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AN IMPACT OF AUDIT QUALITY ON FIRM'S EARNINGS: EVIDENCE FROM THE SELECTED PHARMACEUTICAL FIRMS LISTED IN THE NIGERIA STOCK MARKET

Okolo, Angela Ngozi

Research Scholar, Department of Accountancy, Nassarawa State University, Keffi, Nassarawa, Nigeria

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ABSTRACT

The study examines the impact of audit quality on the firm's earnings. It adopts audit quality as the independent variable, and scales firm' earnings to be the dependent variable. The audit fee, Big 4 auditors, auditor's independence and audit tenure were variables used to proxy the independent variable while cash flow was used to proxy firm's earnings (dependent variable).The study adopted descriptive research design using pool data. The study was carried out in Nigeria. The population of the study is eleven pharmaceutical firms and the sample size is nine firms. Purposeful sampling was used based on the availability of data from those firms. The study employed regression statistical data in analysing the result. The findings of the study reveal that audit fee, auditor's independence and auditor's Big 4have significant impact on the firm's earnings, while audit tenure has no significant impact on the firm's earnings.

KEYWORDS: *Audit Quality, Independent Variable, Nine Firms*

INTRODUCTION

Financial statements are financial tools deployed to present financial information of a given firm within a specific period of time.It is from these statements that stakeholders who are not privileged to have the necessary financial andnon-financial information about a firm are the opportunities to come into contact with it. Notwithstanding the importance attached to financial statements, the fact of information asymmetry and agency conflicts, under guided by financial irregularities, has given rise to the need for financial audits in firms. These financial irregularities and fraudulent activities became manifest in the 1920swhen some big corporate firms such as Enron and WorldCom, Sunbeam, Xerox, all in the US and Cadbury in Nigeria to mention but few crashed. The crisis of confidence in audit quality (Boynton and Johnson, 2006) generated many questions from the public with respect to the existence and quality of audit work as it affects the firms' financial position. Between 1990 to date, many regulatory acts came up to regulate the financial activities of the business and to build a stronger audit quality aimed at judicious management of shareholders' resources.

To this end, audit profession is guided by certain concepts aimed at enhancing audit quality for better firms' earnings report at the end of the accounting period. The concepts include:

- Concept of independence
- Concept of Materiality
- Concept of Confidentiality

- Concept of True and Fair view

Earnings are the main reason why investors invest.They give the indication of the firms' expected future dividends and their potential for growth, sustainability in business and capital appreciation.

Firms' earnings have a positive relationship with the quality of management, which directly anchors on the audit quality of the firm. According to Glosten and Milgrom (1985) the increase in the quality of corporate disclosure reduces information asymmetry and protects the interests of the principals, specifically, current and potential investors.Going by the words of Becker *etal* (1998), as cited in (Khaled and Hussainey, 2014),audit quality reduces earning management and provides higher quality financial statements with more informative disclosures as well as firms' earnings.

Audit quality has been a contemporary issue that has raised a big concern in accounting for decades and which series of models have been on board for possible solutions. Audit quality tends to increase public confidence in the audit process and financial reporting. The problems of Enron and other failed corporations emanated as a result of misstatement of financial figures which have direct relationship audit irregularities. A concept meant to supervise and regulate the smooth running of business activities now becomes lacking in its responsibilities. The primary aim of audit in any corporate entity is to examine and identify any lapses in the daily activities of the entity and proffer immediate solution for prevention of mismanagement of the entity's resources. By so doing, auditors are bound to engage in various kinds of audit such as financial audit, operational and compliance audit, all in the bid to safeguard the wealth of the shareholders and encourage objective financial reporting. These are the concepts and assumptions with which audit is constituted into today's business. The fraudulent activities which are today manifesting in the management of various entities, both nationally and internationally have put a constraint to and hastened a crisis of confidence in the activities of auditors. It is glaringly shown that the quality of audit is of utmost importance in defining the firms' earning andits sustainability. Thus, survival of any business is dependent on the management, which in turn anchors on the corporate governance adopted in the firm's operations.

Many research works have been carried out by various researchers, including Tarak SMII (2016) on the impact of the audit quality on accounting profits. The study confirms that there is significant impact of the audit quality on accounting profits.

According to Jordan, Clark and Hames (2010) in a related US – study, they confirmed that audit quality constrains earnings management to affect user reference points in earnings per share (EPS).

Hussainey (2014) in the study on the impact of audit quality on earnings predictability confirmed that audit quality is positively associated with earnings predictability hence the investors' ability to anticipate future earnings is made possible.

In previously reviewed literatures that used panel data, it was observed that audit quality is very significant in the representation of quality financial statements, which equally has an effect on firms' earnings. Although the years covered in the literatures did not accommodate the recent changes in the economy, thus, the need to use pooled data in this study, over a seven year period, ranging from 2010 to 2016.

The objective of this study is to investigate the impact of audit quality on firms' earnings. Some variables are used to proxy audit quality. They include auditor independence, audit fees, and auditor's tenure. Consequently the following specific objectives are formulated;

- To investigate the impact of auditor's independence on the firm's earnings.
- To ascertain the effectiveness of firms' earnings in responding to the audit quality of Big 4 auditors.
- To ascertain the extent to which firms' earnings and its fees relate to audit quality.
- To ascertain the impact of audit tenure on the firm's earnings.

The following hypotheses have been formulated for the study:

$\mathbf{H_0^1}$:Auditor's independence has no impact on the firm's earnings.

$\mathbf{H_0^2}$:Firms' earnings do not respond positively with the engagement of Big 4 auditors

$\mathbf{H_0^3}$:Firms' earnings do not positively associate with the audit fee.

$\mathbf{H_0^4}$:Audit tenure does not have any impact on the firms' earnings.

The study intends to add significant knowledge on the in-depth impact of what a caring and selfless audit can do with the performance of a firm, otherwise firm earnings. Audit quality is primarily to provide users assurance that the financial statements are prepared in conformity with the Generally Accepted Accounting Principles (GAAP).A key concept within GAAP is that financial reporting should provide information that is faithfully represented by portraying the correct information they purport to represent (Jordan et al., 2008).To this end, the study will avail many people, especially corporations (shareholders), the opportunity to implore the assistance of auditors in their firms in a bid for maximized earnings, which stand to be the main reason for being in the business, through a careful utilization of resources and complete disclosure of all financial activities within the business period.Then others are stakeholders such as:

- Creditors
- Employees
- Financial institutions
- Government
- General public

Conceptual Framework

The ultimate objective of auditing is to lend credibility to financial and non-financial information provided by the management in annual reports. By this, investors are being assured of the safety of their investments and returns thereon, which is said to be possible with the institution of audit quality.

Auditors' independence is fundamental to its audit quality. Financial statements which are the end-point of auditors' competency would not be credible, and investors and creditors would have little confidence in them, if auditors were not deemed as independent in both fact and appearance for the enhancement of the audit quality (Anichebe, 2010).

According to Titman and Trueman (1986) audit quality is the accuracy of information supplied by the auditor to investor.

Palmrose (1988), Davidson and Neu (1993) defined audit quality as the auditors' ability to detect and eliminate misstatements and manipulations in financial statements.

Audit quality is positively associated with the firms' earnings as the auditors' presence accompanied by independence, competence and integrity will always constrain the management of the practice of income smoothing and earnings management, thereby disclosing all the material information as regards to the operations of the business and by so doing, firms' earnings are maximized.

EMPIRICAL REVIEW/REVIEW OF PREVIOUS STUDIES

Das and Zhang (2003) examined the decimal point in the earnings per share (EPS) numbers for a sample of U.S. companies.In their words, entities with positive earnings, they find that the frequency of numbers appearing in this digital position steadily decreases from the number one to the number four but then abruptly increases at the point of five which is statistically significant.For the numbers five through zero (i.e., five six, seven, eight, nine, and zero) the frequencies remain relatively stable.In the page 40, it was concluded that the "evidence is consistent with managers manipulating earnings upward to round-up reported EPS."Finally, Das and Zhang (2003) present evidence that managers accomplish the earnings manipulation needed to round up EPS via short-term accruals. This behaviour of the managers counters the concepts of GAAP, impairs the quality of audit if not detected and corrected, and as well affect the dividend expectations of the investors.

Lee *etal* (2007) investigated the impact of audit quality on financial statements, this was measured by the ability of investors to anticipate future earnings from their investment. The anticipation is higher when financial statements are audited by the big accounting firms.

Schleicher *etal* (2007) provides evidence that the association between corporate disclosure which arise as a result of audit quality and the firms' earnings are positively related and are significantly stronger for high disclosure unprofitable firms.

Hussainey (2009) in the study opined that high-quality disclosure enables firms and financial analysts to better anticipate firms' earnings. The quality disclosure is encouraged by the quality of audit in existence.

Healy and Palepu (2001:406) suggest that audit quality enhances the credibility of financial reports hence firms' earnings are better predicted.

Therefore, correlation between the audit quality and firms' earnings is very high. This audit quality positively affects the firms' earnings through the compulsory financial information disclosures as insisted by the auditors, and other factors used to constrain the management from manipulation of accounting numbers for earnings management or income smoothing.

Firms' Earnings and Audit Quality

According to Lee et al (2007)investors are availed the opportunity of anticipating future earnings whenever the financial statements are audited by the Big four accounting firms. Earnings rise when the financial activities of the firm are well articulated within a particular period of time. This articulation is done through the financial recording, measurement, summarizing and interpretation of the report, which comes as financial statements give the financial position of the firm. Under the process of book keeping, decision on firms' expenditures and the level of discretion on estimates, management is made to be careful and conscious of their actions knowing that these actions and in-actions will be revisited by the auditor. Unnecessary expenditures or financial commitments that attract no earnings to the firm are avoided while every necessary strategy that will enhance the corporate earnings are implemented.

Firms' disclosure quality is not an easy task to actualize. But this is made possible through the presence of the auditor who in the course of his examination demand for the disclosure of certain information that is worthy of disclosing which most of the time attract increased earnings to the firms. For example, during the audit examination, the auditor uses its expertise to follow up all the sales activity reports and ensures that all are contained in the financial statements. The same checks are applicable to other activities, conservatism and prudence are encouraged. With these skilful checks, necessary queries on arbitral expenditures are made; fair prices are instituted while earnings appreciate. These audit activities increase the firms' earnings and constrain the management from adoption of earnings management style. According to Huang et al. (2008) due to audit presence, management cannot boost earnings by underestimating bad debts on credit sales or expected warranty costs on the goods sold.

Firms Earnings and the Big 4 Auditors

The Big 4 auditors is one of the variables used to proxy the audit quality. These Big four are the largest professional services networks in the world, offering audit, assurance services, taxation, management consulting, advisory, actuarial, corporate finance and legal services and are:

- Deloitte
- PricewaterhouseCoopers
- Ernest and Young
- KPMG

Significantly, audit quality most of the time is based on two concepts: the auditor's competence and independence (DeAngelo 1981, Lemom and Taffler 1992).The size of the audit firm plays an important role in the earnings of the firms. It therefore accepted that the Big 4 or the Big N produce better quality audits. According to Chalmers and Godfray (2004) the Big N help, on one end reduce the problem of the information asymmetry which exist between the managers and the shareholders, and on the other end, improve the quality of the firms' earnings through the cost minimization and disclosure of every operating activities especially the cash flow. The Big N is conscious of their reputations that would be associated with a poorly performed audits, going by Becker et al., (1998) Big N audit firms try to minimize the litigation risks or costs accompanying a failed audit coupled with the public's intimidating comments against them. Therefore, in the efforts to avoid scandals and huge exposure to litigation risks, these firms take more conservative approaches to dealing with their clients' questionable transactions without any consideration of future retainership.

The Big 4 auditors do more aggressively constrain their clients' discretionary accruals and, thus, their ability to manage earnings (Becker et al., 1998; Francis et al., 1999; Francis and Krishanan, 1999; Krishnan, 2003) as cited in (Jordan et al.,2010).

Firms Earnings and Audit Fee

Audit fee is one of the variables that may impair the quality of audit report if not carefully handled by the auditor. Audit fee is the amount received or paid by the audit client (auditee) to the auditor for the audit and non audit services delivered. Therefore, auditor earns his living through the means of audit fee which he would not want anything to jeopardize this means of income. The auditor may do whatever possible to ensure that this source of income is not obstructed. With this high reliance on the fee, quality report may be impaired especially when the auditor's personal interest has over shadowed the professional interest. To this end, auditor sees the fee income very important than the professional responsibilities owed to the shareholders and other stakeholders, whose funds are invested in the firm.The larger the audit fee the more auditor's responsibilities would be impaired as cutting corners could mean the audit team reporting without all the evidence required which will affect the quality of the report. This could even lead to manipulation of figures and exploitation of accounting standards which would finally affect the firm's earning since most transactions will be intentionally omitted from the report while those ones that will serve their criminal tendency will be reported in order to manage the firm's earning and present a fictitious report at the end.

Firm's Earnings and Audit Tenure

The length of auditor – client relationship matters a lot in the determination of the firm's earnings. Audit quality has the probability that an auditor will both discover and truthfully report material errors, misrepresentation, or omissions in material financial statements (DeAngelo, 1981).The persistent auditor's long tenure in a firm mars the quality of the report and as well gives opportunity for earnings management to be perpetrated. When this happens, the accounting conservative, which is strictly adhered to by the accountant will be impaired. According to Basu (1997) accounting conservative is the tendency of the accountants to require a higher degree of verification so as to take into account the good news as gains rather than to recognize the bad news. By this, profits are minimally reported due to delay in the consideration of income, the rapid recognition of expenses and the lowest evaluation of assets and the highest one of the liabilities. This study predicts that auditor's long tenure in a firm encourages most accounting principle violations which is made for a faithful representation of firm's financial activities for the period, thereby misstating firm's earnings to suit their fraudulent plans.

THEORETICAL FRAMEWORK

Agency Theory

According to Meckling and Jensen (1976) an agency relationship is one in which "one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". The parties involved in agency relationship may either be the shareholder (principal) and the management group (agents).Going by the Agency theory, the agent assumes a special duty of trust to his principal. According to Hendriksen and Breda (2001) as cited in Alade *etal.* (2013)

"Given that the principal will always be interested in the outcome generated by their agents, agency theory provides the underpinning for an important role for accounting (professionals) in providing information after an event: A so-called post-decisional role. This role is always associated with the stewardship role of accounting in which an agent (accountant), reports to a principal on the events of the past period"(p. 27).

Management as agents are expected to focus their attention on the outcome of their duties while playing their roles in business and in practice with regards to necessary statutory and regulatory demands rather than pursuing personal interest (Edwin and Carmelita, 2007). Firm's management as agents to their employers (the principal), are obliged to play some vital roles in the interest of their principal. Thus, the fact that management group has more information about the firm than their principal does not give them a free hand to use the information for their selfish benefit at the expense of their principal.

The management's decisions and actions will often produce a result which will impact not only on the corporate entity, but also on the economy of the nation(s) as a whole. The consequence of such actions is assumed to be capable of spreading very fast, even across borders from one country to another – contagion issues (Sheriffdeen, 2009).

Therefore, the above theory is anchored to the study being that the firms in question are made up of different management, whose responsibility fall on the management of resources entrusted to them by the shareholders, who in return await their returns from investment in the form of dividend and other incentives. The issue of audit quality is one of the mechanisms provided by the shareholders (principal) to ensure that the actual financial transactions which took place during the accounting period are reported in the financial statements without any information asymmetry by the management (Agents) whom shareholders' resources have been entrusted for judicious management and actualization of expected goal which is mostly dividend.

METHODOLOGY

The research design adopted for this study is a longitudinal research design using pool data research method. The reason for this is that it involves a cross section of firms in different years and similar variables have been researched upon for periods. The study used secondary data collected from nine pharmaceutical firms from 2010 to 2016. The study relies on data from such official source.

The Population consists of eleven listed pharmaceutical firms selected from the Nigeria stock exchange while the sample size is nine, using purposeful sampling technique. The study selected nine firms based on the availability of data.The secondary data collected was analysed using regression analysis. The multiple regression analysis was used to evaluate the influence of the independent variables on the dependent variable. It reveals the degree of influence and impact the independent variables have on the dependent variable.

Model Specification

The model for the study is premised on the main objective and anchored on the sub-objective. The model used was adopted from the work of Jordan et al (2008) and modified to suite the mediating variables used in this study.

The Independent and Dependent Variables with their Specifications Are

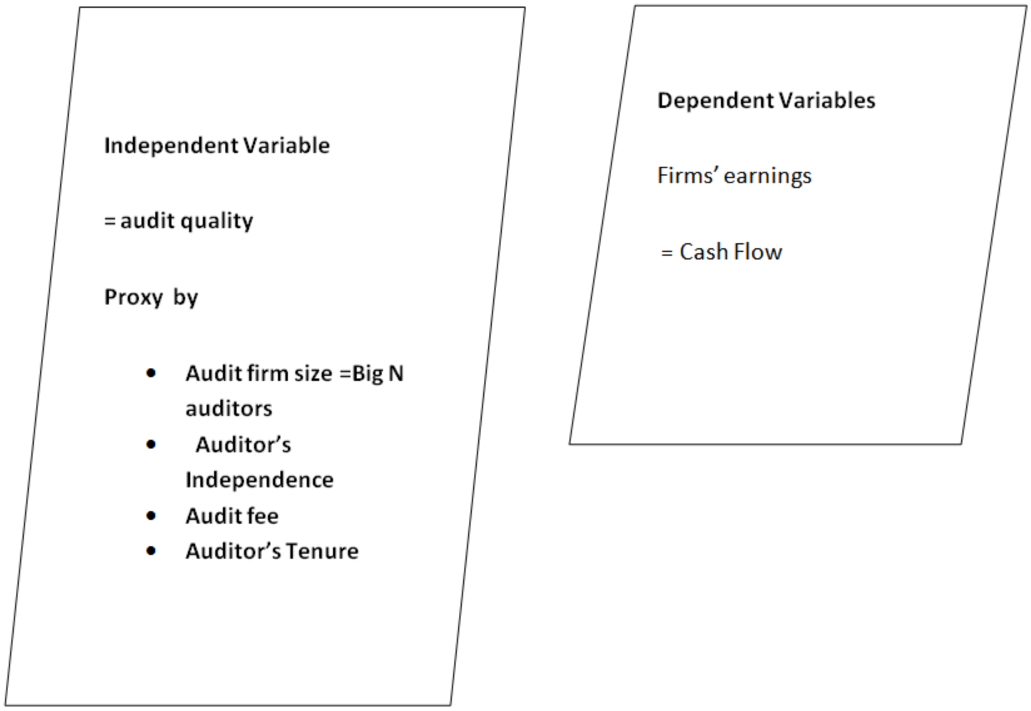

Figure 1

The model for the study is anchored on the objective.

Firms earnings =F(AudIndep, AudBigN, AudFee, AudTenu) ... 1

Statistically,

Firms earnings $=B_0+B_{1it}$AudIndep + B_{2it}BigN $+B_{3it}$AudFee + B_{4it}AudTenu... 2

Firms earnings = Cash Flow

B_0=constant

B_1– B_4=are the coefficient of the regression equation

U=error term

t=is the year (time series)

i=is the cross section of the firms used

Data Presentation, Analysis and Results

This study evaluated the impact of audit quality on firms' earnings of listed (selected) pharmaceutical firms in Nigeria. In analysing the data, the study adopted regression analysis to identify the impact of audit quality on firms' earnings proxy by audit independence, the audit fee, audit tenure and Big four auditors while firms' earnings were proxy by cash flow. The study conducted some preliminary analysis and diagnostic test, preliminary analysis, such as descriptive statistics, correlation matrix and regression effect test.

Table 1 below, provides the summary of the descriptive statistics of the sampled companies between 2010 and 2016 even though some of the information picked from the firms are not up to seven years.

Table 1: Descriptive Statistics

	OPCF1	AUDFEE	BIG4	AUDTENURE	AUDIND
Mean	5.468915	0.340702	0.508772	2.578947	0.389298
Median	5.646215	0.220000	1.000000	3.000000	0.330000
Maximum	6.710454	1.380000	1.000000	3.000000	0.600000
Minimum	1.643453	0.080000	0.000000	1.000000	0.170000
Std. Dev.	0.942099	0.311034	0.504367	0.730640	0.112088
Skewness	-1.492721	1.671240	-0.035093	-1.384924	-0.042739
Kurtosis	6.468499	5.316630	1.001232	3.310876	1.700196
Jarque-Bera	49.74044	39.28001	9.500004	18.45066	4.029891
Probability	0.000000	0.000000	0.008652	0.000099	0.133328
Sum	311.7282	19.42000	29.00000	147.0000	22.19000
Sum Sq. Dev.	49.70278	5.417572	14.24561	29.89474	0.703572
Observations	57	57	57	57	57

Table 1 shows the result of the descriptive statistics, which reveals the mean for each of the variables, their maximum values, minimum values, standard deviation and the Jarque-Bera (JB) statistics (normality test). The result provided some insight into the nature of data from the selected companies that were used for the study. Firstly, it was observed that within the period under review, the firm's market value of the sampled companies have a mean value of 5.468915, maximum and minimum value of 6.710454 and 1.643453 respectively. The large difference between the maximum and minimum value shows that few firms out of the selected firms used for the study presented higher earnings hence they are not homogeneous. Secondly, it was observed that on average, over the period, the sampled companies were characterized by audit fee value of 0.340702. The mean value, maximum and minimum audit fee are 0.340702, 1.38000 and 0.080000, the values of the audit Big 4- mean, maximum and minimum are 0.508772, 1.000000, 0.000000, the values of audit tenure – mean, maximum, and minimum are 2.578947, 3.000000, 1.000000 while the values of auditor's independence – mean, maximum and minimum are 0.389298, 0.600000, 0.170000respectively.

The large difference between the mean values and others, of the variables reveal that the selected firms do experience more earnings as a result of the audit quality.It equally proves, that the variables are normally distributed.

Lastly, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme value among the data from the variables used for the study, shows that all the variables are normally distributed at 1% level of significance except auditor independence that has a Jarque-Bera of 4.029891 with p-value of 0.133328.

Table 2: Pearson Correlation Matrix (Correlation Analysis)

	OPCF1	AUDFEE	AUDIND	AUDTENURE	BIG4
OPCF1	1.000000	-0.485243	-0.150769	0.046153	0.355038
AUDFEE	-0.485243	1.000000	0.443481	-0.111829	-0.199243
AUDIND	-0.150769	0.443481	1.000000	-0.023297	0.101188
AUDTENURE	0.046153	-0.111829	-0.023297	1.000000	0.446320
BIG4	0.355038	-0.199243	0.101188	0.446320	1.000000

Source: Researcher's field work (2017)

The use of the correlation matrix is to check for multi-colinearity and to explore the relationship that exists between the variables used for the study. Table2 shows the relationship that exists between firms' earnings, the audit fee, auditor Big 4, audit tenure and auditor's independence. The result shows that firm's earnings is positively related with audit Big 4, audit tenure but negatively related with auditor's independence and audit fee. This means that the more audit Big 4 is employed, and the reduction in their tenure is effected the higher the firms' earnings.

Table 3: Regression Test

Dependent Variable: OPCF1
Method: Panel Least Squares
Date: 07/06/17 Time: 12:55
Sample: 2010 2016
Periods included: 7
Cross-sections included: 9
Total panel (unbalanced) observations: 57

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.088987	0.562465	10.82553	0.0000
AUDFEE	-1.327356	0.400750	-3.312180	0.0017
AUDIND	0.051480	1.098247	0.046875	0.9628
AUDTENURE	-0.196319	0.164829	-1.191048	0.2390
BIG4	0.625850	0.247868	2.524936	0.0147

R-squared	0.573654	Mean dependent var	5.468915
Adjusted R-squared	0.521628	S.D. dependent var	0.942099
S.E. of regression	0.804031	Akaike info criterion	2.485274
Sum squared resid	33.61625	Schwarz criterion	2.664489
Log likelihood	-65.83031	Hannan-Quinn criter.	2.554923

Firms' earnings have a negative relationship with audit fee and auditor's independence.This reveals that the more audit fee is higher, the more auditor's independence is impaired and this creates a negative impact on the firm's earnings. In checking for multi-colinearity, the study observed that no two variables were perfectly correlated. This means that there is an absence of multi-colinearity problem with our model.

The essence of this analysis is to check the degree of effect that independent variables have on the dependent ones. In table 3, the study observed from the result that the R-sq 0.573654 and R-sq (Adj) 0.521628.The R-sq adjusted value indicates that audit quality and its proxy jointly explain about 52.16% of the change/variation in the firms' earnings of the firms in Nigerian Stock Exchange. The F-statistics value of 6.220945 and its probability value of 0.000362 indicate that the model used for the analysis is statistically significant at the 1 % level.

HYPOTHESES TESTING

Hypothesis 1: Auditor's independence has no impact on the firm's earnings.

The result obtained shows a coefficient value of 6.088987, t-value of 10.82553 and p-value of 0.0000. The coefficient value of 6.088987 indicated that audit quality has a positive influence on firms' earnings, thus, about 60% of changes in firms' earnings can be attributed to audit equality. The t- value of 10.82553 reveals that auditor's independence has an impact on the firms' earnings while the p-value indicates that the effect of audit quality on firms' earnings is statistically significant. Hence, we conclude that auditor's independence has a statistical significant impact on the firms'earnings. Based on the analysis result, therefore, the study rejects the null hypothesis and accepts the alternate hypothesis.

Hypothesis 2: Firms' earnings do not respond positively to the use of Big 4 auditors.

The analysis result showed a coefficient value of 0.625850, t-statistics value of 2.524936 and the probability value of 0.0147. This result indicates that the use of audit Big 4 has significant influence on firms' earnings. The t-statistics value shows that Big 4 auditors have significant impact on firms' earnings. While the probability value reveals that the impact of Big 4 auditors is statistically significant in firms' earnings at 1% level. Based on the analysis result, the study accepts the alternate hypothesis and rejects the null hypothesis.

Hypothesis 3: Firms' earnings do not positively associate with the audit fee.

The regression analysis result of the impact of audit quality on the firm's earningsof firms listed in the Nigeria Stock Exchange showed a coefficient value -1.327356, t-statistics value of -3.312180 and p-value of 0.017. The coefficient value indicates that audit fee has a negative influence on firms' earnings of the pharmaceutical firms in Nigeria.The t-statistics show that audit fee has a strong negative impact on firms' earnings. This was confirmed by the probability value, the probability value 0.0017 indicates the impact of audit fee on firms' earnings is statistically significant. Based on the analysis result, the study accepts the null hypothesis and rejects the alternate hypothesis; the study, thereforeconcludes that audit fee has a statistical significant impact on pharmaceutical firms' earnings in Nigeria.

Hypothesis 4: Auditor's tenure does not have any impact on the firms' earnings.

The analysis showed a coefficient value -0.196319, t-statistics value of -1.191048 and p-value of 0.2390. The coefficient value indicates that auditor's tenure has a negative influence on firms' earnings of the pharmaceutical firms in Nigeria. The t-statistics shows that auditor's tenure has no impact on firms' earnings. This was confirmed by the probability value, the probability value of0.2390 indicates that auditor's tenure has no impact on firms' earnings as it is statistically insignificant. Based on the analysis result, the study accepts the null hypothesis and rejects the alternate hypothesis; the study therefore concludes that auditor's tenure is statistically insignificant on pharmaceutical firms' earnings in Nigeria.

DISCUSSIONS OF FINDINGS

The study evaluates the impact of audit quality on firms' earnings of pharmaceutical listed firms in the Nigeria stock exchange. The study used audit fee, audit Big 4, audit independence and audit tenure to measure (independent variables), while Cash flow was used to measure firm's earnings.

The study finds that the data of the variables collected from the firms used were all normally distributed. This shows that the earnings of the firms selected for the study are acceptable hence their normality. The correlation analysis result shows that Big 4 auditors and audit tenure have a positive relationship with the firms' earnings while audit fee and auditor's independence are negatively related to firm's earnings. This reveals that there is no multi-co linearity.

The regression analysis reveals that audit Big 4 statistically significant on the firms' earnings; this is in line with the study of Hussainey (2009).Audit fee and auditor's independence is statistically significant on the firms' earnings while auditor's tenure has no statistical impact on the firms' earnings; this is in line with the findings of Adeniyi and Mieseigha (2013).

Based on the above findings, the study concludes that audit fee, an auditor's independence and Big 4 auditors havea positive influence and statistically have significant impact on pharmaceutical firms' earnings as listed in the Nigeria Stock Exchange.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study focused on the impact of audit quality on the firms' earnings using nine pharmaceutical firms as evidence. Table 1 which is the descriptive statistics table shows that variables are statistically distributed. In table 2, the correlation statistics show that the variables dispersedly related as none of the variables have a close relationship. The regression table which measures the degree of effect independent variables have on the dependent variables shows that audit fee, an auditor's independence, and Big 4 auditors have significant impact on the firms'earnings, whereas audit tenure has no significant impact on the firms' earnings in the pharmaceutical sector in Nigeria.

The aim of this paper is to explore the significant impact of audit quality on the firms' earnings looking at the relationship between the firms' earnings and the variables which were used as a proxy to measure audit quality.The study employed expo-facto research method and Pool data was equally used.

This paper finds that audit quality which proxy by some variables as mentioned above proved that the variables have a significant impact on the firms' earnings except audit tenure that has no significant impact on the firms' earnings. This is because of the Big 4 that have their reputation to protect, and as well, are equally avoiding litigation which will expose them to higher risk and image destruction.

RECOMMENDATION

As one of the corporate governance mechanisms, the external audit's objective is to ensure the reliability of the accounting data published by the firms. Therefore, the study recommends that the shareholders at their annual general meeting should appoint any of the Big 4 auditors whose independence can be assured irrespective of financial aggrandizements found in the field.

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