Hasan, 2022). External audits are expected to play a vital role in improving the quality of financial reporting among companies. Undoubtedly, the quality of audited financial information is of great importance, not only to individuals but also to organizations, governments, and regulators (Jeroh & Ozegbe, 2022). According to Trianjani, Rahayu and Ridwan (2023), audit quality refers to the degree to which an audit effectively and accurately examines a company's financial statements and internal controls, ensuring that financial information is reliable and compliant with accounting standards. Ensuring audit quality is crucial for companies as it can expressively enhance their financial performance by efficiently managing resources (Sulaiman, 2023). The pivotal role of audit quality in sustaining a company's financial performance is based on the argument that objective quality control through audit forms the bedrock of confidence in the credibility and dependability of financial reports, which is essential for market efficiency and improved financial performance (Apalowowa, Olofintuyi, Apeko & Falusi, 2023). The two dimensions in quality of audit are firstly the detection of anomalies and errors in financial statements and secondly the reporting of these anomalies and errors (Ahmeti, Kalimashi, Ahmeti & Aliu, 2022). However, audit fees, the status of the audit firm, the tenure of the audit firm, and the rotation of the audit firm are used as proxies for assessing audit quality because these factors serve as valuable indicators and characteristics that can impact the efficiency and dependability of the auditing process (Ananda & Faisal, 2023). Audit fees, for instance, reflect the allocation of resources by the auditing firm to the engagement. Higher audit fees may indicate that the firm is dedicating sufficient resources to thoroughly examine a company's financial statements, potentially enhancing the quality of the audit. On the other hand, lower fees might raise concerns about the adequacy of the audit effort (Susilawati, Toni, Teng & Hutagalung, 2023). Audit firm status is a measure of the reputation and credibility of the auditing firm. Recognized and reputable audit firms are often associated with higher levels of trust and confidence in the audit process, as their standing in the industry signifies a commitment to professional standards and best practices. Firm tenure and rotation, meanwhile, touch on the issue of independence and objectivity. Longer tenure may raise questions about the potential for familiarity or bias, while rotation can introduce fresh perspectives and reduce the risk of conflicts of interest (Wahyudi & Sabaruddin, 2023; Dewi, Rahayu & Ridwan, 2023; Trianjani, Rahayu & Ridwan, 2023).

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The effect of audit quality on financial performance is a subject of substantial interest and research within the realms of corporate governance and financial reporting. Audit quality, often defined by the thoroughness, objectivity, and accuracy of an external audit, exerts a significant influence on how a company operates and how its performance is perceived by investors, regulators, and the broader market (Soyemi, Tiamiyu & Omale, 2023). Firstly, audit quality acts as a critical mechanism for enhancing the reliability of financial information (Oladejo & Yinus, 2020). When an audit is conducted diligently and independently, it ensures that a company's financial statements provide an accurate representation of its financial health. This, in turn, instills confidence in investors, creditors, and other stakeholders (Lustrilanang, Suwarno, Arif & Subowo, 2023). Accurate financial reporting aids in risk assessment and decision-making, allowing consumer goods companies to access capital more efficiently. Therefore, higher audit quality is associated with reduced information asymmetry between management and shareholders, ultimately leading to improved financial performance of consumer goods firms. In addition, audit quality serves as a safeguard against financial mismanagement and fraud. A robust and impartial audit can unearth irregularities, anomalies, or instances of non-compliance within a company's financial operations.. Low audit quality has detrimental effects on financial performance, as it undermines the very foundations of trust, financial transparency, and accountability that businesses rely upon (Çakali & Baloğlu, 2023). When audit quality is low as shown by poor audit fees and incompetence, or poor audit firm rotation practice, there is a higher risk that financial statements of consumer goods firms may contain inaccuracies, omissions, or misrepresentations. Inaccurate financial reporting can mislead investors, creditors, and other stakeholders, leading to incorrect assessments of consumer goods firms' financial health and performance. This can erode investor confidence and damage the reputation of the company. Low audit quality makes it more likely that financial irregularities, such as fraud or financial manipulation, go undetected. Without effective audits, internal controls of consumer goods firms may be weak or nonexistent, allowing for the misappropriation of funds, embezzlement, or other unethical practices. These irregularities can lead to financial losses and legal liabilities, harming the company's financial stability. A lack of confidence in financial statements due to low audit quality can deter investors from investing in the company's stocks or bonds (Lustrilanang et al., 2023). This reduced investor confidence can result in lower stock prices, reduced access to capital markets, and higher borrowing costs. As a consequence, the consumer goods company may face difficulties in raising capital for growth and expansion.

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Low audit quality can tarnish the reputation of consumer goods firms in the eyes of investors, customers, suppliers, and the public (Oladejo & Yinus, 2020). A poor reputation can lead to decreased customer trust, loss of business partners, and difficulty attracting top talent. This, in turn, can affect a companies' ability to compete effectively in the market. Existing studies on the above topic have not considered to use more robust proxies for financial performance such as cashflow return on investment (CFROI) which is a superior measure of financial performance compared to traditional accounting-based metrics like Return on Assets (ROA) or Return on Equity (ROE) (Carton & Hofer, 2006). This is primarily due to CFROI's focus on cash flows, which provides a more accurate reflection of a company's financial health and operational efficiency. The general argument observed in existing studies such as Jeroh and Ozegbe (2022); Ahmeti and Iseni (2022); et cetera is that high-quality audits promote accurate financial reporting, transparency, and investor confidence, all of which contribute to improved firm financial performance. In addition, companies that prioritize audit quality are more likely to enjoy lower costs of capital, enhanced access to financing, and a reputation for reliable financial practices, all of which can positively impact their financial health and growth opportunities. However, the studies except Soyemi, Tiamiyu and Omale (2023) have not established whether these influence the actual cash generated by a company's operations, rather than relying on accounting measures that might be subject to manipulation or accounting tricks. This study is still different from Soyemi, Tiamiyu and Omale (2023) because it uses cash flow return on investment which brings up a better understanding of whether audit quality enhances a company's ability to generate cash on the invested funds.

1.1 Objectives of the Study

The broad objective of the study is to examine the effect of audit quality on the financial performance of listed consumer goods companies in Nigeria. The specific objectives of the study are to:

1. examine the effect of audit fee on the cashflow return on investment of listed consumer goods firms in Nigeria.
2. ascertain the effect of audit firm status on the cashflow return on investment of listed consumer goods firms in Nigeria.
3. examine the effect of audit firm tenure on the cashflow return on investment of listed consumer goods firms in Nigeria.

4. assess the effect of audit firm rotation on the cashflow return on investment of listed consumer goods firms in Nigeria.

1.2 Hypotheses

H_{01}: Audit fee has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

H_{02}: Audit firm status has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

H_{03}: Audit firm tenure has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

H_{04}: Audit firm rotation has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Audit Quality

A classical definition of audit quality was given by DeAngelo (1981) that audit quality is the "market-assessed joint probability that a given auditor will both detect a breach in the client's accounting system and report the breach." Audit quality refers to the degree to which an audit effectively and accurately examines a company's financial statements and internal controls, ensuring that financial information is reliable and compliant with accounting standards (Trianjani, Rahayu & Ridwan, 2023). It encapsulates the meticulous and systematic process of evaluating a company's financial statements and internal controls to provide stakeholders with confidence in the reliability of the financial information (Sulaiman, 2023). To comprehend the depth and significance of audit quality, it is imperative to explore the various dimensions and critical elements that contribute to this crucial facet of corporate governance, financial transparency, and investor protection. Audit quality revolves around the accuracy of a company's financial statements (Susilawati et al., 2023). Auditors are tasked with scrutinizing these statements to ensure that they faithfully represent the financial position, performance, and cash flows of the entity. A high degree of audit quality implies that the financial statements have been rigorously examined and found to be free from material misstatements, errors, or omissions. Beyond mere numbers, audit quality extends to the evaluation of a company's internal controls. This involves an in-depth assessment of the systems, policies, and procedures in place to safeguard the company's assets, maintain

accurate financial records, and ensure compliance with relevant accounting standards (Lustrilanang et al., 2023). A thorough examination of internal controls is essential to identify weaknesses that may lead to financial mismanagement or fraud. Audit quality contributes to the reliability and transparency of financial information. When an audit is of high quality, stakeholders can trust that the financial statements are a faithful representation of the company's financial health and that relevant disclosures have been made to provide a comprehensive understanding of the business's risks and opportunities (Wahyudi & Sabaruddin, 2023).

Auditors play a pivotal role in ensuring that financial statements comply with generally accepted accounting principles (GAAP) or International Financial Reporting Standards (IFRS). Audit quality involves a meticulous assessment of whether the company's accounting practices adhere to these standards, reducing the risk of non-compliance or financial reporting irregularities (Sulaiman, 2023). Audit quality requires auditors to conduct thorough risk assessments and materiality determinations. Auditors must identify and understand the risks that may impact financial statement accuracy and then set materiality thresholds to determine what is significant. This process helps prioritize audit procedures and focus on areas with the greatest potential impact on financial reporting (Trianjani, Rahayu & Ridwan, 2023). A crucial aspect of audit quality is the independence and professional skepticism of auditors. They must maintain objectivity and not be unduly influenced by client pressures or conflicts of interest. A high-quality audit is characterized by auditors who exercise critical thinking and a healthy level of skepticism throughout the audit process (Soyemi, Tiamiyu & Omale, 2023). To uphold audit quality, auditors must engage in continuous professional development. This includes staying updated with evolving accounting standards, regulatory changes, and emerging risks in the business environment. Auditors must invest in ongoing education and training to enhance their skills and competencies. Ultimately, audit quality influences investor confidence (Oladejo & Yinus, 2020) and contributes to the stability of financial markets. When audits are of high quality, investors and other stakeholders can make informed decisions based on reliable financial information, fostering trust in the corporate sector and minimizing the potential for financial crises or market disruptions (Lustrilanang et al., 2023).

2.1.2 Audit Fee

The audit fee is a crucial proxy for audit quality as it reflects the financial resources allocated to the audit process (Trianjani, Rahayu & Ridwan, 2023). A higher audit fee often indicates a

more thorough and comprehensive audit, where auditors dedicate adequate time and resources to scrutinize a company's financial statements and internal controls (Dewi, Rahayu & Ridwan, 2023). Companies willing to invest in a higher audit fee demonstrate a commitment to accurate financial reporting, reducing the likelihood of misstatements or irregularities. Consequently, a higher audit fee is associated with enhanced audit quality, which can positively impact financial performance by bolstering investor trust and market credibility (Susilawati et al., 2023). The audit fee plays a vital role in assessing the integrity and thoroughness of the audit process (Mehran, Zubair & Ahmed, 2022). This financial metric encapsulates a myriad of complex dynamics within the realm of financial auditing, serving as a reflection of the resources committed to safeguarding the accuracy and reliability of financial statements. The audit fee represents the monetary resources directed towards an audit engagement. Higher audit fees suggest that auditors are equipped with a more substantial budget, enabling them to allocate adequate time, personnel, and technological tools to scrutinize financial statements meticulously (Wahyudi & Sabaruddin, 2023). This, in turn, increases the likelihood of uncovering material misstatements and fraud.

A higher audit fee often attracts more experienced and skilled audit professionals. These individuals bring a wealth of knowledge and expertise to the engagement, enhancing the quality of audit procedures, risk assessments, and the overall audit report (Soyemi, Tiamiyu & Omale, 2023). High audit fees allow auditors to spend more time on-site, interacting with the client's personnel and gaining a deeper understanding of the business operations and risks. This prolonged engagement can lead to a more robust assessment of financial statement assertions and a better understanding of the client's internal control environment. Audit fees influence the scope of the audit, determining the extent to which auditors delve into the client's operations. A well-funded audit can expand the scope to cover a broader range of audit procedures, resulting in a more comprehensive and high-quality examination of the financial statements (Trianjani, Rahayu & Ridwan, 2023). When resources are constrained, auditors may be forced to set higher materiality levels, potentially missing important misstatements. Thus, the audit fee transcends mere financial remuneration; it is a multifaceted indicator of audit quality that encompasses resource allocation, expertise, technology, thoroughness, independence, time, scope, and risk assessment (Dewi, Rahayu & Ridwan, 2023). A higher audit fee is often correlated with a more robust and high-quality audit, as it empowers auditors to carry out their responsibilities with diligence and precision, ultimately contributing to the safeguarding of financial markets and stakeholders' interests.

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2.1.3 Audit Firm Status

Audit firm status refers to the reputation, experience, and professional standing of the auditing firm engaged to conduct an audit, which can influence perceptions of audit quality (Herawaty & Rusmawan, 2019). It plays a crucial role in shaping stakeholders' perceptions of audit quality, as it profoundly impacts their confidence in the audit process and the reliability of the financial information being scrutinized (Aronmwan, Ashafoke & Mgbame, 2013). The reputation of an auditing firm is built over time and is influenced by its track record of conducting high-quality audits and adhering to professional standards (Wahyudi & Sabaruddin, 2023). A firm with a strong reputation is perceived as trustworthy, reliable, and capable of delivering accurate and thorough audit services. The experience and expertise of an auditing firm are central to its status. A firm with a long history and a team of seasoned professionals is more likely to possess the knowledge and skills necessary to navigate complex financial transactions and industry-specific nuances (Kuntari, Chariri & Nurdhiana, 2017). Experience in a particular industry or with clients of a certain size can be particularly valuable, as it enables auditors to understand unique challenges and risks. The status of an audit firm is often reflected in its resource capabilities. This includes the firm's financial resources, technology infrastructure, and access to research and training. Well-established firms can invest in cutting-edge audit tools, software, and analytical techniques, enhancing the efficiency and effectiveness of audits.

The status of an audit firm is intrinsically tied to its ability to maintain independence and objectivity. A reputable firm is less likely to compromise its professional judgment or succumb to undue client pressure, which is essential for a high-quality audit. Independence ensures that auditors can exercise professional skepticism without bias. Many prominent auditing firms have a global presence, which can be advantageous when auditing multinational corporations. The ability to draw on a network of international offices and expertise is a testament to the firm's status and can enhance the quality of audits in a globalized business environment (Kanakriyah, 2020). The status of an audit firm can have a profound impact on investor and market confidence. When a reputable firm is associated with an audit, it can provide assurance to shareholders, creditors, and other stakeholders that the financial statements have undergone a rigorous and unbiased examination. The status of an audit firm often dictates the type of clients it attracts. Well-regarded firms tend to attract a higher caliber of clients, which, in turn, can lead to more complex and challenging audit engagements. This dynamic can further enhance the firm's expertise and experience. More also, leading audit

firms are often at the forefront of innovation in the auditing profession. They invest in research and development, adapt to changing accounting standards, and integrate emerging technologies to improve audit quality, such as data analytics and artificial intelligence.

2.1.4 Audit Firm Tenure

Audit firm tenure indicates the length of time an audit firm has been providing audit services to a particular client or company (Dewi, Rahayu & Ridwan, 2023). It is a measure of the temporal relationship between an audit firm and its client, denoting the length of time the auditing firm has been engaged in delivering audit services to a specific company. This tenure serves as a critical metric that encompasses a range of implications, encompassing both advantages and potential drawbacks, and merits a comprehensive exploration to appreciate its complex dynamics (Susilawati et al., 2023). With extended audit firm tenure, auditors are better equipped to conduct a comprehensive risk assessment. They have a historical perspective on the client's financial performance, enabling them to identify trends and changes that may warrant further investigation. This can contribute to a more effective risk-based audit approach. Long-term audit firm relationships provide continuity and stability to the audit process (Soyemi, Tiamiyu & Omale, 2023). Clients benefit from working with auditors who are familiar with their organization, while auditors can build on their previous audit work. This continuity can lead to a more seamless and consistent audit experience (Wahyudi & Sabaruddin, 2023). However, it is important to recognize that long audit firm tenure is not without potential drawbacks. A prolonged relationship between an audit firm and its client may raise independence concerns (Ivungu, Anande & Ogirah, 2019). The auditor may become too closely aligned with the client's interests, compromising objectivity and professional skepticism. There is a risk that auditors might be less likely to challenge management or raise concerns if they have a long history of working together. In some cases, long audit firm tenure can lead to complacency and a lack of innovation in audit procedures. Auditors may rely on historical approaches without considering evolving risks and changes in the business environment. Regulators and oversight bodies may scrutinize long-term audit firm relationships more closely due to concerns about independence and potential conflicts of interest. Increased regulatory scrutiny can lead to additional compliance and reporting requirements.

In all, audit firm tenure refers to the duration of the relationship between the audit firm and the client company (Trianjani, Rahayu & Ridwan, 2023). While a long audit firm tenure can provide auditors with a deep understanding of the client's operations and financial systems, it

can also raise concerns about independence and objectivity. Long audit firm tenures may lead to complacency or familiarity that hinders a rigorous examination of financial statements. On the other hand, shorter tenure, through rotation of audit firms, can introduce fresh perspectives and more critical scrutiny. The choice of tenure, therefore, is a balance between the benefits of industry knowledge and the potential risks of impaired audit quality, with implications for financial performance.

2.1.5 Audit Firm Rotation

Audit firm rotation involves the practice of periodically changing the audit firm responsible for conducting audits of a company, which is often done to enhance independence and objectivity in the auditing process (Mehran, Zubair & Ahmed, 2022). It entails the systematic and periodic change of the audit firm responsible for conducting financial audits of a company (Firth, Rui & Wu, 2012). The primary objective of this practice is to strengthen independence and objectivity in the auditing process, reducing the potential for conflicts of interest and ensuring that the audit remains a robust and impartial assessment of a company's financial health. The practice of audit firm rotation has profound implications, both in terms of advantages and challenges, making it a topic of significant debate and regulatory consideration (Susilawati et al., 2023). The most prominent advantage of audit firm rotation is the promotion of auditor independence. By periodically changing audit firms, companies can mitigate the risks associated with long-term auditor-client relationships. Auditors who are not entrenched with a client for an extended period are less likely to be influenced by management or to become complacent in their audit procedures (Mehran, Zubair & Ahmed, 2022). Over time, auditors who work with a client extensively may become overly familiar with the client's operations and financial systems. This familiarity can reduce the effectiveness of risk assessment and the ability to identify irregularities or fraud. Audit firm rotation mitigates the familiarity threat by introducing a fresh perspective (Bowlin, Hobson & Piercey, 2015).

New audit firms approaching an engagement are more likely to exercise professional skepticism, as they have no prior vested interest in the client's operations. This skepticism is a cornerstone of effective auditing, as it encourages auditors to question assumptions, challenge management assertions, and thoroughly scrutinize financial information. Audit firm rotation stimulates competition in the audit market. Companies must periodically seek new auditors, and this competitive process can lead to better audit quality, price competitiveness, and the selection of audit firms with specific industry expertise. However, audit firm rotation

can involve significant transition costs, including the time and resources required to onboard a new audit firm, introduce them to the company's operations, and transfer knowledge and documentation. These costs can be a deterrent for both companies and audit firms. A new audit firm may lack the deep industry knowledge and historical context that the previous auditor had. This can result in a longer learning curve and may impact the efficiency of the audit. There is a debate about whether audit quality truly improves with rotation or if it simply shifts the focus from one set of challenges to another. Critics argue that the quality of an audit primarily depends on the rigor of audit procedures and the professionalism of the audit team rather than the firm's name (Ivungu, Anande & Ogirah, 2019).

2.1.6 Financial Performance

Financial performance is the extent to which a company achieves its financial and operational goals. It encompasses the measurement and evaluation of a company's achievements in both financial and operational domains (Aggreh, Nworie & Abiahu, 2022). It encapsulates how effectively a company harnesses its various resources, encompassing assets, human capital, and financial and technological assets, to generate revenue as part of its day-to-day operations (Fisseha, 2021). In this light, it serves as a yardstick for evaluating the financial robustness of the firm. Likewise, financial performance serves as an evaluative benchmark for the firm's fiscal health, particularly in the case of profit-oriented enterprises (Çakali & Baloğlu, 2023). It assumes paramount significance and is a focal point for business practitioners across a spectrum of industries due to its profound influence on a company's prosperity and endurance (Ahmeti, Ahmeti & Aliu, 2022). A high level of financial performance mirrors the adeptness of the firm's management in administrating its resources efficiently (Kayani, Hassan & Muhammad Zahoor, 2021; Nworie & Oguejiofor, 2023). It signifies the extent to which the firm harnesses its core business activities to generate income (Soyemi, Tiamiyu & Omale, 2023). The measurement of a firm's financial performance unfolds through various avenues, although all these metrics culminate into a unified assessment of the company's financial well-being (Ahmeti et al., 2022).

2.1.7 Cashflow Return on Investment

Cashflow return on investment is a measure of the profitability of an investment by comparing net operating cash flow generated from the investment to the initial cash outlay or capital employed (Amahalu, Okoye & Nnadi, 2023). CFROI assesses the profitability and efficiency of an investment and serves as a critical tool for both investors and businesses in evaluating

the returns generated from capital investments (Carton & Hofer, 2006). CFROI essentially quantifies the extent to which an investment generates positive operating cash flow relative to the initial outlay or capital employed (Kenton, 2022). CFROI is fundamentally based on the net operating cash flow generated by an investment. A positive CFROI indicates that the investment generates more cash through its operations than it initially cost to acquire and develop. In essence, it demonstrates that the investment is profitable (Amahalu, Okoye & Nnadi, 2023). For investors, CFROI is a fundamental metric in decision-making. It enables them to gauge the attractiveness of various investment opportunities, helping them choose those that promise superior returns relative to the initial capital investment. For businesses, CFROI assists in optimizing capital allocation. It allows companies to allocate resources to projects that promise the highest CFROI, thereby enhancing overall financial performance and shareholder value. By regularly measuring and comparing CFROI against the required rate of return or cost of capital, businesses and investors can assess whether the investment continues to meet financial objectives (Kenton, 2022).

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory was propounded by Michael C. Jensen and William H. Meckling in 1976. The theory is a fundamental concept in the area of corporate governance and management that provides a framework for understanding the dynamics between principals and agents within an organization (Jeroh & Ozegbe, 2022). In essence, agency theory examines the relationship between the shareholders (principals) and management (agents) in a company. It centers on the inherent conflicts of interest that can arise between these two groups and the mechanisms in place to align their interests and ensure that the actions of management are in the best interest of shareholders (Musa, Maihankali, Kubuza & Polycarp, 2021). One of the primary concerns of agency theory is the information asymmetry between shareholders and management. Shareholders rely on management to provide accurate and reliable financial information, which forms the basis for their investment decisions (Yaghoobnezhad, Royaee & Gerayli, 2014). High-quality audits play a crucial role in reducing information asymmetry by independently verifying the accuracy and completeness of financial statements (Rashidi, 2019). When audits are of high quality, shareholders can have greater confidence that the information they receive is reliable, reducing the agency problem. Agency theory emphasizes the need for mechanisms to monitor and control the actions of agents (management) to ensure they act in the best interests of principals (shareholders). Auditors act as independent

monitors, assessing the financial statements and internal controls of a company. Their role is vital in detecting errors, fraud, or mismanagement, which can have a significant impact on financial performance. Effective audits provide an additional layer of control over management's activities, aligning their interests more closely with shareholders' interests (Fossung, Mukah, Berthelo & Nsai, 2022). The conflicts of interest that may exist between shareholders and management are central to agency theory. When management's interests diverge from those of shareholders, it can lead to actions that prioritize personal gain over financial performance. High-quality audits, which are conducted independently and objectively, serve as a counterbalance to mitigate conflicts of interest (Hazaea, Tabash, Khatib, Jinyu & Al-Kuhali, 2020). They provide assurance that financial reporting is not biased in favor of management's interests.

Agency theory highlights the importance of transparency and accountability in corporate governance. Audits contribute to transparency by verifying financial data and ensuring that it complies with accounting standards and regulations. Transparent financial reporting and accountability through audits are essential components of financial performance, as they foster trust among shareholders, creditors, and other stakeholders. Thus, agency theory is highly relevant to the topic of the effect of audit quality on financial performance. It provides a theoretical foundation for understanding the agency problems that can arise in corporations and the role that high-quality audits play in mitigating these problems. Effective audits enhance transparency, accountability, and reliability in financial reporting, ultimately contributing to improved financial performance by aligning the interests of management with those of shareholders and other stakeholders (Ivungu, Anande & Ogirah, 2019).

2.3 Empirical Review

Obaje, Olufunke, and Ogirima (2023) explored the effect of audit quality on the financial performance of listed oil and gas firms in Nigeria. For their analysis, the researchers employed the Generalized Least Square. The findings of the study revealed a significant negative impact of audit tenure on the return on assets, an insignificant positive impact of audit committee size on the return on assets, and a significant negative impact of audit firm size on the return on assets of oil and gas firms in Nigeria.

Afifa and Saleh (2023) examined the influence of audit quality on company performance within listed firms in Jordan. Their study encompassed a panel data analysis of all Jordanian industrial public shareholding companies listed on the Amman Stock Exchange during the

period from 2012 to 2017. The primary findings indicated that auditor tenure had a negative influence on ROA, while auditor industry specialization and auditor firm size had no discernible impact on ROA. Auditor firm size had a positive influence on both ROE and EPS, but auditor tenure and auditor industry specialization did not significantly affect either ROE or EPS.

Soyemi, Tiamiyu, and Omale (2023) examined the influence of audit quality on the financial performance of 40 quoted non-financial firms in Nigeria over a ten-year period from 2009 to 2018. Subsequently, they employed ordinary least squares (OLS) to estimate the model specified for the study. The results highlighted significant and positive influences of audit tenure and audit firm size on operating cash flow. Additionally, there were insignificant and positive relationships between audit fees, audit committee experience, and operating cash flow, as well as insignificant and negative relationships between firm size and operating cash flow.

Çakali and Baloğlu (2023) investigated whether the quality of internal audit has a bearing on the financial performance of enterprises. The results of the Wilcoxon Signed Ranks Test indicated that the quality of internal audit, as determined by external quality assessment reviews, did not significantly impact the financial performance indicators of the enterprises.

Olutokunbo, Oyerinde, and Muhammed (2023) determined the influence of audit quality on the financial performance of banking industries in Nigeria. OLS multiple regression conducted showed that Audit Company Size (AFS) and Audit Fee (AF) positively impacted firm performance.

Jeroh and Ozegbe (2022) examined the effects of audit quality on the financial performance of quoted companies in Nigeria. The research employed the Panel Least Square technique, descriptive analysis, and relevant diagnostic tests for data analysis. The results indicated that auditor independence had a significant negative influence on ROA, while audit tenure and audit firm size exhibited a positive relationship with ROA, albeit without statistical significance.

Mehran, Zubair, and Ahmed (2022) analyzed the influence of audit quality on the performance of non-financial firms listed on the PSX. Panel data analysis was employed for this study. The results from the fixed-effect model revealed a significant and positive

relationship between audit committee size and both ROA and EPS. However, audit fees and audit rotation did not show significant associations with ROA and EPS.

Nkiru, Orjinta, and Ofor (2022) investigated the effect of audit quality on the value of selected manufacturing companies listed on the Nigeria Exchange Group. The results, assessed using the random panel Least Square, revealed a statistically significant positive impact of auditor independence on the value of Nigerian manufacturing enterprises. In contrast, audit firm size exhibited a negligible positive correlation with the value of Nigerian manufacturers.

Erasmus and Akani (2021) explored the relationship between audit quality and the market value of quoted banks in Nigeria. Panel least squares regression was employed for hypothesis testing. The results indicated that audit fees had a negative and insignificant impact on market price per shares, while audit tenure exhibited a negative and significant impact. Audit firm size had a negative and insignificant effect on market price per shares.

Ado, Rashid, Mustapha, and Ademola (2020) examined the influence of audit quality on the financial performance of listed companies in Nigeria. Multiple regression was employed to examine the model, and the results revealed various relationships. Audit fees displayed a positive but statistically insignificant relationship with return on assets. Auditor size exhibited a significant and positive relationship with ROA.

Elewa and El-Haddad (2019) assessed the impact of audit quality on firm performance. They focused on non-financial firms listed on EGX 100. The study employed panel data analysis to investigate the relationships. The results, as per the Random Effect Model, indicated that the presence of Big-4 auditors and auditor rotation had no significant impact on the ROA and ROE of the firms.

3. MATERIAL AND METHOD

In order to determine the effect of audit quality on the financial performance of listed consumer goods firms in Nigeria, the study adopted *ex-post facto* research design. The choice of an ex-post facto research design is fitting for this study because it allows the researcher to investigate the relationship between variables that occurred simultaneously in the past (Nworie, Okafor & John-Akamelu, 2022). The Nigerian Exchange Group comprises 21 listed consumer goods firms. According to the Daily Stock List of the Nigerian Exchange Group as of December 31, 2022, the consumer goods sector is represented by the following companies.

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Name	
1. Cadbury Nigeria Plc.	11. Multi-trex Integrated Foods Plc.
2. Champion Brewery Nig. Plc.	12. Northern Nig. Flour Mills Plc.
3. Dangote Sugar Refinery Plc.	13. Nascon Allied Industries Plc.
4. DN Tyre and Ruber Plc.	14. Nestle Nigeria Plc.
5. Flour Mills Nig. Plc.	15. Nigerian Breweries Plc.
6. Golden Guinea Brewery Plc.	16. Nigerian Enamelware Plc.
7. Guinness Nig. Plc	17. PZ Cussons Nigeria Plc.
8. Honeywell Flour Mill Plc.	18. Unilever Nigeria Plc.
9. International Breweries Plc.	19. Union Dicon Salt
10. MCnichols Plc.	20. Vitafoam Nigeria Plc.
	21. Bua Foods Plc.

Source: NGX Factbook, 2022

Out of the 21 currently listed consumer goods firms in Nigeria, purposive sampling was deployed to filter the sample participants on the basis of availability of complete financial data. Based on the criterion set, the fourteen (14) firms that will make up the sample size of the study are; Northern Nig. Flour Mills Plc., Nascon Allied Industries Plc., Cadbury Nigeria Plc., Nestle Nigeria Plc., Unilever Nigeria Plc., Vitafoam Nigeria Plc., Nigerian Breweries Plc., Nigerian Enamelware Plc., PZ Cussons Nigeria Plc., Champion Brewery, Dangote Sugar Refinery Plc., Honeywell Flour Mill Plc., Flour Mills Nig. Plc. and Guinness Nig. Plc. Data pertinent to the selected variables were manually collected from the financial reports of chosen firms over a span of 10 years (2013-2022). These variables encompass cashflow return on investment, audit fee, audit firm rotation, audit firm status, and audit firm tenure. The study's data underwent analysis through descriptive statistics and the multiple regression technique. Descriptive statistics was employed to provide a comprehensive overview of the dataset. Consequently, the hypothesis testing were conducted using panel data regression analysis. The study employed the Panel Estimated Generalized Least Squares (Panel EGLS) regression technique to address the issue of heteroskedasticity in the error terms of the model (Egbunike, Ogbodo & Ojimadu, 2019). This method was used to estimate the regression coefficients for hypothesis testing purposes.

Table 1 Operational Measurement of Variables

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Table 1 Operational Measurement of Variables

Variable	Type	Acronym	Measurement	Source
1. Cashflow return on investment	Dependent	CFROI	$\frac{Net\ Operating\ cashflow}{Capital\ Employed}$	Amahalu, Okoye & Nnadi, 2023
2. Audit Fee	Independent	AFEE	Natural log of Audit fees paid	Choi, Kim & Zang, 2010
3. Audit Firm Status	Independent	AFST	Dummy variable which takes the value of 1 when the firm is a BIG4 firm or 0 when it is not	Choi, Lim & Mali, 2017
4. Audit Firm Rotation	Independent	AFRT	Dummy variable which takes the value of 1 when the firm changes its audit firm or 0 when it does not	Tessema & Abou-El-Sood, 2022
5. Audit Firm Tenure	Independent	AFTN	The consecutive number of years a company is audited by the same audit firm	Muhammad, Muqorobin, & Narullia, 2022

Source: Author's Compilation, 2024

The regression equation was adapted from the study by Soyemi, Tiamiyu, and Omale (2023) to investigate the hypothesized effect of audit quality on the performance of listed consumer goods firms in Nigeria. Audit quality will be surrogated by audit fee, audit firm status, audit firm rotation and audit firm tenure. The model adopted from Soyemi, Tiamiyu, and Omale (2023) is given as follows:

$OPCFit = \beta0 + \beta1AFESit + \beta2AUCEit + \beta3ACFEit + \beta4AUTNit + \beta5AUFSit + \beta5FISZit + \mu it$ ……Eqn 1.

Where: OPCF = operating cash flow;

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AFES = audit fees;

AUCE = audit committee experience

ACFE = audit committee financial expertise;

AUTN = audit tenure;

AUFS = audit firm size

β0 = constant/intercept;

β1 - β5 = slope of the independent and controls variables

To test H_{01}, H_{02}, H_{03} and H_{04}, the study modified the equation above and arrived at the following multiple regression equation:

$CFROI_{it} = \alpha_0 + \beta_1 AFEE_{it} + \beta_2 AFST_{it} + \beta_3 AFRT_{it} + \beta_4 AFTN_{it} + \mu_{it}$ ……Eqn 2.

Where, CFROI = Cashflow return on investment for company i in period t

AFEE = Audit fee for company i in period t

AFST = Audit firm status for company i period t

AFRT = Audit Firm Rotation for company i in period t

AFTN = Audit Firm Tenure for company i in period t

α_0 = Constant (intercept)

β_{1-4} = Coefficients of the independent variables

μ = Error term

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

4.1.1 Descriptive Statistics

The descriptive summary of the data is shown and explained below in Table 4.1.

Table 2 Descriptive Analysis

	CFROI	AFEE	AFRT	AFST	AFTN
Mean	0.246245	38642.84	0.107143	0.871429	4.092857
Median	0.178606	23724.00	0.000000	1.000000	4.000000
Maximum	4.410210	339590.0	1.000000	1.000000	11.00000
Minimum	-1.022205	5000.000	0.000000	0.000000	1.000000
Std. Dev.	0.488744	46824.41	0.310405	0.335927	2.322540
Observations	140	140	140	140	140

Source: Analysis Output using Eviews 11 (2024)

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The descriptive statistics for Cashflow Return on Investment (CFROI) indicate a mean value of 0.246245, suggesting that, on average, the listed consumer goods companies generate a cashflow return of about 24.62% on their capital employed. However, there is considerable variability, as evidenced by the standard deviation of 0.488744. The CFROI ranges from a minimum of -1.022205 to a maximum of 4.410210, highlighting a wide spread in performance among the companies. Audit Fee (AFEE) shows a mean value of 38642.84, indicating that, on average, companies pay approximately 38,643 units in audit fees, with a substantial standard deviation of 46824.41, reflecting significant variability in audit fees among the companies. The range of audit fees spans from a minimum of 5000.000 to a maximum of 339590.0, suggesting a wide disparity in the amounts paid. For Audit Firm Rotation (AFRT), the mean value is 0.107143, indicating that audit firm rotation occurs in about 10.71% of the observations. The standard deviation of 0.310405 reflects some variability in the occurrence of audit firm rotation. The minimum and maximum values are 0.000000 and 1.000000, respectively, as expected for a dummy variable..

Audit Firm Status (AFST) has a mean of 0.871429, suggesting that approximately 87.14% of the companies are audited by one of the Big Four audit firms. The standard deviation of 0.335927 reflects some variability, but the majority of companies still use Big Four auditors. The minimum and maximum values are 0.000000 and 1.000000, respectively, as expected for a dummy variable. Audit Firm Tenure (AFTN) shows a mean value of 4.092857, suggesting that, on average, companies retain the same audit firm for about four years. The standard deviation of 2.322540 indicates moderate variability in audit firm tenure. The tenure ranges from a minimum of 1 year to a maximum of 11 years.

4.1.2 Model Diagnoses

Model diagnoses were done to assess the validity of the model by conducting test of cross-sectional dependence, multicollinearity, autocorrelation, heteroskedasticity, linearity and Hausman Test.

4.1.2.1 Cross-Section Dependence Test

The Cross-Section Dependence Test, specifically the Breusch-Pagan LM test, was used to determine whether there is any cross-section dependence (correlation) in the residuals of a panel data model. Cross-section dependence implies that the residuals (errors) from different cross-sectional units (e.g., different countries, companies, regions, etc.) are correlated with each other (Bai & Ng, 2010). This is an important aspect to test because the presence of cross-

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section dependence can affect the validity and efficiency of the estimations in panel data models. The test has a null hypothesis (H0) which states that there is no cross-section dependence (correlation) in the residuals. The alternative hypothesis (H1) states that there is cross-section dependence in the residuals. The test output is shown below in Table 3.

Table 3 Cross-Section Dependence Test

Residual Cross-Section Dependence Test

Null hypothesis: No cross-section dependence (correlation) in residuals

Equation: Untitled

Periods included: 10

Cross-sections included: 14

Total panel observations: 140

Note: non-zero cross-section means detected in data

Cross-section means were removed during computation of correlations

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	110.5357	91	0.0801
Pesaran scaled LM	1.448085		0.1476
Pesaran CD	0.904880		0.3655

Source: Analysis Output using Eviews 11 (2024)

As shown in Table 3 above, the Breusch-Pagan LM test provides a test statistic, of which the probability value (Prob.) associated with the test statistic is 0.0801. The probability value (p-value) of 0.0801 indicates the probability of observing the test statistic under the null hypothesis. At the 0.05 level, the p-value (0.0801) is greater than 0.05, suggesting that at the 5% significance level, we accept the null hypothesis. Therefore, we would conclude that there is no significant cross-section dependence at this stricter level of significance. Since cross-section dependence can affect the validity of panel data estimations, the results suggest that the model may not suffer from significant cross-section dependence issues at a stricter significance level (0.05).

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4.1.2.2 Multicollinearity Test

The Multicollinearity Test, using Variance Inflation Factors (VIF), was used to detect the presence of multicollinearity in the regression model. Multicollinearity occurs when two or more independent variables in the model are highly correlated, leading to unreliable and unstable estimates of regression coefficients (Shrestha, 2020). The VIF measures how much the variance of an estimated regression coefficient increases if your predictors are correlated. High VIF values indicate a high degree of multicollinearity. A VIF value of 1 indicates no correlation between the independent variable and any other variables, meaning there is no multicollinearity. Generally, a VIF above 10 is considered indicative of high multicollinearity (Kumari, 2008). Table 4.3 shows the result of the multicollinearity test.

Table 4 Multicollinearity Test

Variance Inflation Factors

Date: 06/02/24 Time: 14:45

Sample: 1 140

Included observations: 140

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
AFEE	0.019747	228.7938	1.327725
AFRT	0.022840	1.437208	1.283221
AFST	0.019469	9.963980	1.281083
AFTN	0.000428	5.558800	1.346672
C	0.318777	187.2142	NA

Source: Analysis Output using Eviews 11 (2024)

The VIF for the variable AFEE is 1.327725. This value is well below the common threshold of 10, suggesting that AFEE does not have a problematic level of multicollinearity with the other variables in the model. The VIF for the variable AFRT is 1.283221. Similar to AFEE, this VIF value is also well below the threshold of 10, indicating that AFRT does not suffer from significant multicollinearity. The VIF for the variable AFST is 1.281083. This value is in line with the VIFs of AFEE and AFRT, and is also well below the threshold of 10. This indicates that AFST has low multicollinearity with the other independent variables.

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The VIF for the variable AFTN is 1.346672. Although this VIF is slightly higher than those for AFEE, AFRT, and AFST, it is still significantly below the threshold of 10. This indicates that AFTN does not exhibit significant multicollinearity with the other variables. Thus, the absence of significant multicollinearity ensures that the interpretations of the regression coefficients are valid and that the model provides robust estimates for the relationships between the independent variables and the dependent variable.

4.1.2.3 Test of Autocorrelation

Autocorrelation occurs when the residuals (errors) are not independent from one another, meaning the value of the residual at one time period is correlated with the value of the residual at another time period (King, 2018). This can lead to inefficient estimates and invalid statistical inferences. The null hypothesis (H0) for the Breusch-Godfrey test is that there is no serial correlation in the residuals, while the alternative hypothesis (H1) is that serial correlation is present. The Breusch-Godfrey Serial Correlation LM Test was used to detect the presence of autocorrelation in the residuals of a regression model, as shown below in Table 5.

Table 5 Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.960713	Prob. F(2,133)	0.1448
Obs*R-squared	4.009596	Prob. Chi-Square(2)	0.1347

Source: Analysis Output using Eviews 11 (2024)

The results of the autocorrelation test are presented in Table 5. The F-statistic is associated with a p-value of 0.1448. Since the p-value of 0.1448 is greater than 0.05, we fail to reject the null hypothesis of no serial correlation. This suggests that there is no significant evidence of autocorrelation in the residuals of the model. The lack of significant serial correlation implies that the model's residuals are independent over time, supporting the validity and reliability of the regression results and ensuring that standard errors and test statistics are not biased due to autocorrelation.

4.1.2.4 Test of Heteroskedasticity

Heteroskedasticity occurs when the variance of the residuals is not constant across all levels of the independent variable(s) (Kaufman, 2013). This violates one of the key assumptions of ordinary least squares (OLS) regression, potentially leading to inefficient estimates and biased

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standard errors, which can affect hypothesis testing and confidence intervals. The Heteroskedasticity Test, specifically the Panel Period Heteroskedasticity Likelihood Ratio (LR) Test, was used to detect the presence of heteroskedasticity in the residuals of the regression model as shown below in Table 6.

Table 6 Panel Period Heteroskedasticity LR Test
Null hypothesis: Residuals are homoskedastic
Equation: UNTITLED
Specification: CROI AFEE AFRT AFST AFTN C

	Value	df	Probability
Likelihood ratio	91.59807	14	0.0000

Source: Analysis Output using Eviews 11 (2024)

In Table 6, the test evaluates whether the residuals from the regression model are homoskedastic (having constant variance). The null hypothesis (H0) for the test is that the residuals are homoskedastic, meaning there is no heteroskedasticity. The alternative hypothesis (H1) is that the residuals are heteroskedastic, indicating the presence of heteroskedasticity. The probability value (p-value) is 0.0000, which is below 5% significance level. This means that we reject the null hypothesis of homoskedasticity. Thus, the residuals of the regression model are not homoskedastic but exhibit heteroskedasticity (Astivia & Zumbo, 2019).

To re-iterate this issue, Table 7 also shows that there is a problem of cross-sectional heteroskedasticity in the model.

Table 7 Panel Cross-section Heteroskedasticity LR Test
Null hypothesis: Residuals are homoskedastic
Equation: UNTITLED
Specification: CROI AFEE AFRT AFST AFTN C

	Value	df	Probability
Likelihood ratio	149.6783	14	0.0000

Source: Analysis Output using Eviews 11 (2024)

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The presence of heteroskedasticity in the model's residuals implies that the variance of the residuals changes with the level of the independent variables. This can lead to inefficient parameter estimates and biased standard errors, making the results of hypothesis tests unreliable. Therefore, it is crucial to address heteroskedasticity in the model using Panel Estimated Generalized Least Squares (Egbunike, Ogbodo & Ojimadu, 2019).

4.1.2.5 Linearity Test

The Linearity Test, specifically the Ramsey Regression Equation Specification Error Test (RESET), was employed to evaluate whether a regression model has omitted variables or incorrect functional form (Khoirunnisa, Wibowo & Suharsono, 2016). In this context, the Ramsey RESET test analyzes the linearity of the relationship between the dependent and independent variables in the regression model. It checks for non-linear patterns by adding higher-order terms (like squared or cubed terms) of the predicted values and testing if these terms significantly improve the model. If these additional terms are statistically significant, it indicates that the model may be missing important non-linear relationships, suggesting that the specified model might not fully capture the underlying data structure (See Table 8).

Table 8 Ramsey RESET Test
Equation: UNTITLED
Specification: CFROI AFEE AFRT AFST AFTN C
Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.048726	134	0.9612
F-statistic	0.002374	(1, 134)	0.9612
Likelihood ratio	0.002481	1	0.9603

Source: Analysis Output using Eviews 11 (2024)

In Table 8, the Ramsey RESET Test is summarized with a t-statistic value of 0.9612 and a corresponding probability (p-value) indicating the significance level. Since the p-value (0.9612) is greater than 0.05, we accept the null hypothesis. The null hypothesis in the Ramsey RESET test posits that the model is correctly specified, meaning no omitted non-linearities are detected. Therefore, the results imply that the existing regression model is appropriately

specified and that there is no need to include additional non-linear terms, supporting the model's linearity.

4.1.2.6 Test of Fixed/Random Effect in Panel Model

In the context of panel data analysis, the Hausman test was used to determine whether a fixed effects or random effects model is more appropriate for the data. The null hypothesis for the Hausman test is that the random effects model is appropriate, while the alternative hypothesis is that the fixed effects model is more appropriate (Baltagi, 2010). Table 9 shows the output of the test.

Table 9 Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.648873	4	0.0131

Source: Analysis Output using Eviews 11 (2024)

The key information provided in Table 9 above are the Chi-square statistic and the corresponding probability value (p-value). The Chi-square statistic is 12.648873, and the p-value is 0.0131. Since the p-value is less than the significance level of 0.05, we rejected the null hypothesis and conclude that the fixed effects model is more appropriate for the data. This suggests that there is a correlation between the individual-specific effects and the explanatory variables, violating the assumption of the random effects model that the individual-specific effects are uncorrelated with the explanatory variables. Therefore, the fixed effects model, which allows for this correlation, is the most suitable for the analysis. While implementing the fixed effect regression, the correction of heteroskedasticity was also accounted for by opting for Estimated Generalized Least Squares version of fixed effect model, as shown in subsequent section.

4.2 Test of Hypotheses

The Panel Estimated Generalized Least Squares (Panel EGLS) was used to address heteroskedasticity in the error terms of the regression model, while estimating the regression coefficients for hypotheses testing (Egbunike, Ogbodo & Ojimadu, 2019). The use of the

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fixed effects model was because of the unobserved, time-invariant characteristics of the individual firms that are correlated with the explanatory variables, which need to be accounted for to obtain unbiased estimates of the effect of audit quality on financial performance.

Table 10 Panel Estimated Generalized Least Squares
Dependent Variable: CFROI
Method: Panel Estimated Generalized Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AFEE	-0.172479	0.053454	-3.226686	0.0016
AFST	0.158158	0.039391	4.015087	0.0001
AFTN	-0.038422	0.006388	-6.014464	0.0000
AFRT	-0.314259	0.032721	-9.604215	0.0000
C	1.063213	0.219462	4.844636	0.0000
	Effects Specification			
Period fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.655434	Mean dependent var		0.493456
Adjusted R-squared	0.619884	S.D. dependent var		1.717874
S.E. of regression	1.030698	Sum squared resid		133.8547
F-statistic	18.43672	Durbin-Watson stat		1.894708
Prob(F-statistic)	0.000000			

Source: Analysis Output using Eviews 11 (2024)

The results presented in Table 10 indicate the regression analysis that assessed how audit quality determines firm financial performance. The adjusted R-squared value of 0.619884 suggests that the model explains around 62% of the variation in the dependent variable (CFROI). The F-statistic of 18.43672 and the corresponding p-value of 0.000000 indicate that the overall model is statistically significant, meaning that the independent variables included in the model collectively have a significant effect on the financial performance (CFROI) of the listed consumer goods companies. This implies that the audit quality factors examined in the study have a significant effect on the cash flow returns of these firms.

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4.2.1 Hypothesis I

H_{01}: Audit fee has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

The coefficient for audit fee (AFEE) is -0.172479, with a probability value of 0.0016. This statistically significant negative relationship indicates that for every one-unit increase in audit fee, the CFROI decreases by approximately 0.1725 units. The implication is that higher audit fees consume more of the firm's cash flow, reducing the funds available for investment and potentially lowering the firm's profitability and financial performance. Since the p-value (0.0016) is less than 0.05, the alternative hypothesis was accepted that Audit fee has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0016).

This negative impact can be attributed to the fact that higher audit fees often represent a significant financial burden on companies. When audit fees consume a considerable portion of a company's resources, it can lead to reduced funds available for operational and strategic investments, thereby negatively impacting cash flows and overall financial performance. Additionally, high audit fees might signal complex financial reporting issues or perceived higher risks by auditors, which can reflect poorly on a company's financial health. While this finding corroborates with the findings by Ananda and Faisal (2023); Erasmus and Akani (2021); it negates the results by Olutokunbo, Oyerinde, and Muhammed (2023).

4.2.2 Hypothesis II

H_{02}: Audit firm status has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

The coefficient for audit firm status (AFST) is 0.158158, with a probability value of 0.0001, indicating a statistically significant positive relationship. For every one-unit increase in audit firm status, the CFROI increases by approximately 0.1582 units. This suggests that firms engaging higher-status audit firms can expect improved CFROI. The implication is that reputable audit firms likely provide higher-quality audits, which enhance investor confidence and financial statement credibility, positively impacting the firm's financial performance. Since the p-value (0.0001) is less than 0.05, the alternative hypothesis was accepted that Audit firm status has a significant positive effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0001).

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High-status audit firms, typically the Big Four (Deloitte, PwC, Ernst & Young, and KPMG), bring a level of credibility and assurance that can positively influence investor confidence and stakeholder trust. These firms are known for their rigorous audit processes and adherence to high standards, which can enhance the perceived reliability of financial statements. This increased confidence can lead to better financial performance as it may facilitate access to capital, improve market perceptions, and potentially lower the cost of capital. Similar findings were realised by Afifa and Saleh (2023); Soyemi, Tiamiyu, and Omale (2023); Olutokunbo, Oyerinde, and Muhammed (2023); Ananda and Faisal (2023); Nkiru, Orjinta, and Ofor (2022); Ado, Rashid, Mustapha, and Ademola (2020);

4.2.3 Hypothesis III

H_{03}: Audit firm tenure has no significant effect on the cashflow return on investment of l isted consumer goods firms in Nigeria.

The coefficient for audit firm tenure (AFTN) is -0.038422, with a probability value of 0.0000. This indicates that for every one-unit increase in audit firm tenure, the CFROI decreases by approximately 0.0384 units. The implication is that longer relationships with the same audit firm may lead to decreased audit quality and increased complacency, negatively affecting the firm's financial performance. Periodic auditor rotation could help maintain high audit quality and enhance CFROI. Since the p-value (0.0000) is less than 0.05, the alternative hypothesis was accepted that Audit firm tenure has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0000).

The tenure of an audit firm, or the length of time an audit firm has been auditing a particular company, has a negative effect on CFROI. Prolonged auditor-client relationships can lead to a decline in audit quality due to complacency, reduced objectivity, and the potential for close relationships that might impair independence. Over time, auditors might become less rigorous in their assessments, leading to undetected errors or even financial misstatements. This reduction in audit quality can undermine the reliability of financial information, adversely affecting a company's cash flows and return on investment. This aligns with the findings by Obaje, Olufunke, and Ogirima (2023); Afifa and Saleh (2023); Erasmus and Akani (2021); but contradicts the findings by Soyemi, Tiamiyu, and Omale (2023) and Ananda and Faisal (2023).

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4.2.4 Hypothesis IV

H_{04}: Audit firm rotation has no significant effect on the cashflow return on investment of listed consumer goods firms in Nigeria.

The coefficient for audit firm rotation (AFRT) is -0.314259, with a probability value of 0.0000. This indicates that for every one-unit increase in audit firm rotation, the CFROI decreases by approximately 0.3143 units. The implication is that frequent auditor changes disrupt audit continuity and efficiency, leading to lower financial performance. Firms should balance the need for fresh audit perspectives with the potential downsides of frequent auditor turnover to optimize CFROI. Since the p-value (0.0000) is less than 0.05, the alternative hypothesis was accepted that Audit firm rotation has a significant negative effect on the cashflow return on investment of listed consumer goods firms in Nigeria (p-value = 0.0000). While rotation is intended to enhance auditor independence and objectivity by bringing fresh perspectives, it can also lead to disruption and increased costs. The initial periods after a rotation can be characterized by learning curves and inefficiencies as new auditors familiarize themselves with the company's operations and financial systems. This transition phase can temporarily affect the quality of the audit and increase administrative costs, thus negatively impacting the company's financial performance. This does not agree with the findings by Elewa and El-Haddad (2019); Mehran, Zubair, and Ahmed (2022). While longer tenure may raise questions about the potential for familiarity or bias, while rotation can introduce fresh perspectives and reduce the risk of conflicts of interest (Wahyudi & Sabaruddin, 2023; Dewi, Rahayu & Ridwan, 2023; Trianjani, Rahayu & Ridwan, 2023).

CONCLUSION AND RECOMMENDATION

The financial performance of companies, particularly those listed in the consumer goods sector in Nigeria, is a critical indicator of economic health and investor confidence. Audit quality plays a significant role in this performance by ensuring the accuracy and reliability of financial statements. Various factors such as audit fees, audit firm status, audit firm tenure, and audit firm rotation influence the quality of audits. This study assessed how these factors impact the cashflow return on investment (CFROI) of listed consumer goods firms in Nigeria, highlighting both negative and positive effects. The finding that audit fees have a negative effect on the cash flow return on investment of listed consumer goods firms in Nigeria suggests that higher audit costs may strain the financial resources of these firms. However, high-status audit firms, typically known for their stringent auditing standards and professionalism, enhance the credibility of financial statements. Furthermore, as per audit

firm tenure, when auditors and clients develop long-term relationships, there is a risk that auditors may become less independent and more lenient, potentially overlooking critical issues. Finally, frequent auditor changes can lead to a loss of institutional knowledge about the company's financial and operational intricacies. Thus, the relationship between audit quality and financial performance in Nigerian listed consumer goods companies is multidimensional. In conclusion, while high audit fees and long auditor tenures tend to negatively impact the financial performance of listed consumer goods firms in Nigeria, the reputation of the audit firm can have a beneficial effect. Meanwhile, frequent audit firm rotation, despite its intended benefits, may also pose challenges to a company's cashflow return on investment. The study therefore recommend that:

a. Board of Directors should negotiate and monitor audit fees to ensure they are reasonable and commensurate with the scope of work required, avoiding unnecessary financial strain on the company's resources.
b. The audit committee should prioritize engaging high-status audit firms with a strong reputation for rigorous standards to enhance the credibility of financial statements and boost investor confidence.
c. Corporate Governance Team should implement policies to limit the tenure of audit firms to a reasonable period, ensuring auditor independence and preventing complacency in the audit process.
d. Senior Management should manage the audit firm rotation process carefully, ensuring a smooth transition and minimizing disruptions to maintain audit quality and protect cash flow returns.

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