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The Impact of Audit Quality on the Share Prices of Quoted Companies in Nigeria

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ABSTRACT
This study is used to determine whether Audit Quality has any significant impact on and relationship with Market Value per Share of companies in Nigeria. Archival data were extracted from annual reports of 57 companies quoted on the Nigerian Stock Exchange (NSE) between 2006 and 2011. Audit Quality was estimated using Audit Firm Size, Audit Fees, Auditor Tenure and Audit Client Importance. Market Price per Share (MPS) was derived directly from CSCS Cash – Craft. Multiple regression analyses were conducted on the data. The results of the tests show that Audit Quality exerts significant influence on the MPS of quoted companies in Nigeria. In order to improve the quality of audit and minimize earnings manipulations by firms in Nigeria, we recommend that regulatory agencies - professional accountancy bodies, Financial Reporting Council of Nigeria, the National Assembly, and Securities and Exchange Commission should issue authoritative standard and framework for audit quality; companies should improve their earnings quality only through sales growth, cost control and cost reduction strategies; companies in Nigeria should present distinct statements of earnings quality while auditors should conduct earnings quality assessment and issue Integrated Audit Quality Assurance Report by adapting or adopting current best practices statutorily backed by earnings monitoring of companies in Nigeria.
Keywords: Audit Quality, Earnings Reports, Financial Statements, Market price Per Share

1.0 INTRODUCTION

The value of a company's shares has been shown to represent the value of its future earnings (Lev, 1989) and this explains why investors in a company have vital interest in the earnings reports. Consequently, company managers use certain strategies to deliberately manipulate company earnings in order to match a predetermined target and involve the planning and execution of certain activities that manipulate or smooth income, achieve high earnings level and sway the company's stock price (Schipper, 1989; Healy & Wahlen, 1999). Earnings manipulation activities may occur because managers have flexibility in making accounting or operating choices, or because managers are trying to convey private information to financial statement users. The conveyance of private information may be done to give stakeholders information not otherwise available so that they can adjust their expectations appropriately. Careful release of such information may have effect on the earnings and the share price for the company. If the information conveys significant value relevance to analysts and other users of financial statements, they may also adjust earnings estimates and share prices for other companies in the industry. This may positively influence the company revealing the information to experience positive impact on its share prices because it is perceived as having a higher quality of earnings.

The quality of reported earnings and the ability of audit quality to effectively constrain earnings misrepresentation and financial statement manipulations of companies across the world and Nigeria in particular, have become considerably questionable due to recent corporate accounting scandals (Badawi, 2008; Enofe, 2010). Differences in Audit Quality result in variations in the credibility of auditors and the reliability of the earnings reports of companies. The recent corporate financial scandals pose a great challenge to the veracity, credibility, utility or value relevance of the audit function. Badawi (2008) reports a list of companies involved in cases of accounting scandals related to poor audit quality and earnings manipulations in the past decade. In Nigeria, corporate scandals include the cases of Cadbury Nigeria Plc and African Petroleum (AP) (Okolie and Agboma 2008); Savannah Bank and African International Bank (Odia, 2007); Wema Bank, Nampak, Finbank and Spring Bank (Adeyemi and Fagbemi, 2010); and more recently Intercontinental Bank Plc., Bank PHB;

Oceanic Bank Plc. and AfriBank Plc. These are known publicly reported cases that resulted in misleading financial reports. There is therefore a concern about the quality of accounting income and its relationship with the quality of the auditing process which has been observed to increase over time following the periodical clusters of business failures, frauds, and the litigations. The issue is whether these corporate collapses are not the outcome of poor audit quality and the inability of the audit function to arrest earnings misreporting and financial misstatements.

Next to the focus on reported income statement, earnings analysts and investors may focus more on cash flows rather than the income statement of a company. As a result of corporate scandals analysts and stakeholders may have lost faith in accounting income-based measurements. Sufficient cash flows from operating activities are essential for these companies to remain profitable and viable in the future. Lack of cash flows could result in bankruptcy or for a company to turn into a takeover prey. Since investors use the cash flow statement to make investment decisions, highly motivated and intelligent management teams could be involved in manipulation of the real economic operations in order to create ways to influence the true picture of a company's cash flow from operations (CFO). Certain reasons may account for executives' greater willingness to engage in real earnings manipulation than through accruals management because accrual-based earnings misstatements are more likely to draw auditor or regulatory scrutiny than real decisions that are related to production, product pricing, and expenditures on research and development or on advertising.

Audit quality guidelines and standards provide codes of best practice that have been developed in different countries in order to curb the spate of vicious corporate collapses that has permeated the globe in the past decade. These codes largely represent the regulatory support that is meant to guarantee and sustain integrity of auditors' reports in relation to corporate earnings and financial statements. Audit Quality (AQ) was first defined by DeAngelo (1981) as the market-assessed joint probability that a given auditor discovers a breach in the client's accounting system and reports the breach. The European Supreme Audit Institution (EUROSAI) extended the definition of Audit Quality in 2004 to include the degree to which a set of inherent characteristics of an audit fulfills requirements. Thus, the audit process assesses the probability of material misstatements and reduces the possibility of undetected misstatement to an appropriate assurance level (Watts & Zimmerman, 1986; Knechel, 2009). Audit Quality is recognized to influence financial reporting and strongly impact on investors' confidence (Levitt, 1998). Conventionally, external auditors play critical and highly challenging roles in assuring the credibility of financial reports (Mautz & Sharaf, 1961; Wallace, 1987).

In the context of the challenges that confront the audit function, some prior studies (; Teoh & Wong, 1993; Heninger, 2001, Balsam, Krishnan & Yang, 2003) have attempted to establish a more or less distinct relationship between audit quality and share prices of a company, and have tried to show the impact of this relationship on the quality of the earnings reported by quoted companies in many countries. The above studies show that the quality of audit is expected to minimize the extent of a firm's manipulations of reported income, influence investors response to earnings announcement and company share prices but majority of the studies has seemingly contradictory and inconsistent results.

One position of this study is that audit quality as an outcome cannot be completely divorced from financial reporting quality. Many accounting scandals of the past decade have involved outright manipulation of accounting data through discretionary accruals including recording fictitious inventory and hiding liabilities even in the face of audited financial reports. Knechel (2009) posits that the companies that have involved in real accounting scandals along with a number of lesser known companies greatly involved in transactions where the accounting was technically correct but which served primarily to obfuscate the financial health of the organizations and the results of their operations. Wells (2005) reported that widespread manipulation of accounting information and income misstatements through discretionary accruals may be attributable to the pressure on corporate accountants, auditors and organizational managers to show profits. A common trend and threat among the companies that are involved in accounting and financial scandals are gross lack of integrity, character and transactions involving related parties (Geriesh, 2006, Enofe, 2010; Carey, 2006).

Given the above scenario, the major problem of this study is to determine whether audit quality can significantly influence earnings response and market price per share of quoted companies in Nigeria. The study attempts to ascertain and establish whether there are significant relationships between Audit quality and Market Price per Share (MPS) of quoted companies in Nigeria.

2.0 LITERATURE REVIEW

This section considers the concept and measurement of Audit Quality, Company Share Prices, Auditors' Reports and corporate earnings. The section also deals with the theoretical framework relevant to this study.

2.1 The Concept of Audit Quality (AQ)

According to International Auditing and Assurance Standards Board (IAASB, 2011), there has been a number of attempts to conceptualize "audit quality" in the past. However, none has resulted in a definition that has achieved universal recognition and acceptance. Audit quality is, in essence, a complex

and multi-faceted concept. The classic definition of audit quality that is cited by most audit researchers is that of DeAngelo (1981) which states that audit quality is the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach. The definition highlights two important aspects of audit quality: (1) the competence of the audit firm that determines how likely it is that a misstatement will be detected and (2) the independence and objectivity of the auditor that determines what the auditor is likely to do about a detected misstatement. This definition has been quite useful to audit quality studies. The import of DeAngelo (1981) definition is that audit quality is a probability that an auditor will discover and truthfully report material errors, misrepresentations, or omissions in the client's financial statements. Davidson, Stening and Wai (1984) simply posit that audit quality is the accuracy of auditor's information reporting while Wallace (1987) shows that audit quality is a measure of the auditor's ability to reduce noise and bias and meticulously improve accounting data. Davidson and Neu (1993) provide further that an audit quality definition is based on the auditor's ability to detect and eliminate material misstatements and manipulations in reported net income.

An important issue regarding the definition of audit quality is whether to distinguish audit firm quality from audit quality. Several studies (Clarkson, 2000; Colbert & Murray, 1998) do not make this distinction but instead use the concepts interchangeably. However, under certain conditions, audit firm quality and audit quality might be used interchangeably. According to the underlying assumptions in the DeAngelo's (1981) definition, when an auditor provides only one level of quality of audit service, audit firm quality and audit quality may be akin to and correspond with each other. Meanwhile, Lam and Chang (1994) points out that audit quality should be defined on a service–by–service basis because an audit firm may not conduct its entire audit with the same level of quality.

Perceived audit quality and actual audit quality also appear to be different concepts; Actual audit quality is unobservable and can be evaluated only after audits have been conducted. For instance, Palmrose (1988) measures actual audit quality using auditor's litigation activities. Deis & Giroux (1992) analyzed quality control reviews to get a measure of actual audit quality in the public sector. Krishnan & Schauer's (2000) measure of actual audit quality is based on how audited financial statements comply with certain specific GAAP reporting requirements. Deis & Giroux (1992) and Krishnan & Schauer's (2000) both measure actual audit quality in the not-for-profit sector. However, results of studies in the not-for-profit sector might not be used to generalise for for-profit setting. It therefore suffers from generalization problems.

Many studies test perceived audit quality due to the difficulty in measuring actual audit quality directly. DeAngelo (1981) analytically demonstrates that the larger the auditor, the less incentive the auditor has to behave opportunistically and the higher the perceived quality of the audit. Moreland (1995) investigates how SEC enforcement actions against Big 8 accounting firms affect their market perceived audit quality. Hogan (1997), documents that perception of higher audit quality is associated with less under pricing in the IPO market. It is difficult to measure actual audit quality but market perceptions of audit quality are more amenable to measurement.

Audit quality is subject to many direct and indirect influences. In tandem with the stakeholder theory (Khan, 2006), perceptions of audit quality vary amongst stakeholders depending on their level of direct involvement in audits and on the perspective through which they assess audit quality. audit quality may be perceived from any of three fundamental perspectives: inputs, outputs, and context factors. Inputs to audit quality, apart from auditing standards, include the auditor's personal attributes such as auditor skill and experience, ethical values and mindset. Another important input is the audit process including the soundness of the audit methodology, the effectiveness of the audit tools used, and the availability of adequate technical support geared toward supporting a high quality audit.

Outputs of the audit are important influences on audit quality that are considered by stakeholders in their assessments of audit quality. Such influences include the auditor's report (viewed as positively influencing audit quality if it clearly conveys the outcome of the audit), auditor communications to those charged with governance (on matters such as qualitative aspects of the entity's financial reporting practices and deficiencies in internal control that can positively influence audit quality).

More broadly, context factors that influence audit quality include sound corporate governance (especially if it creates a climate of transparency and ethical behaviour within the entity); Law and regulation (if it creates a framework within which the audit can be effectively conducted); regulatory oversight (if it establishes an effective regime for monitoring the quality of auditors' work and effective dialogue between auditors and regulators); the quality of the applicable financial reporting framework (use of a financial reporting framework that does not promote robust and transparent disclosures may adversely affect audit quality as well as related external perceptions).

2.1.1 Audit Quality Measurements

As at date, there appears to be no agreed – upon metric for the measurement of audit quality construct (Gerayli, Yanesari and Ma'atoofi, 2011; Knechel, 2009 and IAASB, 2011). DeAngelo (1981) developed a two-

dimensional definition of audit quality that set the standard for addressing the issue. First, a material misstatement must be detected, and second, the material misstatement must be reported. audit quality is influenced by many other factors as well. Since 1981, accounting studies have attempted to define, measure, and study multiple dimensions of audit quality. DeAngelo (1981) theorizes that larger firms perform better audits because they have a greater reputation at stake. In addition, because larger firms have more resources at their disposal, they can attract more highly skilled employees. Others have theorized that large auditors attract a fee premium because their greater wealth reduces clients' exposures in litigation (the deep pockets theory). Others have theorized that there is no real audit quality difference, but the perception exists because large firms are well known and have gained a reputation for high quality. On the whole, the evidence is mixed, but it appears that there is some relationship between audit firm size and audit quality. What is unclear is whether this difference is actual or perceived. Based on DeAngelo's (1981) reports, many other studies use auditor size (specifically Big8, Big6 or Big5 Vs non-Big8, non-Big6 or non-Big5) to differentiate audit quality levels (Copley, 1991; Clarkson & Simunic, 1994; Becker, Defond, Jiambalvo, & Subramanyam, 1998; Bauwhede, Willekens & Gaeremynck, 2000; Zhou & Elder, 2001; Krishnan, 2003).

Some studies have used audit fees as quality measures. Palmrose (1986) finds that there is a significant association between audit fees and auditor size measured by Big 8 vs non – Big 8 dichotomy. Copley (1991) finds that using audit fees as audit quality measure has greater power than Big 8 vs non – Big 8 dichotomy in explaining variation levels of local government disclosures. Colbert & Murray (1998) measure audit quality using the results of peer review. Schauer (2000) measures audit quality using client bid-ask spread, which is the difference between the ask price and bid price for a client company's shares.

Audit Independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting. Independence refers to the quality of being free from influence, persuasion or bias. In the absence of independence, the value of the audit service will be greatly impaired (Sweeney, 1994). An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach. Prior studies contend that high fees paid by a company to its external auditor increase the economic bond between the auditor and the client and thus the fees may impair the auditor's independence (Frankel, Johnson & Nelson, 2002; Li & Lin, 2005). The impaired independence results in poor audit quality and allows for greater EM (resulting in lower earnings quality). Auditor independence was not used in this study in order to avoid circularity because Audit Fee also indirectly measures independence

Summing up, DeAngelo (1981); Palmrose (1988); Deis & Giroux (1992); Becker, et al (1998); Francis & Krishnan, (1999); Krishnan & Schauer (2000); Kim, Chung & Firth, (2003) and Krishnan, (2003) agree on audit quality as a function of audit firm size and demonstrate that larger (Big 8, Big 6, Big 5 or Big 4) audit firms possess greater capacity to measure Audit Quality. Wooten (2003) found that detecting material misstatements is influenced by how well the audit team performs the audit, which in turn is influenced by the quality control system and management resources of the audit firm.

2.2 Company Share Prices, Auditors Reports and Corporate Earnings

Financial reporting is essential for monitoring purposes. The external audit of company financial statements provides this monitoring and control. The principle of information disclosure is directed at ensuring the provision of relevant, reliable and sufficient information that enable stakeholders to take rational decisions. Investors, in particular require audited financial reports to make investments decision and to assess the risk and returns expectations on their investments. Audit specifically provides shareholders and potential shareholders reasonable assurance that management's financial statements are free from material misstatements (Watts & Zimmerman, 1986). Investors therefore value the audit report as a means of improving financial information reported by companies.

Kedia and Philippon (2008), McNichols and Stubben (2008), and other studies on the consequences of earnings management have focused exclusively on stock price effects related to the earnings misrepresentation. Research has examined earnings management around specific corporate events such as IPOs, management buyouts, stock repurchases, and stock for stock acquisitions, and how ex-ante EM activities relates to observed post event abnormal stock returns.

In addition to examining post event stock returns, previous studies have also examined short-term capital market reactions around the announcements of fraudulent reporting. Evidence from studies by Foster (1979), Dechow, Sloan, and Sweeney (1996), Beneish (1997), and Palmrose, Richardson, and Scholz (2004) indicate that the market reaction to disclosure of manipulation is on average negative. This implies that investors were surprised and interpret these as negative news.

One of the very first studies to investigate issues related to earning quality was conducted by Wilson (1987) of Harvard University. Wilson's key conclusions were that operating cash flows and total accruals (i.e. change in current accruals plus non-current accruals) are differentially valued and that both are value relevant. That is,

the market appears to react to the disclosure of detailed cash flow and accrual data (value relevance) and that cash flows are more highly valued than accruals (value differential). Wilson's basic findings are also supported by a number of subsequent studies, including Rayburn (1986), Bowen, Burgstahler and Daley (1987), Chariton and Ketz (1990), Livnat and Zarowin (1990), Ali (1994), Pfeiffer, Elgers, Lo and Rees (1998), and Vickrey, and Bettis (2000).

Recent studies have shown that managers with large stock options portfolios are more likely to manipulate earnings measured by accruals in Bergstresser and Philippon (2002), and restatements in Burns and Kedia (2004), and that they succeed in manipulating stock prices and in making money on concurrent insider trading (Beneish & Vargus, 2002). However, Healy and Wahlen (1999) also point to a crucial question that the academic research has left unanswered: what is the effect of EM on the allocation of resources?

The fact that the market values a Naira of cash flow more than a Naira of current or non-current accruals implies that higher levels of accruals are indicative of lower quality of earnings. In other words, the degree to which a company must rely on accruals to boost net income results in lower quality of earnings. However, the first studies to investigate this issue (Sloan, 1996 and Swanson & Vickrey, 1997) found that, contrary to the efficient market hypothesis, disaggregating earnings into cash flow and accrual components is useful in identifying securities that are likely to outperform (or under-perform) in the future. Thus, the results of these studies imply that security prices do not fully reflect the information contained in the cash flow and accrual components of earnings.

Following in the path of Sloan (1996) as well as Swanson and Vickrey (1997), academic researchers are currently focusing on the development of simple empirical models that objectively assess earnings quality in order to predict future return performance. Chan, Jegadeesh and Lakonishok, (2001) found that companies with relatively high levels of accruals tend to under-perform while companies with relatively low level of accruals tend to outperform for periods of 12-36 months after the disclosure of detailed financial data. Specifically, the study found that the return spread between stocks with the highest level of accruals (lowest earnings quality) and the lowest level of accruals (highest earnings quality) is as high as 21.7% depending on the approach used by the authors in forming portfolios. The implications are that measures of earnings quality can be used in forming profitable investment and trading strategies and more effectively manage risk.

Prior studies (Burgstahler & Dichow, 1997) focus directly on income smoothing, and find that firms manage earnings to meet analyst expectations and avoid losses and earnings decreases. Benefits from smoothed earnings include a perception of lower risk and a consequent reduced cost of capital, and by extension a high market price perception. Evidently, a variety of EM definitions exist but in the context of this study, EM defines the planning and execution of certain activities aimed at manipulating and smoothening income and achieving high earnings with a view to influencing the company's stock price (Revsine, 1991).

Certain exogenous factors may impact on market price per share of a company. Such control variables examined in this study include Market to Book Value (MBV) of Equity, Operating Cash Flow (OCF), Leverage (LEV), and Company Size (Coysize).

2.2.1 Market to Book Value (MBV) of Equity

The Market-to-Book Value of equity ratio is one possibility of influence on the earnings and earnings manipulations of companies. The effect which this factor might have on the earnings is supportive of its inclusion in the estimation model as a control variable. A company's market-to-book value is a proxy for growth opportunities and may affect earnings and equity values (Zhou & Elder, 2001). The factor is the discrepancy or difference between market capitalization and accounting book numbers of a company. The discrepancy (or gap) describes the extent to which undisclosed and hidden assets are reported. A high MBV ratio is indicative of the degree of a company's market over-valuation in relation to its book values.

2.2.2 Operating Cash Flow (OCF)

It is hypothesised that companies with high cash flows (and hence, probable high profits) engage in income-decreasing abnormal accruals to smooth earnings. Becker, et al, (1998) find that cash flow has a negative association with discretionary accruals. Indirect measurement approach is taken for all years, subtracting net income before extraordinary items from total accruals to derive OCF before deflating it by prior year assets. This is a performance measure (Dechow et al, 1995; Yang (1999). CFO is introduced to control for potential misspecifications in the models (Bauwhede et al, 2000). A negative coefficient on this variable is expected.

2.2.3 Leverage (LEV)

Prior research suggests that leverage might be associated with earnings response and market value of equity (Becker et al., 1998; DeFond and Jiambalvo, 1994). Evidence from literature indicates that managers indulge in income - inflating accruals to delay or avoid the costs of debt covenant violations (Defond and Jiambalvo, 1994). Consistent with Becker, et al. (1998), a measure of leverage (LEV) is included to control for the possible effects of gearing on earnings and market value of equity. A positive relationship is expected between market value per share and leverage (LEV). The debt-to-equity hypothesis (Watts and Zimmerman, 1986) suggests that high

leverage works as an incentive for income-increasing manipulations. Leverage is introduced to control for the effect of this in highly levered companies. This was also amplified by Becker et al (1998) who asserts that leverage can be a proxy for potential income-increasing manipulations in companies suffering from financial distress.

2.2.4 Company Size (Coysize)

The political cost (size) hypothesis suggests that larger companies with more political visibility prefer income decreasing accounting choices (Bauwhede et al, 2000). Client company size estimated by total assets is included to control this effect. Theory suggests a negative coefficient.

2.3 Theoretical Framework

Essentially, agency theory, signaling theory, and auditors' theory of inspired confidence justify the key function of auditing as a mechanism for mitigating information asymmetries among related parties. The demand for audit of companies' accounts is created by the agency problems which are related to the separation of corporate ownership from control (Eilifsen and Messier, 2000; Gerayli, et al, 2011). The agency problem arises from the existence of asymmetric information in the principal – agent contracts (Jenson and Messier, 2000). Some studies (Trueman and Titman, 1988; Dye, 1988; Schipper, 1989; Warfield, Wild and Wild, 1995) have shown that the existence of information asymmetry between corporate management and company shareholders is a necessary condition for and easy perpetration of earnings misreporting and financial statements manipulations. The audit of a company's accounts is a monitoring or control mechanism that diminishes information asymmetry and protects the interests of the principal.

The auditors' theory of inspired confidence offers a linkage between the users' requirement for credible and reliable financial reports and the capacity of the audit processes to meet those needs. It sees through the development of these needs of the public (stakeholders) and the audit processes over time. Developed by the Limperg Institute in Netherlands in 1985, the theory of inspired confidence states that the auditor, as a confidential agent, derives his broad function in society from the need for expert and independent examination as well as the need for an expert and independent judgement supported by the examinations. Thus, accountants and auditors are expected to know and realize that the public continues to expect a low rate of audit failures. This requires that the auditors must plan and perform their audit in a manner that will minimize the risk of undetected material misstatements. The accountant is under a duty to conduct his work in a manner that does not betray the confidence which he commands (Limperg Institue, 1985).

The import of the theory of inspired confidence is that the duties and responsibilities of the auditors are a derivation from the confidence that are bestowed by the public on the success of the audit process and the assurance which the opinion of the accountant conveys. Since this confidence determines the existence of the process, a betrayal of the confidence logically means a termination of the process or function. Carmichael (2004) in discussing the social significance of the audit stated that when the confidence that society has in the effectiveness of the audit process and the audit report is misplaced, the value relevance of that audit is destroyed. Therefore, auditors are expected to maintain reasonable quality assurance especially given that an audit failure is effectively a career-ending event. Audit provides assurance to the owners and management of companies and to investors and stakeholders, and along with financial reporting, corporate governance and regulations, supports confidence in the capital markets.

Signaling through auditor choice stands on the agency theory, and is a manner by which managers and/or directors may impart to the market additional information about their company and their own behaviour. Signaling theory suggests that companies with good performance use financial information disclosure to send signals to the market. Craven and Marston (1999), show that firms will attempt to accept the same level of disclosure as similar firms operating in the same industry since if a firm does not keep up with the same level of disclosure as others, it may be perceived by stakeholders that it is hiding bad news or negative information. As the types of financial statements produced have become standardized, potential information differentiation that a company can use to send a signal to the market through its financial statements is reduced. Companies are thus provided an incentive to signal, other than through transparency in their notes to the accounts and other voluntary disclosures, through their choice of auditor. Moreover, even voluntary disclosures that may be used as signals achieve enhanced credibility in the presence of a quality auditor.

A high quality audit sends a signal to the market that the financial statements are more credible than those audited by lower quality auditors. The market perceives audit firm size and specialist auditors to be of a higher quality than others and rewards (punishes) companies with larger improvements (or falls) in share prices accordingly (Teoh and Wong, 1993; Krishnan & Yang, 1999; Menon and Williams, 1994).

Signaling theory does not actually require higher audit quality, it merely needs the market to believe that Top Tier firms are associated with higher audit quality because of the fee premiums they are able to command (Moizer, 1997). It has been shown that the market's perception of the quality of the company's auditor

influences that company's share price. As such, directors and management may want to signal to the stakeholders that their interest is being well monitored. Therefore, signaling should, theoretically, affect the demand for audit quality over and beyond the monitoring function alone. The positive Signal of transparency and credibility it sends to the market and the assurance it provides to stakeholders about the quality of earnings performance disclosures suggests a positive association between MPS and audit quality.

3. METHODOLOGY

Secondary data obtained from a sample of 57 quoted companies are studied out of the non – financial firms quoted on the NSE over a period of six years from 2006 to 2011 resulting in 342 company accounting – year observations. Archival data were extracted from annual reports and accounts of the selected companies. Drawing from the foregoing analysis, literature provides the conceptual and theoretical bases for the development and construction of the following propositions:

H_0: Audit Quality does not significantly influence the Market Prices of Shares of Quoted Companies in Nigeria

3.1 Estimation of Audit Quality

The major proposition of this study is that market price per share of companies depends on audit quality and we maintain that this study extends the audit quality proxy of Audit Firm Size (AFS) to include other perceived audit quality proxies in line with Heniger (20010); Ebrahim, (2001); Piot and Janin (2005); Gerayli, et al (2011). In this study, we estimate audit quality by isolating each of the most commonly applied surrogates as follows:

1. Audit Firm Size in terms of Big-4 and Non-Big-4 audit firms (DeAngelo, 1981; Deis & Giroux, 1992; Becker et al, 1998; Francis & Krishnan, 1999; Krishnan & Schauer, 2000; Kim, Chung & Firth, 2003 and Krishnan, 2003);
2. Audit Fees which also measures Auditor Independence (Palmrose, 1986, 1988; Moizer, 1997; Wooten, 2003; Craswel, Stokes, & Laughton, 2002);
3. Auditor Tenure (Knapp, 1991; Lys & Watts, 1994; Geiger & Raghunandan, 2002; Frankel et al, 2002; Myers, Myers & Omer, 2003; Pigé, 2000; Ebrahim, 2001); and
4. Audit Client Importance (Heninger, 2001; Ebrahim, 2001).

We treat the individual variable effects as well as the effects of using all the audit quality attributes together in line with Heninger (2001), Ebrahim (2001), Piot and Janin, 2005, and Gerayli et al (2011). Using a number of explanatory variables after controlling for the effects of exogenous variables on the dependent variable is authenticated by Thierauf and Klekamp (1975: 20) who posit that "a general model which will be representative of a system under study takes the form of $E = f(X_1, X_2, \ldots X_n, Y_1, Y_2, \ldots Y_n)$". Where: E = objective function; $X_1, X_2 \ldots X_n$ = system variables that are subject to control (controllable variables); $Y_1, Y_2 \ldots Y_n$ = system variables that are not subject to control (uncontrollable variables). The measurement and construct validity of all the variables and the specific review of the various proxies for estimating audit quality are contained in table 3.1 below.

3.2 Derivation of Market Price per Share (MPS)

Market Price per share (MPS) of each of the 57 companies were obtained directly from www.cashcraft.com as at the end of the year. "Cash craft" is a unit of the Central Securities Clearing System (CSCS) in Nigerian Stock Exchange.

3.3 Model Specifications

In this section considers the models used to deal with the effects and relationships between the dependent and independent variables contained in the hypotheses. Some prior studies (Becker et al, 1998; Bauwhede et al, 2000) that used only one audit quality attribute to measure audit quality observed that the use of only one attribute when other perceived attributes are known to have effect on audit quality is an obvious limitation to their findings. In order to correct for the effects of such constraints on the results, Heninger, (2001), Ebrahim (2001), Piot and Janin (2005), Gerayli et al, (2011) used a number of identified perceived audit quality attributes together. Following this latter approach, and taking cognizance of the problem of multicollinearity that such treatment could create, we develop a set of models for each of the two relationships to include a number of identified relevant audit quality measures after running some regression assumption tests including tests of normality, multicollinearity, Heteroscedaticity, autocorrelation and model specification tests.

This study modifies Ohlson's (1995) valuation model and was used to test for the effect and relationship between audit quality and Share prices of quoted companies in Nigeria. Ohlson (1995) model was adopted by Amir (1996), Amir and Lev (1996) and Collins, Maydew and Weiss (1997). This present study applies the Ohlson (1995) model modified to include multiple audit quality variables as well as control variables. Linear regression analyses were used to test the relationship between the dependent variable (MPS) and the identified independent audit quality measurement variables. Eq. 3.5 relates the most commonly used audit quality attributes, AFS, AF, AT and ACI to MPS as separate individual independent variables.

$$MPS_{i,t} = a_0 + \beta_1 AFS_{i,t} + \beta_2 SA_{i,t} + \beta_3 AF_{i,t} + \beta_4 AT_{i,t} + \beta_5 ACI_{i,t} + \beta_6 CFO_{i,t} + \beta_7 CoySize_{i,t} + \beta_8 Gwth_{i,t} + \beta_9 Lev_{i,t} + \beta_{10} EPS_{i,t} + \beta_{11} BVPS_{i,t} + e_{i,t} \quad \text{---------- (eq.3.5)}$$

Where:
$MPS_{i,t}$ = Market Price per share for company i at time t obtained from CSCS cash craft page using www.cashcraft.com
$EPS_{i,t}$ = Company i reported EPS before extraordinary items for period t.
$BVPS_{i,t}$ = Company i book value of equity per share at time t estimated as net total assets divided by the number of Ordinary shares for each of the companies. Other variables remain as described table 3.1 below.

TABLE 3.1: MEASUREMENT OF VARIABLES

S/N	Variables	Definitions	Type	Measurement	Construct validity source
1	MPS	Market Price per share	Dependent	Obtained directly from CSCS at www.cashcraft.com	Ohlson, (1995); Amir (1996); Collins, maydew and Weiss (1997).
2	AFS	Audit Firm Size	Independent	Dichotomous: '1' if company is audited by a Big4, '0' otherwise	DeAngelo, 1981; Deis and Giroux, 1992; Becker et al, 1998; Francis and Krishnan, 1999; Krishnan and Schauer, 2000; and Krishnan, 2003
3	AF	A measure of Auditor Independence	,,	Natural Log of the Audit Fees Paid by the company.	Palmrose, 1988, Copley (1991), Frankel et al, 2002; Li & Lin, 2005; Gerayli et al, 2011
4	AT	Audit Tenure	,,	Length of auditor-client relationship: '1' if 3 yrs$^+$ & '0' if otherwise.	Heninger (2001); Ebrahim (2001)
5	ACI	Degree of Audit Client Importance to the Audit Firm	,,	% of Turnover of each company to Total Turnover of Clients of the auditor within the sample size	Heninger (2001), Ebrahim (2001)
6	CFO	Cash Flow From Operations	Control	CFO as % of Total Assets at end of Year 't'.	Adapted from Dechow et al (1995); Yang (1999); Bauwhede et al (2000).
7	Gwth	Growth Prospects of the Company	,,	(Market Value divided by Book Value of Equity) = MPS/BVPS	Zhou and Elder (2001); Bowen, et al (2005)
8	CoySize	Company Size	,,	Natural log of company Total Assets	Bauwhede et al, 2000; Gerayli et al, 2011
9	Lev.	Leverage	,,	$\frac{\text{Total Debts}}{\text{Equity}}$	Becker et al (1998), Watts & Zimmerman, (1986)
10	EPS	Earnings per Share	,,	As reported in the Annual Financial statements of sampled companies	Ohlson, (1995); Amir (1996); Collins, maydew and Weiss (1997).
11	BVPS	Book value of equity per share	,,	$\frac{\text{Net Operating Assets}}{\text{No. of Ord. Shares}}$	Ohlson, (1995); Amir (1996); Collins, maydew and Weiss (1997).

4. DATA ANALYSES

This section contains the presentation, analyses and interpretation of the data collected for the study. The estimation models are examined empirically and used to test the causal-relationships between market price per share and audit quality. Descriptive statistics, regression assumption tests (for the variables) and multiple regression analyses were conducted on the data. For purpose of comparison, the sensitivity of the endogenous variables was examined on the baseline equation containing multiple proxies of audit quality in line with Heninger (2001), Ebrahim (2001), Piot and Janin (2005), Gerayli et al (2011). The regression analyses were conducted using the Pooled OLS and the Panel OLS. A series of statistical tests incorporating both the Hausman Test and the Panel Unit Root tests were performed on the data. The analyses and results are presented below.

4.1 DESCRIPTIVE STATISTICS

Table 4.1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev	Jarque-Bera	Probability
MPS	37.92732	14.2	445.66	0.5	61.43473	2415.146	0.000
AFS	0.702771	1	1	0	0.457615	76.42107	0.000
AF	6.821742	6.9	8.22	5.04	0.577794	16.92742	0.000
AT	0.942065	1	1	0	0.233914	3459.362	0.000
ACI	5.536801	1	54.63	0.01	9.839493	1723.826	0.000
CFO	11.66365	11.7	99.49	-126.16	16.67328	3494.981	0.000
GWTH	8.667909	2.7	1228.33	-24.64	72.64753	922498.7	0.000
COSIZE	9.879723	9.97	11.66	7.87	0.790002	10.88827	0.004
LEV	5.505743	1.39	685.82	-15.7	43.15786	696687	0.000
EPS	1.995959	0.755	30.23	-9.31	3.587965	3123.311	0.000
BVPS	9.415491	4.11	506.74	-43.19	27.37497	1248657	0.000

Source: computation derived from Eviews 7.0 by the author

4.2 Multiple Regression Tests

In this section we test the robustness of our main results by modifying some aspects of the estimated equations. The Robustness Tests were conducted to examine the sensitivity of the endogenous variable in the baseline equation that contains multiple proxies for audit quality in line with Ebrahim (2001), Heninger (2001), Piot and Janin (2005), Gerayli et al (2011). Firstly, we begin by testing if the coefficients of the variables are sensitive to the inclusion of all the explanatory variables (Audit quality measures) together in the model.

4.2.1 Regression Assumption Tests

Table 4.1 has revealed that the p-values associated with Jarque-Bera statistics for the variables are all less than 0.05 indicating the normality of data and suitability for generalization. It also suggests the absence of outliers in the data. Table 4.2 presents the regression assumptions tests.

Table 4.2 Regression Assumptions Test for Model

Variance inflation test for Multicollinearity		
Variable	Coefficient Variance	Centered VIF
C	1735.123	NA
AFS	36.936	1.496
AF	93.473	5.448
AT	145.039	1.153
ACI	0.101	1.953
CFO	0.022	2.859
GWTH	0.003	2.859
COSIZE	82.294	9.831
LEV	0.005	2.079
EPS	0.898	2.079
BVPS	0.083	2.164

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	31.031	Prob. F(1,182)	0.000
Obs*R-squared	28.903	Prob. Chi-Square(1)	0.000

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	5.739	Prob. F(9,184)	0.004
Obs*R-squared	10.853	Prob. Chi-Square(9)	0.004

Ramsey RESET Test		
	Value	Probability
t-statistic	0.862159	0.3895
F-statistic	0.743318	0.3895
Likelihood ratio	0.777317	0.378

Source: Computation derived from Eview 7.0 by the author. * VIF exceeding or approximating to 10.

Table 4.2 above shows the regression assumptions test for the estimation model. As shown in the table, non of the variables has a VIF value exceeding 10 and hence all the variables are upheld in the regression model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of misspecification. The Breusch-pagan-Godfrey test for heteroscedasticity was performed on the residuals and the results showed probabilities less than 0.05, which suggest the presence of heteroscedasticity in the residuals. As one appropriate method of treating heteroskedasticity, Robust Standard Errors was adopted to addresses the issue of errors that are not independent and identically distributed. In addition we also utilize the Estimated General Least Squares (ELGS) in conducting the panel OLS.

The Lagrange Multiplier (LM) test for serial correlation indicates that the probabilities (Prob. F, Prob. Chi-Square) were less than 0.05, suggesting the presence of serial correlation in the model. In correcting for serial correlation in the model we adopt the Cochrane Orcutt method which includes an autoregressive (AR) term as part of the exogenous variables and re-estimating the model (Eviews, 7.0). However, in the case of panel data (with effects) where the inclusion of AR terms is not allowed, the EGLS (Estimated General Least Squares) was applied.

Table 4.3a Augmented Dickey Fuller (ADF) Unit Root Test

Null Hypothesis: Unit root (individual unit root process)		
Exogenous variables: Individual effects		
Automatic selection of maximum lags		
Automatic lag length selection based on AIC: 0 to 14		
Method	Statistic	Prob.**
ADF - Fisher Chi-square	570.45	0.000
ADF - Choi Z-stat	-17.2136	0.000

** Probabilities for Fisher tests are computed using an asymptotic Chi – square distribution. All other tests assume asymptotic normality.

Table 4.3b Breitung Unit Root Test

Null Hypothesis: Unit root (common unit root process)		
Exogenous variables: Individual effects, individual linear trends		
User-specified maximum lags		
Automatic lag length selection based on AIC: 0 to 3		
Method	Statistic	Prob.**
Breitung t-stat	-7.22855	0.000

Source: Computation derived from Eview 7.0 by the author

Table 4.3c Im, Pesaran and Shin unit root test

Null Hypothesis: Unit root (individual unit root process)		
Exogenous variables: Individual effects, individual linear trends		
User-specified maximum lags		
Automatic lag length selection based on AIC: 0 to 3		
Method	Statistic	Prob.**
Im, Pesaran and Shin W-stat	-109.105	0.000

Source: Computation Derived from Eviews 7.0

Table 4.3a, b & c above provide summary reports of panel unit root tests on the residuals of the regressions. The p-values reported in Table 4.3a suggest that the hypothesis of no unit root can be rejected at least at the 5% level. Also, the ADF Fisher statistic (570.45) and the Choi Z-stat. (-17.214) for the stacked residuals indicate that the null hypothesis of non-stationarity is strongly rejected. In addition, the Breitung Unit Root Test is performed and the results shows that the Breitung t-stat (-7.2286) and p-value (0.00) as presented in table 4.3b suggest that the null hypothesis of non-stationarity is strongly rejected at 5%. The Im, Pesaran and Shin unit root test was performed as an additional check to confirm the stationarity of the data. The results shows that the Im, Pesaran and Shin W-stat (-109.105) and p-value (0.000) as presented in table 4.3c suggest that the null hypothesis of non-stationarity is strongly rejected at 5%. Unit root testing is important for identifying if the residuals from the individual cross sections do not contain a unit root which suggests that there exists an equilibrium (stable) relationship that keeps the relevant variables in the models in proportion to one another in the long run. With the stationarity condition of the series determined, the regression analysis was conducted based on the confidence and high probability of non-spurious results.

4.2.2 Multiple Regression Tests

Table 4.4 Multiple Regression test

	POOLED OLS		PANEL OLS (NO EFFECTS)		PANEL OLS (FIXED EFFECTS)	
Variable	**Coefficient**	**Prob.**	**Coefficient**	**Prob.**	**Coefficient**	**Prob**
C	7.73	0.759	4.017	0.893	66.92	0.000*
EXPLANATORY	**VARIABLES**					
ACI	0.459	0.166	0.455	0.217	-1.848	0.249
AF	-13.046	0.049*	-10.745	0.000*	-2.371	0.043*
AFS	14.914	0.003*	13.436	0.000*	-1.399	0.404
AT	3.139	0.638	2.671	0.592	1.321	0.343
CONTROL	**VARIABLES**					
CFO	-0.139	0.262	-0.142	0.198	-0.015	0.433
GWTH	0.058	0.010*	0.059	0.000*	0.180	0.045*
COYSIZE	8.243	0.067**	7.060	0.000*	-1.450	0.024*
LEV	-0.039	0.158	-0.038	0.177	-0.284	0.083**
R^2	0.696	0.70		0.877		
ADJ R^2	0.682		0.69		0.839	
F-Stat	53.44		65.5		23.58	
P(f-stat)	0.00		0.00		0.000	
D.W	1.2		1.2		2.03	

Source: Computation derived from Eview 7.0 by the author. * significant at 5% **significant at 10%

4.8 Discussion of Results

In estimating the models, we employed the pooled OLS and Panel effects estimations. Our preference for the variable estimates used in discussing the results is based on the descriptive statistic and Hausman (1978) Test. Descriptive statistics showed the mean value of Audit firm Size (0.702) and suggests that majority of the companies in the sample were audited by the Big-4 Audit Firms. This may be related to the level of perceived audit firm quality being associated with Audit Firm Size (in terms of the Big-4 audit brand names) by quoted companies in Nigeria. This result agrees with the findings of previous studies (DeAngelo, 1981; Copley, 1991;

Clarkson and Simunic, 1994; Becker, et al, 1998; Bauwhede et al, 2000; Zhou and Elder, 2001; Krishnan, 2003). Other prior studies agree on audit quality as a function of audit firm size and demonstrate that larger (Big 8, Big 6, Big 5 or Big 4) audit firms possess greater capacity to constrain and minimise earnings misstatements (Palmrose, 1988; Deis and Giroux, 1992; Francis and Krishnan, 1999; Krishnan and Schauer, 2000; Kim, Chung and Firth, 2003). Our result shows a considerable cluster of audit firm choice around the Big-4 audit brand names.

The descriptive statistics also reveal that on the average, companies (about 94%) engage their audit firms for over three (3) years. The study reveals a considerable experience of a substantial number of audit firms in this distribution. Audit Tenure is defined in this study as the length of the auditor-client relationship. In Nigeria, it is professionally required that audit tenure should not exceed three years but this does not appear to be enforced.

The fixed effects estimation show that the effect of Audit firm size on MPS appear negative (-0.094) but is insignificant (p=0.996) at 5% level. The effect of Audit fees on MPS is positive (9.514) and significant (p=0.078) at 10% level. We also find that the effect of Audit tenure on MPS appeared to be negative (-1.848) but is insignificant (p=0.249) at 5% level. With the inclusion of all explanatory variables (Audit quality measures) together in the model, the fixed effects estimation shows that while only Audit tenure appear to impact positively on MPS (1.321), it is insignificant (0.343); ACI is negative (-1.848) and insignificant (-0.249); AF is negative (-2.371) and significant, AFS is negative (-1.399) but insignificant (0.404). Only AF proves to be significant at 5% (p=0.043). The results of the tests by both Single Audit Quality explanatory variables taken individually as well as multiple Audit Quality measures taken together indicate that, in relation to MPS, only Audit Fees (AF) is significant at 5%.

This result seems to move along the direction of Auditor expertise hypothesis. In line with this hypothesis, some prior studies have shown that larger Audit Firms receive larger audit fees than smaller audit firms (Palmrose, 1986; Copley, 1991; Wooten, 2003), and on the basis of this, AF is significantly related to audit quality (Moiser, 1997). Although, this evidence provides the basis to reject the null hypothesis (H_0) and uphold the alternative hypothesis showing that Audit Quality exerts significant influence on the Market Price per Share of quoted companies in Nigeria, there are other variables which appear to exert greater influence on MPS of quoted companies in Nigeria than Audit Quality. For instance, the examination of the effects of the control variables shows that company growth prospects (gwth), company size (coysize) and Leverage have strong significant effects on MPS of quoted companies in Nigeria than audit quality.

5.1 Summary of Findings

The summary of the above findings is based on results of both the descriptive statistics and the various tests conducted on the multiple regression models. The summary of findings is as follows:

1. The results of the tests on both Single Audit Quality explanatory variables taken individually as well as multiple Audit Quality measures taken together show that Audit Quality measures exert significant influence on the Market Value per Share of quoted companies in Nigeria.
2. The result of descriptive statistics imply that majority of the companies in the sample were audited by the Big-4 Audit Firms. This may be related to the level of perceived audit firm quality being associated with Audit Firm Size (in terms of the Big-4 audit brand names) by quoted companies in Nigeria.
3. The descriptive statistic test result also revealed that on the average, companies (about 94%) engage their audit firms for over three (3) years, with a considerable experience of a substantial number of audit firms in this distribution.

5.2 Policy Implications of Findings

The policy implications of our findings are as follows:

1. The reported results and findings of this study present obvious implication for regulators such as the Securities and Exchange Commission in its supervisory position to distinguish between legitimacy, outright fraudulent reporting and earnings statements that reflect the desires of management rather than the underlying performance of the company and to impose appropriate disciplinary penalties on offenders.
2. The result of this study has shown that if company's earnings are not properly monitored, companies will continue to deviate from reporting correct earnings figures by presenting earnings figures that appear beautiful but are not true; hence investors and other stake holders are deceived.
3. The Auditors standing expertise notwithstanding, an overly long association between the auditor and his client may constitute a threat to independence and hence audit quality as personal ties and familiarity may develop between the parties. This will lead to less vigilance and an obliging attitude of the auditor towards the top managers of the company. Apart from the threat to independence and audit quality, the audit

engagement may become routine over time resulting in devotion of less effort to identifying the weaknesses of internal control and risk sources.

5.3 Recommendations

This study recommends that:

1. The management of quoted companies in Nigeria should, as a legal mandate, provide a "statement of the quality of its earnings" arrived at using acceptable and uniform criteria and make assertions that the earnings of the company have not been manipulated (managed) during the period. Management can be held liable for any misstatement intended to distort or mislead the public with respect to the "quality of earnings". Management should be responsible for making an assertion about the company's quality of earnings, similar to the financial statement assertions currently required.
2. The auditors of quoted companies in Nigeria should conduct Earnings Quality Assessment (EQA) following typical earnings manipulation detection metrics and issue "Integrated Audit Reports" which will include EQA reports and Internal Control Reports in addition to normal annual audit reports. EQA reports will provide higher – quality information to financial statement users and meet the Stock Exchange, Regulatory Agencies and the public demand for greater assurance about the reliability of earnings figures. The conduct and completion of the EQA should be a legislative mandate while the auditors should be held responsible for EQA report they issue. Auditors' insight and expertise in this area is much like the expertise required to evaluate and report on management's assessment of internal controls under section 404 of the Sarbanes Oxley Act (2002).
3. The three years professional requirement for Auditors in Nigeria should be backed up by law and enforced. Considering the negative effects audit tenure may have on audit quality of independence (measured by audit fee in this study) and in line with global trends, professional accounting bodies, Financial Reporting Council of Nigeria, and the National Assembly should issue a codified and authoritative framework, guideline or standard for auditors' tenure and independence in Nigeria.
4. Attention should also be focused on companies' attempts to smooth or increase earnings to beautify its attractions in the stock market through unnecessary manipulation of real economic operations and cash flows. We recommend that companies earn high quality income only through sales growth and cost reduction activities since repeatable and fairly predictable earnings that come from sales and cost reductions presents the company's earnings as high quality earnings in the eyes of investors.
5. Audit quality measures applied to effectively detect and report earnings misstatements will facilitate the achievement of the public expected low rate of audit failures. This implies that Auditors must plan and perform their audit procedures in a manner that will minimize the risk of an undetected material misstatement.
6. In order to enhance high Audit Quality and minimize earnings misrepresentation, Companies in Nigeria should adapt to or engage in an outright adoption of currently available best practices like the provisions of US Public Companies Accounting Oversight (Sarbanes Oxley's) Act, 2002 and Public Companies Accounting Oversight Board standards, the UK Financial Reporting Council's Audit Quality Guidelines and Frameworks, followed by a statutorily backed earnings monitoring of companies in Nigeria.
7. Further studies in the same or similar areas to the present study should focus firstly on quoted companies in the financial services sector, and secondly on the unquoted companies and other businesses located within the informal sector in Nigeria. Despite the reasons adduced, the non-inclusion of institutions in these sectors is a major constraint to generalization of results and findings as the financial data for such firms also need to be evaluated in order to be able to make general policies that will favourably affect such institutions and consequently the entire economy.

5.4 Conclusion

Many past empirical studies investigate the implications of audit quality since the seminar work of DeAngelo (1981). The majority of these investigations are based on developed economies, while very little is empirically known about the implications, relationships and impact of audit quality on market prices of equity in transition economies like Nigeria. Based on a sample of 342 company – year observations from the NSE for the fiscal years, 2006 to 2011, and using the commonly applied audit quality measures (AFS, AF, AT and ACI) separately before treating them together, for purpose of comparison, a massive and all-inclusive multivariate

analyses was conducted. The result showed that audit quality significantly exerts influence and relationships with market prices of quoted companies in Nigeria.

Although the results of this study are similar to findings of some similar studies conducted in some more advanced economies, in arriving at the above conclusions, quoted financial institutions, unquoted companies and other firms located within the informal sector of the Nigerian economy were excluded; the sample covered six years of data drawn from annual accounts of sampled companies. The effect of these limitations is that external validity problem may be amplified to constrain the generalization of the results to cover different periods of time and different locations. The effects of inflation on figures related to financial statements and on the market value of equity of quoted companies in Nigeria were ignored.

In Nigeria in particular and to the best of our knowledge, as at the time of this present study, only a scanty number of studies may have examined the effects of audit quality on the market prices of shares of quoted non-financial institutions in Nigeria. This study therefore, contributes to knowledge by showing that the best accounting policy is that which evokes the greatest market response and the market seems to respond to earnings information more strongly than other information contained in financial statements. Audit Quality can act as a signal to potential earnings announcement and elicit the reactions or response of investors to the market price of the company's shares. This study is one of the few studies that have related audit quality directly to market value of equity per share. Furthermore, this study contributes to knowledge by integrating three streams of research in market reactions, share prices and audit quality which has been desperate and incongruent in the past and/or in other economies.

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