AUDITORS' INDEPENDENCE AND EARNINGS MANAGEMENT OF DEPOSIT MONEY BANKS IN NIGERIA

BY

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BEING A THESIS SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, AHMADU BELLO UNIVERSITY ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE DEGREE (M.Sc) IN ACCOUNTING AND FINANCE

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DECLARATION

I declare that the work in this Thesis entitled "Auditors' Independence and Earnings Management of Deposit Money Banks in Nigeria" has been carried out by me in the Department of Accounting. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this Thesis was previously presented for another degree or diploma at this or any other institution.

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CERTIFICATION

This Thesis entitled "AUDITORS' INDEPENDENCE AND EARNINGS MANAGEMENT OF DEPOSIT MONEY BANKS IN NIGERIA" by Maryam Ahmed JIBRIL meets the regulations governing the award of the degree of Master of Science (MSc) in Accounting and Finance of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This research work is dedicated to my late grandmother, Hajia Hannatu Ibrahim, May her soul rest in peace.

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All praises are due to Allah the Almighty for His guidance and blessings. This Thesis would not have seen the light of the day without the efforts and contributions of many people, especially my Supervisors. I would like to appreciate the efforts and contributions of the Chairman Supervisory Committee in person of Dr. Muhammad Habibu Sabari, for his painstaking, corrections and suggestions, as well as valuable hints that brought this work to a successful completion. I pray for Allah to bless and protect him. My appreciation to the Member of the Supervisory Committee, Malam Nasir Yunusa whose contributions and input have enriched the work in a better way, may Allah bless him. I am also thankful to Dr. Salisu Abubakar for all the help, motivation as well as suggestions towards this work. I also appreciate all the Lecturers of the Accounting Department for their inputs in this work.

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ABSTRACT

Financial statements audit is a monitoring mechanism that reduces agency problem between management and the stockholders, and protect the interest of other stakeholders. This critical role of external auditor promotes the quality of accounting information; however, there is a growing concern by the regulators, investors and the general public over the credibility and integrity of audited financial statements and stakeholders' confidence in auditors' independence as a result of recent accounting and audit scandals in different part of the world involving earnings management. In Nigeria, there are series of default and failures in the banking sector that are connected with the management and most of the failures are not reported by the auditors but rather by the CBN. This have questioned the integrity and quality of audited financial statements of Nigerian banks, as well as the independence of external auditors on whether they are independent of management influence via audit fees and tenure. This study thus examines the effect of auditors' independence (using total audit fees, large reputable audit firm and audit firm tenure) on earnings management of the Deposit Money Banks in Nigeria. Correlation research design was employed and Ordinary Least Square (OLS) technique was used in the analysis of the secondary data collected from a sample of 14 banks for a period of seven years (2006-2012). The study found that total audit fees have significant positive effect on the earnings management (discretionary loan loss provision) at 99% confidence level. It is also found that audit firm tenure has a significant positive effect on earnings management at 99% confidence level too. The study concludes that total audit fees and lengthy auditor tenure are a mechanism through which management influence auditors to compromise their independence in the deposit money banks of Nigeria, and therefore allow unethical practices such as earnings management. The study recommends among others that the regulators of the Nigerian banking industry should improve the safeguards for mitigating independence risks; these should include corporate governance, regulatory oversight, auditing firm policies and culture, and individual auditor characteristics.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The monitoring role of external auditor is critical in promoting the quality of financial statements prepared by management. By providing independent verification of financial statements, auditors lend credibility to accounting information and enhance its integrity. Watts and Zimmerman (1986) argued that financial statements audit is a monitoring mechanism that minimizes information asymmetry and protect the interest of the principals as well as existing and potential stakeholders, by providing reasonable assurance that the financial statements (prepared by management) are free from material misstatements. As such, external audit helps reduce agency costs between managers and external parties. However, these external parties cannot be expected to trust reported financial information without confidence in the Auditors' Independence. Recently, there is an increasing concern by regulators, investors and the general public regarding the quality and reliability of audited financial statements, because auditors compromise independence and thus diminish the quality of earnings reported, by either providing non-audit services to clients or collecting abnormal audit fees from the clients (Romano, 2004).

In Nigeria, Semiu and Kehinde (2011) and Semiu and Johnson (2012) empirically examine the perception of auditor independence in Nigeria and reported that the size of audit fee is the most influencing factor capable of deterring auditor independence in Nigeria. Similarly, they reported that, joint provision of audit and non-audit services affects auditor independence adversely. On the contrary, an investigation of stakeholders' perception of non-audit services provision vis-à-vis auditor independence in Nigeria by Umar (2012) reveals that non-audit services do not impair auditor independence. However, his findings reveal that there are a

number of threats to auditor independence and one of which is familiarity, which comes as a results of long-term audit firm-client relationship.

The regulators' concern over the increase in the provision of management consultancy services impair audit firm independence is based on the premise that the provision of non-audit services increases the fees paid to the audit firm thereby increasing the economic dependence of the audit firm on the client (Ashbaugh, Lafond & Mayhew, 2003). Similarly, DeAngelo (1981) and Magee and Tseng (1990) opined that non-audit services impair auditors' independence because of the presence of client's future quasi-rents (non-audit fee) provided to the auditors. They further stressed that it is the strength of the economic bond between the audit firm and its client that reduces auditor independence. This proposition holds true in some corporate collapse in USA and has forced regulators to ban certain kinds of non-audit services with the view that the financial reporting quality and investor confidence will increase. It is in light of this proposition that excessive audit fee (abnormal fees) is related to auditor's incentive to compromise independence. That is because of economic bond between client and auditor; the auditor with the possible loss of revenue is more likely to comply with client's wishes to manage earnings. However, Simunic (1984) and Chung and Kallapur (2003) were of the view that costs related to the loss of reputation and litigation minimize the incentives for auditors to compromise their independence. They further lamented that auditors care much about their reputation and if the auditor complies with the client and damages the reputation may potentially lose fees from current and future clients.

For any country to achieve economic growth and development a sound and efficient banking system is necessary to mobilize funds from the surplus units to the deficit units of the

economy for productive activities. In Nigeria, banking industry witnessed different factors that slow the desired level of economic growth and development, which according to Soludo (2004) include weak internal audit, high incidence of fraud and poor corporate governance. Similarly, the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks in Nigeria Post Consolidation of 2006 identified weak internal controls, non-compliance with laid-down internal controls and operations procedures; poor risk management practices resulting in large quantum of nonperforming credits including insider-related credits, and abuses in lending, as problems of the Nigerian banking sector. Historical trend in the Nigerian banking industry shows that 59 banks have failed between 1994 and 2007, and four chief executives were sacked in 2009 in connection with unethical practices with respect to loans and advances. Similarly, the CBN in 2011 had revoked the license of four banks in connection with financial regulatory cases. These have questioned the integrity and quality of audited financial statements of Nigerian banks as well as the independence of external auditors on whether they are independent of management influence via audit fees and auditor tenure.

Auditor independence is critical to the reliability of financial statements as well as investors' confidence due to the psychological belief in the auditors' role. This together with public expectations of the audit work is critical to regulatory agencies. It is in this context that Abdelkhalik (2002) states that the value of an audit depends on independence (objectivity). The codes of Ethics of the International Federation of Accountants (IFAC, 2000) and the Institute of Chartered Accountants' of Nigeria (ICAN, 2010) define independence as a state of not being controlled by other people or things, such as financial benefits. The code further states that an auditor needs to be objective in the course of performing his duties. Independence is divided into two according to the code; independence of mind and

independence in appearance which are to be observed by an auditor in passing his professional opinion.

In an effort to ensure independence of mind and in appearance, the International Standard on Auditing (ISA) No. 200 (objective and general principles of audit) states that "in the conduct of any audit of financial statements, auditors should comply with the ethical guidance issued by their relevant professional bodies". These ethical rules govern auditors' responsibilities and guide the audit and non-audit functions performed by auditors. In this regard, the auditors' code, published by Auditing Practice Board (APB), titled fundamental principles of independent auditing state that auditors should be seen to be objective in all other dealings with their clients, and their opinions should be independent of its directors. Similarly, in Nigeria, ICAN's rules of professional conduct for members' regard objectivity as independence of mind, and require auditors' objectivity to be beyond question when conducting an audit. The code makes it mandatory for both accountants in business and in public practice with special emphasis on all professional persons to exercise professional judgement. Hence, the ICAN's ethical principles out rightly prohibits misconduct and ignorance of misconduct in the audit of financial statements and thus, defined misconduct as any act or default which is likely to bring disrepute to auditor, his fellow accountant, and the profession of accounting in general (ICAN, 1999).

Consequently, non-compliance with ethical code of professional conduct by auditors make auditors allows managers to manipulate financial statements figures and thus erode the quality of earnings. Earnings management according to Bello (2010), is any attempt to cook/doctor or tailor financial accounting reports to a given desired level. He regarded earnings management as ethical misconduct of accountants and relates it to the recent times

corporate failures and loss of investors' confidence on both financial reports and auditors. One of the major incentives to manage earnings by managers is their compensation that is based on reported earnings, and hence, they can use abnormal audit fees from non-audit services to make auditors compromise their independence and allow managers to manipulate earnings, and thus impair the quality of earnings. Hence, high auditor independence should be more likely to detect and prevent earnings management. Therefore, higher level of independence is associated with lower levels of earnings management and higher quality earnings.

Abnormal audit fees and the length of client-audit relationship are seen as the major factor behind the lack of auditors' independence to objectively carry out their statutory audit function. This resulted in regulatory agencies placing restriction on auditor's non-audit services (Hope and Langli, 2007). In contrast to the regulators decision, Defond *et al.*, (2002) argue that regulators ignore the possibility that non-audit services may actually improve audit quality. This has prompted researches on the effect of audit fees, audit firm tenure on the quality of earnings. Also, there are none or fewer studies on auditor independence and earnings management in a developing economy like Nigeria, therefore, this study examines the effect of auditor independence on earnings quality in the Nigerian banking sector.

1.2 Statement of the Problem

With the emergence of stewardship accounting, directors and managers are conferred with the responsibility of preparing financial statements. The essence of the statements is to communicate to users the effect of operating activities during a specified time period and the financial position at the end of the period for a specific business. In an effort to ensure that the major objective of preparing the financial statements is accomplished, external auditor is

appointed based on statutory regulations. The auditor's responsibility is to conduct an independent examination of an organization's financial statements, supporting documents, and records in order to give an opinion about the fairness and general reliability of the financial statements (ICAN, 2010). While this can be considered as a good control measure for ensuring that established procedures and policies are being followed, there is however a great concern by the regulatory authorities and other stakeholders as regard the relevancy and effectiveness of this control measure. This is largely due to the fact that the control measure is not producing the desired outcome. The problem is more prominent in the sector in which most of the banks' failures are not reported by the auditors but rather by the CBN. Could it be that the auditors lack professional skills and talents to unveil failure problems or are there some underlining factors that prevent them from discharging their functions effectively? This situations warrant the need to have full investigation/failure of the cause.

Despite the economic importance of the banking industry to the economy, accounting researchers have done little to investigate the relationship between earnings management and auditor independence particularly in Nigeria. Kanagaretnam, Krishnan and Lobo (2008) consider banking industry as the most suitable for studying earnings management because Loan Loss Provision (LLP) is by far the largest and most important accrual for banks. This was also the view of Wahlen (1994) and Kanagaretnam *et al*. (2003 &2004), where they indicate that banks use LLP to manage earnings. Kanagaretnam *et al*. (2008) further state that this is to the extent that banks can leverage fee dependence to influence their auditors to accept abnormal LLP which can be determined by studying the relation between abnormal LLP and auditor fees.

Although series of arguments (such as the audit firm characteristics and client firm characteristics) are found in the literature as to the causes of the problem, some of the arguments are conflicting and are mostly based on studies conducted in advanced countries in

which the financial systems are more matured compared to the developing countries. This therefore stimulates the need to investigate factors that are responsible by taking into consideration peculiarities of specific area.

Given the fact that the Nigerian banking sector has undergone a series of transformations in order to have a strong and reliable banking sector, the transformations are based on research outputs in which the sector is identified to possess inadequate capital, inept management, and improper risk analysis amongst others. One vital factor that needs thorough investigation in order to have more solutions to the Nigerian banking sector is to empirically study the real relationship and effects between external auditors' independence (through Fees, Tenure and the use of large reputable audit firm) and managerial manipulations in the financial statements they audit. This has become essential due to assertions that managements of banks take advantages of the huge audit fees paid to auditors, audit firm tenure and generally accounting principles' shortfall and embark on earnings management which is only beneficial to the management but a threat to the survival of banks.

In essence, previous studies on external audit in Nigeria did not specifically examine the effect of auditor tenure, auditor remuneration and the auditor size and expertise on the financial reporting quality using earnings management in the banking sector. This study is design to fill this gap, using methodology and techniques that are most suitable for the banking industry.

In view of the foregoing paragraphs, this study raised the following questions, how do total audit fees affect earnings management of deposit money banks in Nigeria? What is the effect of audit firm tenure on earnings management of deposit money banks in Nigeria? Are

reputable audit effective in minimizing earnings management in the deposit money banks in Nigeria?

1.3 Objective of the Study

In line with the foregoing paragraphs, the main objective of this study is to examine the effect of auditors' independence, via fee dependence, audit firm tenure and reputable large audit firm on earnings management of deposit money banks in Nigeria. To achieve this, the following specific objectives are set forth;

i. To assess the impact of total audit fees on earnings management of Deposit Money Banks in Nigeria.
ii. To investigate the effect of audit firm tenure on earnings management of Deposit Money Banks in Nigeria.
iii. To examine the effect of audit firm size on earnings management of Deposit Money Banks in Nigeria.

1.4 Hypotheses of the Study

In order to draw conclusion about auditor independence on earnings management through fee dependence, tenure and reputable large audit firm, the study in line with the problem and objectives of this study formulated the following hypotheses in null form;

i. H_{01}: Total audit fees have no significant effect on earnings management of Deposit Money Banks in Nigeria.
ii. H_{02}: Audit firm tenure has no significant effect on earnings management of Deposit Money Banks in Nigeria.
iii. H_{03}: Audit firm size has no significant effect on earnings management of Deposit Money Banks in Nigeria.

1.5 Significance of the Study

This study is motivated by the growing concern by regulators, investors and the public over the credibility and integrity of audited financial reports, and stakeholders' confidence in the auditors' independence, in the light of corporate failures and monitoring role of external auditors. This study would be significant in revealing whether the intensive regulatory oversight in the Nigerian banking industry enhances auditor independence and management practices. Therefore, this study is expected to benefit existing and potential shareholders, depositors, creditors, Managements, Regulators and professional bodies.

Shareholders, investors, creditors and depositors will find this study useful in that it will highlight whether the auditors' monitoring role is objectively discharged in effort to safeguard their interest in the banks. Specifically, they will be educated on whether audit fees as determined by the management are the tools of inducing auditors to compromise their independence and objectivity, so as to allow the management to manipulate financial statements information. And, that whether or not the audit tenure causes familiarity threats to independence of auditors in the Nigerian banking sector. Hence, this study will educate the stakeholders in the Nigerian banking industry on the implication of high audit fess and audit tenure on the quality of information produced by management. This is because quality earnings are seen as the ability of a firm to service its shareholders and its debt obligation. Therefore, earnings management or poor quality earnings imply an increase risk of not meeting the shareholders, debtors and customers obligation. Thus, it is critical to investors, debtors and customers that auditors maintain their independence and provide objective assessment of client financial statements. Managers will also find this study of relevance to their operations, as it will reveal the effects of their discretions on the quality of earnings. As

this could provide them with a hint on whether their action is positively or negatively affecting financial reporting.

The Central Bank of Nigeria, Securities and Exchange Commission and the Nigerian deposits insurance corporation will all benefit from the findings of this study. This is because it will examine the effect of audit fees and auditor tenure on the quality of earnings, and hence, stimulate and guide policy makers and regulators in policy formulation and regulations in order to safeguard the interests of vast stakeholders in the Nigerian banking industry. That is, the findings of this study will serve as an input to regulators.

Similarly, the accounting professional bodies will find this study critical in that it will show whether their members are complying with the ethical code of conduct set by them. Therefore, the study will provide empirical evidence on the effect of audit fees and audit tenure on the quality of earnings of the Nigerian banks.

Lastly, this study will adds value to the existing literature on auditors' independence in the Nigerian context with special reference to banking sector. Hence, researchers and student will benefit from this study.

1.6 Scope of the Study

This study is restricted to the Nigerian banking industry and covers the period of seven years 2006-2012. This period is informed by the fact that it is immediately after the banking sector consolidation, which is when the banking sector witnessed intensive regulations and reforms. On the other hand, it is the period that some banks suffered crises that involved management's unethical practices. Nigerian banking sector is selected because it offers a unique context to study earnings management and auditor independence. The study covers

and considers total audit fees, audit firm tenure and large reputable audit firm as auditor's independence proxy, while discretionary accruals (loan loss provisions) are used to proxy earnings management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents and discusses existing relevant literature on auditors' independence and earnings management. The chapter is opened with conceptualization, followed by an in-depth overview of earnings quality and auditor independence**.** Other issues covered in the chapter include empirical literature on auditors' independence and earnings quality and the theoretical background of the study.

2.2 Concept of Auditor Independence

Audit or auditing according to the Institute of Chartered Accountant's of Nigeria (2010) refers to a systematic process of objectively obtaining and evaluating evidence in respect of certain assertion about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and reporting the results to interested parties over a particular period of time. Similarly, the Institute defines an auditor as a person or audit firm with final responsibility for the audit. The institute also see external auditor as independent auditor who is not subject to management controls and linked him to independent audit which refers to providing reasonable assurance that published audited financial statements are free from material misstatement and are in accordance with legislation and relevant accounting standards. In a similar effort, Porter, Simon, and Hatherley (1996) define auditors as intermediaries between the management of an entity and external parties having interests in the entity. They further state that auditors have a duty to form and express an opinion as to whether or not the financial statements prepared by the management show a true and fair view of the entity's financial position and performance.

Independence according to United State Securities and Exchange Commission (2000), refers to a mental state of objectivity and lack of bias. Hope and Langli (2007) see auditor independence as the auditor objectivity and ability to withstand client pressure. This pressure includes monetary inducement and otherwise, provided it makes auditor comply with management desire rather than his professional judgment. This view is consistent with the code of Ethics of the International Federation of Accountants (IFAC, 2000) and the Institute of Chartered Accountants' of Nigeria (ICAN, 2010) where they define independence as a state of not being controlled by other people or things, such as financial benefits. The code further states that auditor needs to be objective in the course of performing his duties. Thus, the concept of independence in the context of this study refers to a state of not being controlled by the management of an entity using any means financial or otherwise. A review of auditor independence by Wallace (1980) revealed that audit quality is a measure of the auditor's ability to reduce noise and improve fitness in accounting data. In the same vein, Lee, Leu and Wang (1999) regard audit quality as the probability that an auditor will not issue an unqualified report for statements containing errors, intentional and otherwise. In a more detail explanation, Titman and Trueman (1986) see audit quality as the accuracy of the information reported by auditors. Therefore, audit quality combines the ability of an auditor to detect a breach (auditor competence) and the willingness to report such a breach (auditor independence). Additionally, if auditors appear to lack independence, this increases the perception that they are less objective and therefore less likely to report a discovered misstatement (Lowe & Pany, 1995).

Furthermore, the Code of Ethics of the International Federation of Accountants (IFAC) and the Institute of Chartered Accountants' of Nigeria (ICAN) recognize independence as fundamental ethical principle and makes it mandatory for both accountants in business and in public practice with special emphasis on all professional persons exercising professional

judgment. The code states that an auditor needs to be objective in the course of performing his duties, and divides independence into two; i) independence of mind and ii) independence in appearance which are to be observed by an auditor in passing his professional opinion.

Independence of mind, according to the code of ethics of the IFAC, refers to the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional Scepticism. While independence in appearance connotes the avoidance of facts and circumstances that are so significant that a reasonably informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude that a firm's integrity, objectivity or professional scepticism had been compromised. The code concludes that an auditor should not only be independent, but must be seen to be independent.

2.2.1 Auditor Fee Dependence

Auditor fee comprises of audit fees (from statutory audit services) and non-audit fees from non statutory audit services provided by an auditor to a client. Auditor fees are the compensation to auditor for the services he rendered to a client, such audit services include statutory audit and non-statutory services also known as management consultancy services. According to Simunic (1980), audit fee is the collection of costs of the resource the auditor utilises for conducting the audit (audit effort) and the expected present value of possible future losses to the client's stakeholders that may result from this period audit of financial statements. He further stressed that these loses arise from litigation and loss of reputation and therefore, the higher the expected losses from being involved with the audit, the higher should be the fees. Consequently, higher fees could be charged either to cover the additional

audit effort required to reduce the risks to acceptable levels or as a premium to cover the auditor's expected losses (Sengupta and Shen, 2007).

There are two schools of thought in respect of non-audit services in relation to auditor independence. On one hand, the provision of non-audit services can strengthen the auditor's economic bond with the client, thereby increasing the auditor's incentives to acquiesce to client pressure, including pressure to allow earnings management (Simunic 1984, and Beck *et al* 1988a). In addition, the perception of regulators and the general public is that independence may be put in jeopardy if the fees from one client or group of connected clients exceed 15 per cent of gross practice income or 10 per cent in the case of listed or other public interest companies (ICAN, 2010). In Nigeria, the rate according to ICAN is 25 per cent. On the other hand, the provision of non-audit services can also increase the auditor's investment in reputational capital which the auditor is not likely to jeopardize to satisfy the demand of any one client (Arrunda, 1999). It is based on the first assumption that the CBN in response to SOX prohibits bank's external auditors from providing the following non-audit services as contained in CBN 2006 code of corporate governance for banks in Nigeria post consolidation;

a. Book-keeping or other services related to the accounting records or financial statements of the audit client.
b. Appraisal or valuation services, fairness opinion or contribution-in-kind reports.
c. Actuarial services
d. Internal audit outsourcing services
e. Management or human resource functions including broker or dealer, investment banking services and legal or expert services unrelated to the audit contract.

According to regulators these non-audit services are the major source of excessive fees to auditors which according to DeAngelo (1981) impair independence and provides an incentive not to report the discovered breach to retain the client. Similarly, Koh, Rajgopal and Srinivasan (2008) are with the view that, the regulators' concerns of impaired independence via economic bonding, that is, the strength of the audit firm's economic dependence on the client, or the economic bond, consciously or otherwise, reduces the auditor's independence or the willingness to resist client-induced biases in the reporting process. They further stressed that, the lack of auditor independence is assumed to result in lower earnings quality. Thus, the economic bonding hypothesis predicts a positive correlation between non-audit services and poor earnings quality. Therefore, non-audit services in addition to making total fees excessive, provides the client with leverage over the auditor since withholding such services from the auditor penalizes the auditor without corresponding penalties for the client (Koh *et al.* 2008). They conclude that, the clients' power through the auditor increases when the auditor provides management consultancy services, as such; auditors are more likely to accommodate client preferences in the presence of non-audit fees.

However, audit literature documented three hypotheses with respect to non-audit services and earnings quality. The first hypothesis as argued by Simunic (1984) is that, non- audit services improves audit effectiveness through knowledge spill-over. That is, a better understanding of the client's business arising due to management consultancy services could improve audit quality. Secondly, Benston (1975) and Antle (1984) state that, concerns about reputation among auditors are likely to create incentives for independence. In this context, Koh *et al.* (2008) argue that, if providing non-audit services is correlated with auditor reputation, then a positive association between non-audit services and earnings quality should be expected.

Thirdly, auditors' concern about litigation provides another incentive for auditor independence as confirmed by Palmrose (1988).

Earnings quality can be associated with audit fees through its association with the expected present value of possible future losses that may result from the audit of financial statement, in two ways. Firstly, an auditor should be concerned about its client's likelihood of engaging in earnings management and this would increase the risk of accounting misstatements and would require more audit effort to deal with the potential cases of misstatements, or the auditor may choose to charge such a client higher fees to compensate for the greater risk of financial losses or loss in reputation. And, to the extent that measures of earnings quality are associated with this risk, they should affect audit fees (Sengupta and Shen, 2007). Secondly, auditors should also be concerned about the quality of financial statements disclosed by their clients as investors and other stakeholders could hold the auditor partially responsible for poor quality disclosures. Because of this, auditor may view firms with higher information risk to be associated with relatively higher litigation risk and charge them higher fees to compensate them for the additional risk of losses that may arise (Frankel, *et al*., 2002). Contrary to this view, Hope and Langli (2007) argue that auditors are willing to sacrifice client's that pay abnormally large fees for audit and non-audit services. They proposed a measure of abnormal audit fees, as the residuals from the regression of auditor fee measures. Unexplained audit fees is usually measured in prior research by the residuals from regression of auditor fee measures on client's firm size, complexity and risk, and audit firm characteristics (Hope and Langli, 2007).

Client firm's size is an important determinant of auditor fees, that is, the larger the size of the client firm's the higher the audit fees. Sales revenue, total assets, number of business

segments, book value of equity and market value of equity are usually used as proxy for size (Hope and Langli, 2007). Complexity of client firms are measured by level of sales revenue, inventories and risks is measured by the client's firm leverage and cash flow from operations. While in the case of banks levels of loan credit outstanding is appropriate proxy for risks. Audit firm characteristic is usually used as an indicator variable for Big 4 audit firm, because large audit firms offer more insurance for the client and provide higher quality audits (Heribar *et al*., 2010).

The regulators' concerns about auditor independence is underlying by the economic bonding hypothesis that argues that the strength of the audit firm's economic dependence on the client or the economic bond, consciously or otherwise, reduces the auditor's independence, or the willingness to resist client-induced biases in the reporting process. Thus, the lack of auditor independence is assumed to result in poor earnings quality (Koh, *et al*., 2008). It is based on this that different measures are used to proxy economic bonding so as to draw inferences on auditor independence.

Chung and Kallapur (2003) use the ratio of client audit fee to total audit firm revenues, and client non-audit fee to total audit firm revenues as measures of the threat to auditor independence. They also use client total fees and non-audit fees divided by an estimate of practice office revenues as proxy for threat to auditor independence. In another effort, Frankel *et al.* (2002), Hope and Langli (2007) and Kanagaretnam *et al.* (2008) use various measures of fees to capture an auditors' economic dependence on the client, which are total fee, non-audit fee and audit fee. While Brown, Falaschetti and Orlando (2006), Dee, Lulseged and Nowlin (2002) uses audit and non-audit fees. By using fee ratio, and total fees to capture auditors' economic bonding, Ashbaugh *et al.* (2003) discover that fee ratio does not capture

the economic importance of the client to the audit firm when the total client fees are immaterial to the audit firm. They therefore, conclude that, the sum of audit and non-audit fees (total fees), rather than the fee ratio is the more appropriate measure of the economic dependence of the auditor on a client. They add that, the fee ratio captures the relative monetary value of the audit versus non-audit services provided by the audit firm to a client.

2.2.2 Audit Firm Tenure

The length of time an audit firm spends with a particular client is considered as a form of threat to auditor's independence as a result of familiarity threats. Familiarity threat to auditor's independence occurs when an audit firm has a particularly close or long-standing relationship with a client's directors, officers and employees. This professional relationship causes a familiarity threat as documented by Schulte (1965). This according to Li (2007) prompted regulators and the press to allege that a long auditor-client relationship can decrease auditor monitoring strength (actual auditor competence and auditor independence). He stressed that a long term auditor-client relationship creates a level of closeness that impair auditor independence and reduces audit quality and earnings quality as well. This stem from the nature of auditing, in which intensive interaction between auditor and the client is required and therefore, long-term relationships may result in over-familiarity between management and the auditor and increase the likelihood of yielding to the inevitable client pressure in an audit conflict and even the auditor/client collusions (Li, 2007). Moreover, Li (2007) illustrated this point from the Enron experience; Enron retained Anderson as its auditor at least from 1974 to 2001. Anderson auditors and their consultants were given permanent office space at Enron Headquarters. They frequently met in office, parties and various entertainment activities. Under this situation, it is difficult for auditors to keep a high level of professional skepticism with regard to their clients (that is, impaired independence in

fact). In addition, management can take advantage of the auditors' conflict by making a personal appeal for understanding and support. Thus, auditors' reduced independence might arise either consciously or subconsciously. A major concern by regulators and the general public is that extended auditor tenure could lead to reduced auditor independence and has led to calls for mandatory audit firm rotation (Aaron, 2004).

For instance, Hussey (1999) study the nature of the relationship between the auditor and board directors and the effect on auditor independence using the method of appointment or the selection criteria for auditors, duration and frequency of contracts between finance directors and auditors and the finance directors perceptions of the nature of their relationships with auditors. Study confirmed that there is no relationship between these factors and non-audit services, but there is a relationship between the selection process and auditor's ability to provide non-audit services. He further reveals that the duration of a current auditor and client relationship as more than 15 years, thus a long relationship may strengthen the relationship. Therefore, it can be infer that the duration of the relationship has effect on the auditor independence.

Proponents of mandatory auditor rotation claim that auditor rotation can create a 'fresh new eye' on management and then reestablish a clear atmosphere between auditors and their client to maintain auditors' objectivity (Li, 2007). In addition, as auditor's tenure lengthens, auditors may become stale and view the audit as a simple repetition of earlier engagements (thus, reduced the actual competence). According to Shockley (1982), along auditor-client relationship can have the following effects: complacency, lack of innovation, less rigorous audit procedures and a learned confidence in the client may arise after long association with the client. Arel, Brody and Pany (2005) advanced that auditors returning to an engagement

rely on prior-year working papers to help plan the audit, set the budget, and provide information needed for the current-year audit. The staleness fosters a tendency for auditors to over-rely on previous work and anticipate results rather than keeping alert to subtle but important changes in circumstances.

Similarly, DeAngelo (1981) is with the view that incumbent auditors have some economic incentives not to disclose material errors or breaches, the reason being to retain clients. This incentive arises from the incumbent auditor wanting to protect his or her investment in client-specific expertise that is gradually built up during long-term cooperation. Thus, the auditors' incentive to preserve independence declines overtime. Emanating from these paragraphs, proponents of auditor rotation primarily argue that rotation can remedy the potential reduction in auditor independence and related declines in the quality of financial reporting resulting from lengthy auditor-client relationships (Aaron, 2004). More so, in exerting pressure to retain the client, an extended relationship may cause the auditor to become complacent. This could lead to substandard audits or even acquiescence to client preferences. Hence, rotation would bring a fresh look at firm financial statements which might increase the likelihood that the auditor will uncover misstatements and/or challenge questionable accounting practices. Similarly, rotation could lead to audit innovations that allow auditors to audit new clients more efficiently.

In contrast, opponents of auditor rotation (Melancon 2002; Copeland 2002; Pricewaterhousecoopers 2002) argue that extended auditor-client relationships actually increase audit quality. They point out that new auditors must rely more heavily on client's estimates and representation in the initial years of an audit engagement. As auditor tenure increases, the auditor learns more about the client and its business processes, allowing the auditor to reduce reliance on management estimation and representation resulting in a more

efficient audit. On the other hand, managers tend to be opposed to mandatory auditor rotation because of the costs and time commitments associated with bringing new auditors up to speed. Another concern is that new auditors may not have the industry expertise or may not possess the same level of firm specific knowledge required to a new client effectively (Dunham, 2002). In line with these two views, section 207 of SOX required the U.S General Accounting Office to conduct a study of the effects of mandatory audit firm rotation to determine its efficacy. The General Accounting Office made no specific recommendations after completing the study; instead the General Office suggested that regulatory agencies should monitor the situation to determine if mandatory rotation is needed in addition to auditor independence safeguard currently in place. Furthermore, the General Accounting Office suggests that audit committees consider voluntary auditor rotation. Given these suggestions and the possibility of future regulations, it is critical to understand both the actual and perceived audit quality implications of audit tenure (Aaron, 2004).

While reviewing the problem of auditor tenure from ethical dimension, Fairchild (2008) documents that, early in the tenure, the auditor is unsympathetic towards management, and therefore behaves ethically (that is , dislikes fraud, and may exert efforts in an attempt to uncover it). Increasing auditor tenure results in an increase ability to detect fraud. This results in an increase in auditing efforts (which is represented as an extended audit), a possible increase in qualified reports, and a reduction in fraud. Later in the tenure, the auditor becomes sympathetic towards management, and 'turns a blind eye' to fraudulent behavior (auditor switches from ethical to unethical behavior). This leads to a reduction in fraud-detecting efforts, a reduction in audit qualified reports, and an increase in managerial fraud. Existing empirical studies on the effects of auditor tenure on audit quality and independence, both in fact and appearance provides mixed results, while some studies reported negative effects

others reported positive effects. This study will provides useful information relevant to the debates and adds to the literature by empirically documenting the effect auditor tenure has on the earnings quality. The debate on the effects of auditor tenure on audit quality is a global phenomenon, particularly countries that experience events involving publicly quoted firm's fraud and bankruptcy.

2.2.2.1 Auditor Mandatory Rotation

The auditor rotation around the world is reviewed in this part as documented by Li (2007). Italy was the first country to adopt periodic rotation of auditing firms as early as 1974. The audit engagement may be retendered every three years and the same public accounting firm may serve as auditor for a maximum of nine years, but in 2005, a bill was passed to extend it to a maximum of twelve years. There is also a minimum time lag of three years before the previous auditor can be reappointed. In Brazil, the rule of mandatory auditor rotation after five years was adopted in 1996 for banks and extended to listed companies in 1999.

In Korea, mandatory auditor rotation for all companies listed on Korea Stock Exchange (KSE) or registered in Korea Securities Dealers Automated Quotation (KOSDAQ) is required in 2003. Singapore and India also require mandatory auditor rotation but only for some companies. For instance, from March 2002, banks in Singapore should terminate the current public accounting firms if they have audited the banks for the previous five years consecutively. Some countries established mandatory auditor rotation, but subsequently dropped it.

For example, in 1989 the Spanish parliament passed an Act requiring mandatory audit firm rotation with a maximum term of nine years, which include mandatory retention of three

years. However, the rule was dropped in 1995. The rule reversal was superficially due to the pressure from the accounting profession. Similarly, Austria, under the commercial law of 2004, required mandatory audit firm rotation every six years with a minimum time lag of three years before the previous auditor can be reappointed. In 2005, the requirement was dropped by the company law. Prior to 1991, Canada required banks to rotate their auditors, but in 1991, banking legislation was amended and the mandatory audit firm rotation requirement was abandoned. In other countries like United Kindom, Sweeden and U.S.A. mandatory auditor rotation has been analyzed, and discussed, but rejected.

In Nigeria, the CBN code of corporate governance for banks post consolidation state that, banks external auditors should maintain arms-length relationship with the banks they audit and that, the tenure of the auditor in a given bank shall be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years. However, it is argued that, the more time an audit firm spent with the client the more (auditor) independence diminishes.

2.3 Concept of Earnings Management

Earnings management is defined by Schipper (1989) as a purposeful intervention in the external financial reporting process, with the objective of obtaining some private gain. While Healy and Wahlen (1999:14) state that "earnings management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial reports to either mislead some stakeholders about the underlying economic performance of a company, or to influence outcomes that depends on reported earnings". Earnings quality or accruals quality is regarded as earnings that accurately represent the economic implications of underlying transactions; the proportion of earnings relative to operating cash flows

(McNichols, 2002). Thus higher levels of cash components of earnings, the higher the quality of earnings. However, Kaplan (1985) argues that 'normal' accruals arising in the ordinary course of business are unlikely to reflect managerial manipulations, and any manipulation of accounting number will most likely manifest in 'abnormal or discretionary' accruals. Thus, the large portion of abnormal accruals is an indication of higher earnings management and poor or low quality of earnings. Discretionary accruals can be income increasing (positive) or income-decreasing (negative). Earnings management according to Bello (2010) is any attempt to cook/doctor or tailor financial accounting reports to a given desired level. He regarded earnings management as ethical misconduct of accountants and relates it to the recent times corporate failures and loss of investors' confidence on both financial reports and auditors.

Prior Researches have used discretionary accruals to measure earnings management (DeAngelo, 1986; Jones, 1991 and Dechow, Sloan, & Sweeney, 1995), while auditor independence is measured in the prior researches by residual from auditor fee model (Simunic, 1980 and Ashbaugh *et al*., 2003). The studies establish that the primary determinants of audit fee are the size complexity and risks of the clients firm. Consequently, any portion of total audit fee that is not explained by these three components and control variables necessary is regarded as abnormal or unexpected audit fees which are inversely related to auditor independence and which potentially affect the quality of reported earnings. Major accounting and audit scandals around the world (e.g. Enron, WorldCom, etc) involved earnings management in which the independent audit opinion indicate clean reports and out of which a widely held belief emerged that joint providing audit and non-audit services as well as excessive audit fees (abnormal audit fees) compromise auditors' independence and thus reduce the quality of reported earnings (Ashbaugh *et al*., 2003).

2.4 Review of Empirical Studies on Auditor Independence and Earnings Management

Accountants, regulators and researchers around the globe have established auditor Independence, both in fact and appearance to be an important aspect of audit quality (DeAngelo, 1981). That investors and managers react to and price audits that have higher perceived quality; thus, Frankel *et al.,* (2002) opined that there is capital market consequence when the perception of audit quality is compromised by a possible reduction in independence. Highly publicized audit failures around the world in recent years raised the question on auditor independence. Regulators around the world particularly US SEC argue that independence is compromised through auditor's dependence on non-audit fees and abnormal audit fees, and long term relation with key client. Auditor independence is critical to the reliability of financial statements as well as investors' confidence and regulatory agencies (Nelson, 2004). It is in this strength that the value of an audit is measured in terms of objectivity (Abdelkhalik 2002).

According to DeAngelo (1981) Independence has two parts that are empirically testable. The first is independence in fact, tested by examining audit failures and discretionary accruals. The second is the perception of auditor independence by financial statements users, which is tested by examining investor reaction to information release. The material economic alignments between a firm and its external auditor has led many financial statements users including regulators to be concerned about the level of audit quality that actually exists, and correspondingly, to become apprehensive about the auditor's veritable independence (Aaron, 2004). He further state that, such concerns prompted recent legislation (Sarbanes Oxley Act of 2002) designed to among other things, prohibit certain non-audit services to audit clients. The Act identifies and prohibits nine specific non-audit services. On the other hand, the

recent corporate failures with financial reporting have spawned intense scrutiny of the auditor-client relationship. One of the most widely debated issues raised is the possible effects of lengthy auditor-client relationship. A major concern is that extended auditor tenure could lead to reduced auditor independence and has led to calls for mandatory audit firm rotation (Aaron, 2004).

It has been argued by regulators and public that it is not always an easy task for the auditor to exercise this independence because of the presence of some factors which may threaten or appear to threaten the independence of an auditor (ICAN 2010). These factors include fee dependence and familiarity threat as a result of long tenure, which managers use as incentive to auditors to allow managerial manipulations in financial statements to pass.

Statutorily, auditors are required to carry out an objective verification of accounting information produced by managers to provide independent assurance to corporate stakeholders that the financial statements are free from errors and intentional misstatements. For auditors to discharge this duty are required to be independent, both in fact and in appearance. However, over time, the independence of auditors has come under increased scrutiny, because of their joint provision of both audit and non-audit services, which according to economic bonding hypothesis, makes them compromise independence by allowing managers to manipulate accounting information (DeAngelo, 1981). While some studies are using total accruals and working capital accruals to measure earnings management, Kanagaretnam *et al.* (2008) use LLP and argue that, due to the inherent nature of banks, LLP is the most suitable accrual to study earnings management. They add that LLP are substantial and most important accruals for banks.

Empirical studies on the relationship between auditor independence and earnings quality or earning management provides contradictory results. In Australia, Wines (1994) finds non-audit fees dependence is related to a reduced likelihood of qualification. The study concludes that non-audit fee impairs auditor independence. Contrary to this, Craswell *et al*., (2002) reports lack of association between auditor independence and earnings quality in a sample of Australian firms. A year after, Gul *et al*., examines the relationship between audit fees and discretionary accruals in a sample of Australian firms, their results show a positive association between discretionary accruals and audit fees.

Frankel Johnson and Nelson (2002) study the association between non-audit fees, audit fees and earnings management via discretionary accruals and the likelihood of firms meeting earnings benchmarks to draw inferences on auditor independence, in a sample of US firms and find a positive relationship between non audit fees and small earnings surprises and the magnitude of discretionary accruals. While the result on total audit fees indicates that there is no association between total audit fees and earnings management, (and also) audit fees are significantly negatively associated with earnings management. Their results suggest that auditors' independence is compromised when clients pay high non-audit fees relative to total fees, and conclude that clients are more likely to manage earnings via accruals if they also pay their auditors high amount of non-audit fees.

Defond *et al*., (2002) finds no association between non-audit fees and impaired auditor independence in a study of non-audit fees and the issuance of a going concern audit opinion in the US. They conclude that auditor's concern over the loss of reputation and litigation costs is responsible for the reported result. They add that the costs of loss of reputation and litigation outweigh the expected benefits from compromising independence.

Dee, Lulseged and Nowlin (2002) study the relationship between audit and non-audit fees and earnings management. Their results provide evidence that client firms paying high proportions of non-audit fees have income-increasing discretionary accruals and total accruals, suggesting that auditors may be less diligent in curbing income-increasing earnings management for client firms from which they receive high proportion of non-audit fees, which give auditors economic incentives to compromise their independence, resulting in lower quality audits and thus, lower quality earnings.

Similarly, Ashbaugh *et al*., (2003) examines the relationship between discretionary accruals and audit fee ratio and total fees in a sample of US firms, after controlling for firm performance, and like Frankel *et al.* (2002), they find that there is no statistically significant association between discretionary accruals and total audit fees. They also document a positive correlation between the absolute value of firm's discretionary current accruals and fee ratio. In their second test, they indicate no association between fee ratio and the likelihood of firms reporting small earnings increases and a negative association between total fees and the likelihood of firms reporting small earnings increases. Contrary to Frankel *et al.* (2002), Ashbaugh *et al*., (2003) they find no significant association between either the fee ratio or total fees, and firms meeting analysts' forecasts. They conclude that there is a little evidence supporting the claim that auditors violate their independence as a result of clients paying high fees.

Chung and Kallapur (2003) use the ratio of client audit fees to total audit firm revenues and client non-audit fee to total audit firm revenues as a measures of auditor independence and study there relation with earnings management. They report no association between audit fee

and the absolute value of discretionary accruals measured using the modified Jones model. They conclude lack of association between non-audit fees and earnings management. Still in the US, Koh *et al*., (2008) investigate the impact of non-audit services provided by auditors on auditor independence and on clients' financial reporting quality. Their results contradict economic bonding hypothesis, that is, they indicate no statistical association between non-audit fees and absolute discretionary accruals. They also report a significant negative association between non-audit fees and the likelihood of reporting a small earnings surprise and a positive correlation between non-audit services and earnings informativeness. They conclude that audit and or non-audit fees do not impair auditor independence, and consequently do not result in poor quality of earnings.

Also in US, Brown *et al*., (2006) study the influence of auditor independence on earnings quality using audit fee and non-audit fee. Their findings show a positive association between auditor independence and earnings quality, signifying auditor independence improves the quality of earnings. They conclude that auditor independence does not, by itself, materially degrade the quality of financial disclosures (either internally or externally). That is there are other factors that are also responsible for lack of auditor independence.

In 2010, Haribar *et al*., provides evidence of positive association between unexplained audit fees and low earnings quality from a sample of US firms. This implied higher earnings management and lack of independence. They conclude that auditors increase audit hours and audit fees in cases where they perceived client's accounting quality to be poor and this improves accounting quality.

Basioudis *et al*., (2006) find that firms with high audit fees are more likely to receive a going concern modified audit opinion whereas firms with non-audit fees are less likely to receive going concern modified opinion in a small sample of financially distressed U.K. firms. Concluding that, non-audit fees impair independence.

Hope and Langli (2007) investigate whether higher levels of audit and non-audit fees impair auditor objectivity using a sample of Norwegian private firms, by examining the relationship between abnormal or unexplained auditor fees and auditors' propensity to issue a going concern opinion. Their results indicate that there is no evidence that fees have the negative consequences on auditor independence/objectivity. That is, they find no evidence of a negative association between audit and/or non-audit services and the likelihood of issuing going concern qualification.

Kanagaretnam *et al.* (2008) examine auditor independence in the banking sector by analyzing the relation between fees paid to the auditors of banks and the extent of earnings management through LLP. They document from their results a positive association between fees paid to the auditor and income increasing earnings management through LLP. They suggest that, although banks face high levels of regulatory scrutiny, economic bonding between the auditor and the bank potentially impairs auditor independence. Their findings also indicate that the economic bond between the auditor and the bank is reflected in delayed recognition of loan write-offs and in higher incidence of earnings benchmarks beating behavior.

On the other hand, Geiger and Rughunandan (2002) examine audit reporting failures and find no evidence of impaired audit quality when auditor tenure is longer; their results indicate that audit failures are more likely to occur in the beginning of the auditor-client relationship.

Consistent with this finding, Carcello and Nagy (2004) study the relationship between tenure and fraudulent financial reporting and find that fraudulent financial reporting is more likely in the early years of the relationship. They further report no evidence of a relationship between earnings management and tenure.

Some studies investigate the relation between accruals and auditor tenure, discretionary accruals are frequently used as an indicator of earnings management and also audit quality. Myers, Myers, and Omer (2003) find an inverse association between the level of discretionary accruals and auditor tenure as well as an inverse relationship between auditor tenure and the dispersion of accruals. These findings imply that auditors with longer tenure actually restrict management discretion in the reporting of earnings. In contrast, Davis, Soo, and Trompeter (2003) investigate the relationship between discretionary accruals and auditor tenure and report that discretionary accruals increase with auditor tenure. They also report that analyst earnings forecast errors decrease as auditor tenure increases. These findings are consistent with the possibility of auditors acquiescing more in later years of the engagement and management using this to meet earnings forecasts.

Carey and Simnett (2006) find a positive relationship between auditor tenure and audit failure in Australia. This implies that there is a deterioration of audit quality as audit tenure increases. While in a sample of Belgian companies, Vanstaelen (2000) report that for both financially distressed and non-financially distressed companies, long-term auditor-client relationship significantly increase the likelihood of an unqualified opinion or significantly reduce the auditors' willingness to qualify audit reports.

With regard to large reputable audit firm, DeAngelo (1981) argued that since these larger audit firms are not as financially dependent on the fees from any one client, they are less likely to be subject to pressure from clients to "look the other way" in the event of discovering accounting irregularities. As such they are more independent than small audit firms. It is also argued that the Big 4 auditors have more to lose should a scandal arise, in that their brand names and reputations are more valuable compared to smaller audit firms.

Extant literature (on audit researches) shows that these large, international audit firms garner a significant fee premium over their smaller counterparts (Ireland and Lennox, 2002). These high fees can be attributed to higher billing rates (for superior expertise), additional audit hours (reflecting additional efforts) or simply a reputation effect. In any case, prior research has deemed the fee premium indicative of higher audit quality compared to non-Big 4 firms. Clients of the Big 4 firms have been shown to have higher accrual quality, typically measured as lower absolute values of discretionary accruals (Becker, et al., 1998; Francis, et al., 1999), and are less likely to manage earnings.

Becker et al. (1998) examine the effect of audit quality on earnings management through discretionary accruals and find that discretionary accruals of clients of Big 6 auditors are lower than discretionary accruals of clients of non-Big 6 auditors. However, they did not test for income-decreasing discretionary accruals but only income-increasing earnings management. Prior (studies) like Krishnan and Schauer (2000), Lennox (1999) and Colbert and Murray (1998) have shown that audit quality is positively associated with audit firm size. However, there is other evidence showing that size may not always be positively related to audit quality and that the largest accounting firms may not always provide higher quality audits than do small accounting firms.

Following DeAngelo's (1981) argument that size of audit firms is positively associated with audit quality, many studies use size (Big 8/6/5 vs. non-Big 8/6/5) as the audit quality proxy (see Krishnan, 2003; Zhou and Elder, 2001; Bauwhede et al., 2000; Becker et al., 1998; Hogan, 1997; Clarkson and Simunic, 1994; Firth and Smith, 1992a; and Nichols and Smith, 1983). Many audit quality studies indicate that, when accounting firm size is used as the indicator of audit quality, higher audit quality is associated with less earnings management, information asymmetry and higher information quality.

In Nigeria, Semiu and Kehinde (2011) empirically examine the perception of auditor independence in Nigeria during the period of 2000 to 2008, and their results show that the size of audit fee is the most influencing factor capable of deterring auditor independence in Nigeria. A similar study by Semiu and Johnson (2012) confirm that audit and /or non-audit fees threaten auditors' independence in Nigeria. In their study of the effects of joint provision of audit and non-audit services on auditor independence, they show that joint provision of non-audit services potentially impairs auditors' independence. In contrast, Umar (2012) investigates the stakeholders' perception of non-audit services provision vis-à-vis auditor independence in Nigeria during the period 2005 to 2010, his findings reveal that non-audit services do not impair auditors independence. However, the findings reveal that there are a number of threats to auditor independence and one of which is familiarity, which comes as a results of long-term audit firm-client relationship.

Another empirical study on the relationships between auditors' independence (measured by audit fees) and the nature of audit report issued in sample of publicly quoted firms in Nigeria during the period 2002 to 2006 by Oladipupo and Izedonmi (2011), indicates that there is a

positive but insignificant relationship between auditor independence and the nature of the audit report issued by the auditors.

In summary, most of these studies are conducted in most advanced economies with large volume of data from different sectors of the economy which is highly susceptible to errors and difficulties in handling data. And, those studies conducted in Nigeria have not investigated the relation of auditor independence (using total fees and audit tenure) and earnings management. Moreover, they are mostly based on survey research methodology. This study is unique in using specific discretionary accruals (abnormal loan loss provision) to investigate the nexus between earnings management and the auditor independence through total audit fees, non-audit fee and audit firm tenure in the deposit money banks in Nigeria where audit fees are expected to be large as a result of large volume of transactions.

2.5 Theoretical Framework

The economic theory of firm is usually the framework of economic analysis of auditor independence (Antle, Griffin, Teece & Williamson, 1997). According to the theory, firms are designed to maximize the owners' wealth, and the auditors' independence is a function of auditors' interests which is never compromised in the best interest of the auditors. Thus, different factors, personal and institutional, affect auditors' independence. Such factors include fees, familiarity and audit firm size. These, according to Johnstone, Sutton, and Warfield (2001), affect independence and auditors' judgment-based decisions, as well as the overall audit quality.

Therefore, the theory that underpins this study is economic bonding theory from agency perspective. Under agency theory, audit is a monitoring mechanism that provides reasonable assurance that financial statements prepared by managers are free of material misstatement

and therefore protect the interest of stakeholders. Furthermore, in cases where interests of management conflict with the interests of stockholders, and the fact that management compensation is often based on reported earnings and in order to maximize their wealth, managers have incentives to manage reported earnings and they often have the ability to do so (Dang, 2004). This agency problem between stockholders and managers gives rise to the hiring of an auditor who provides independent assurance to corporate stakeholders, and auditing also play a significant role in enforcing and protecting stakeholders' right by detecting misstatements and expropriation by managements. For auditors to successfully discharge this responsibility, they need to be independent that is the state of being objective and just. Therefore, the higher the auditor's independence, the more they detect management's manipulations in the financial statements.

On the other hand, economic bonding theory argues that the strength of the audit firm's monetary dependence on the client or the economic bond consciously or unconsciously reduces the auditor's independence or the willingness to resist client-induced biases in the financial statements. This is also supported by the psychological belief that auditors are rational wealth maximizers who would be intentionally biased towards compromising audit quality (independence) in order to generate wealth for themselves. Therefore, economic bonding theory maintains that auditors are more likely to comply to client pressures, including pressure to allow earnings management, when the provision of non-audit services or abnormal fees generate economic rents to auditor (Franke, *et al*., 2002). In addition, Beattie et al., (1998) state that self interest in terms of familiarity or tenure compromises auditor independence where audit partner's income depends on the retention of a specific audit client. That is, auditors compromise their independence for the fear of losing a key client, thus increases the tenure with the key client.

Similarly, Kinney and Libby (2002) provide a framework based on the economic bonding that link auditor with economic benefit derivable from audit. They maintain that, more insidious effects on the economic bond may result from unexpected non-audit and audit fees that may more accurately be likened to attempted bribes and other unethical act. Thus, concluding that the independence is decreasing by economic bond, through earnings management by the client.

In another effort, Watts and Zimmerman (1986) relate auditor independence to capital market theory, that is, the capital market is an incentive to whether to compromise independence by fees. They first regarded independence as the ability of auditor to report any breach and irregularities. Thus, this argument underlies stakeholders' reliance on auditor probity to disclose irregularities in audited financial statements. In similar vein, DeAngelo (1981b) state that, for the capital market to value the auditors' opinion, auditors need to appear independent to the users of financial statements. He further stressed that, auditor independence may be impaired when auditor earn client-specific fees, which provide an incentive not to report the discovered breach to retain the client. Therefore, client specific-fee for services leads to the practice of setting audit fees below the market on initial audit engagement to retain the client.
From capital market perspective, Antle (1982) sees auditor as an economic agent, as the audit enhances the market value of the client reports and statements. In this regard, clients have incentives to misrepresent the financial statements of the company, and with the absence of some form of control, the auditor is not in a position to seek out and report any breach and irregularities in financial statements.

On the other hand, the study incorporates both extensive form of game and normal form of game framework. In extensive form of game according to Matsumura and Tucker (1992) the manager makes a binary fraud decision, that is, whether to commit a fixed level of fraud or not, and then the auditor makes two decisions, whether to audit for intentional errors, and then whether to audit for intentional errors (fraud). In this perspective, a condition under which the auditor tests for both types of errors and the extent of managerial fraud is provided. While normal form game according to Coate, Florence and Kral (2002), constitute a situation whereby the manager and auditor make simultaneous binary decisions. The manager decides whether to report honestly or to misstate the financial report (commit fraud). At the same time, the auditor decides whether to perform a basic audit or an extended audit. This perspective drives a mixed-strategy equilibrium in which the manager commits fraud with a certain probability, and the auditor performs an extended audit with certain probability.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methods applied to achieve the research objectives are presented and discussed. The chapter begins with research design, then followed by discussion on the population and sample of the study, sources and method of data collection, as well as the technique of data analysis. The measurement of the variables and the model of the study are also presented and discussed. The chapter also presents and discusses the justifications of the methods and technique used in the study.

3.2 Research Design

To achieve the set objectives, this study employs correlation research design in assessing the effect of auditor independence (through fees, tenure and large reputable audit firms) on the earnings management of deposit money banks in Nigeria. In correlational research design, the aim is to investigate the relationships between variables (and to observe the impact on the dependent variable, so as to establish the causal relationship or otherwise among the variables).

The study is designed in two parts. In the first part, abnormal loan loss provision portion which is highly susceptible to management manipulation, and thus the proxy of earnings management is estimated from total Loan Loss Provision (LLP) using modified LLP model of estimated in line with (Kanagaretnam *et al.* 2008). The second part covers the analysis of the relationship between abnormal or discretionary loan loss provision, audit firm tenure and the total audit fees in order to assess auditor independence.

Kanagaretnam *et al.* (2008) argue that examining the relation between Discretionary Loan Loss Provision (DLLP) and auditor fees is likely to reveal the linkage between auditor fee dependence and earnings management. They confirmed the effectiveness of DLLP as a proxy for earnings management in the banking industry. Also, focusing on single accrual and industry address the problem of error in measuring managerial discretion and it will facilitate a sharper separation of LLP in to its normal (nondiscretionary) and abnormal (discretionary) components. They proposed a model for estimating DLLP as a residuals from a regression of LLP on beginning allowance, total loans outstanding, changes in total loans outstanding, net loan charge-offs, beginning balance of Nonperforming Loans, change in nonperforming loans, loan mix, and control for years.

Ashbaugh *et al.* (2003) state that, discretionary accruals and earnings benchmarks can be viewed as evidence of auditor independence violations based on the three assumptions; one, an independent auditor requires his/her client to file objective (that is, unbiased) financial statements; two, discretionary accruals provide a measure of the degree of bias inserted into the financial statements by management and allowed by the auditor; three, that just meeting or beating earnings benchmarks such as prior year's earnings or current analyst forecasts is not random, suggesting that managers bias financial statements to meet earnings targets. Thus, an objective auditor will not allow clients to bias earnings to achieve these benchmarks even as his economic dependence on the client increases. Prior research on the effect of auditor independence and earnings management proposed a model, that is, by regressing auditor fee and other control variables on discretionary accruals (Frankel *et al.* 2002; Ashbaugh *et al.* 2003; Kanagaretnam *et al.* 2008)

3.3 Population and Sample of the Study

The population of the study comprises of all the seventeen (17) banks listed on the Nigerian Stock Exchange Market as at 31st December, 2012. This population is chosen because the banking industry is the most suitable for studying earnings management for three reasons; first, the bank loan loss provision is by far the largest and most important accrual for banks through which managers are most susceptible to earnings management; second, their large business activities as a result of large market share across the country, which could attract high audit effort and fees; and thirdly, banks are vulnerable to management manipulations due to high accruals and discretions associated with their transactions.

The study arrived at fourteen (14) sample size based on the availability of data that is the financial statements of three banks out of the seventeen were not accessible, because the banks were not listed on the NSE for all the period covered by this study, that is, 2006 through 2012, (see Appendix B).

3.4 Sources and Method of Data Collection

The study basically makes use of secondary sources of data, while the method of data collection involved financial statements; income statement and the statements of financial position of the sampled banks, for the period of seven years (2006 – 2012). This is because the nature of the data warrants using quantitative data and quantitative methods of analysis.

3.5 Technique for Data Analysis

The technique for data analysis employed in this study is Ordinary Least Squares (OLS) regression technique after addressing the effect of Heteroskedasticity. This is because in time series panel data the stationarity assumption does not usually hold. Furthermore, the

traditional OLS assumes that the variance of the error term is constant and the same for all observations (homoscedastic) which is not usually the case (Adren 2007). Similarly, OLS in the presence of Heteroskedasticity does not make use of the information contained in the unequal variability of the dependent variable. However, when this effect is addressed, the estimation is capable of producing estimators that are best linear unbiased estimators (Gujarati 2004). Therefore, the study conducts some robustness tests on the results which include Multicollinearity, and Heteroskedasticity test, in addition to data normality and unit root tests. The analysis was conducted using STATA 10.1.

3.6 Variable Measurement and Model Specifications

The variables of the study comprise of auditor independence and earnings management. As for the auditor independence, the study uses audit fees, auditor tenure and large reputable audit firm as the basis of measurement. This is in line with DeAngelo (1981), Frankel et al (2002), Ashbaugh et al., (2003), Haribar et al (2010) and Carey and Simnett (2006). Earnings management in the context of this work is measured by discretionary accruals (discretionary loan loss provision). This is in line with the studies of Kanagaretnam *et al.* (2008) and Fiechter and Meyer (2011) this study separate normal accruals (nondiscretionary LLP) from abnormal accruals (discretionary LLP) which are the measure of earnings management as the residuals from Model One. Table 3.1 presents the measurements of the variables of the study.

Table 3.1 Variables Definitions and Measurements

Variables	Definition/Measurements
Earnings Management	Defined as level of discretionary accruals (discretionary loan loss provision). Measured as residuals from the Model One.
Total Audit Fees	Defined and measured as total audit and non-audit fees as reported at the end of accounting period.
Audit Firm Tenure	Defined as a length of time spent by an audit with a bank. Measured by dichotomous variable, '1'for all the times spent by the same audit firm and'0' for the year of auditor change.
Auditor Type	Defined as the largest global big four audit firm (Deloitte, pwc, Ernst & Young and KPMG). Measured by dichotomous variable '1' for all the years a bank is audited by one of the big four, and '0'.

Therefore our model from which earnings management is estimated is as follows;

$LLP_{it}/BV_{it} = \beta_0/BV_{it} + \beta_1 BEGLLA_{it}/BV_{it} + \beta_2 LCO_{it}/BV_{it} + \beta_3 \Delta NPL_{it}/BV_{it} + \beta_4 LOAN_{it}/BV_{it} + \beta_5 \Delta LOAN_{it}/BV_{it} + \varepsilon_{it}$ …………………………………………………………..…………i

Where:

LLP_{it}/BV_{it} = loan loss provisions of bank I in year t scaled by assets book value, as reported in the financial reports.

$BEGLLA_{it}/BV_{it}$ = beginning loan loss allowances of bank I in year t scaled by book value of assets, as reported in the financial reports.

LCO_{it}/BV_{it} = loans charge-off/written-off of bank I in year t scaled by book value of assets, as reported in the financial reports.

$\Delta NPL_{it}/BV_{it}$ = changes in non-performing loans (current year NPL minus previous year NPL) of bank I in year t scaled by book value of assets, as reported in the financial reports.

$LOAN_{it}/BV_{it}$ = total outstanding loans and advances of bank I in year t scaled by book value of assets, as reported in the financial reports.

$\Delta LOAN_{it}/BV_{it}$ = changes in total outstanding loans and advances (current year loans minus previous year loans) of bank I in year t scaled by book value of assets as reported in the financial reports.

And β_1, β_2, β_3, β_4, β_5 are the coefficients/parameters estimates; β_0 intercept

ε_{it} = Residual (DLLP)

Scaling all the variables by book values will result in more meaningful figures and can address the size differences of the banks (Fiechter and Meyer, 2011). The use of single accrual (LLP) in this study is informed by the fact that it addresses the potential errors in measuring managerial discretion, and is also capable of providing a sharp separation of accruals into normal (nondiscretionary) and abnormal (discretionary) components (Kanagaretnam *et al.*, 2008). The study considers total loans and advances outstanding (LOAN) and change in nonperforming loans (ΔNPL) as estimators and control variables at the same time. While total loans and advances outstanding control for size, change in nonperforming loans control for risks.

Following the estimation of discretionary loan loss provision (DLLP), the study tests the effect of total audit fee (audit fee and non-audit fee), audit firm tenure and auditor type on earnings management through DLLP, model two. The use of total fees is justified by Ashbaugh *et al.* (2003) who discover that fee ratio does not capture the economic importance of the client to the audit firm when the total client fees are immaterial to the audit firm, they therefore, conclude that, the sum of audit and non-audit fees (total fees), rather than the fee ratio is the more appropriate measure of the economic dependence of the auditor on a client. The study controls for bank performance by earnings before LLA respectively. The model of the study is expressed as follows;

$EMGT_{it} = \beta_0 + \beta_1 AFEE_{it} + \beta_2 AUDTEN_{it} + \beta_3 BIG4_{it} + \beta_4 EBLLA_{it} + \varepsilon_{it}$ ……ii

Where:

$EMGT_{it}$ = discretionary loan loss provision (measure of earnings management) of bank I in year t

$AFEE_{it}$ = total audit fees scaled by book value of bank I in year t

$AUDTEN_{it}$ = audit firm tenure of bank I, 1 if there is no change of auditor and 0 otherwise

$BIG4_{it}$ = large reputable audit firm of bank I in year t

$EBLLA_{it}$ = net earnings before loan loss allowances for bank I in year t, controlling for bank performance

β_1, β_2, β_3, β_4, are parameters estimates; β_0 intercept

ε = Residuals

The explanatory variables of interest in model two are total audit fee (AFEE), audit firm tenure (AUDTEN) and BIG4. Consistent with auditor fee dependence on the client, a positive coefficient on total audit fee is expected. That is, an increase in total audit fees is associated with increase in earnings management through DLLP and a decrease in auditor independence. Similarly, a positive coefficient is expected on audit firm tenure (AUDTEN) to infer an impairment of independence as a result of lengthy relationship with the client, that is, the more auditors stay with a bank the more potentialities of complying with management to manipulate earnings. Lastly, a negative coefficient is expected from large reputable audit firms (BIG4) (to conclude high independence).

3.7 Summary

This chapter covers research methodology, that is, the methods and techniques that are employed to achieve the research objectives. The chapter begins with research design for the study and followed by population and sample for the study. Sources and Method of data and the technique for data analysis are presented and discussed. The section is closed by the discussion of the variable measurements and the specification of the models of the study.

CHAPTER FOUR
RESULTS PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents and discusses the results obtained from the tests conducted on the data collected for the study. The chapter begins with the discussion of the descriptive statistics of the data collected, and then the correlation matrix of the variables of the study. The presentation of the regression results and the test of hypotheses are then conducted. The chapter ends with the discussions of the major findings from the analysis and the policy implications of the findings.

4.2 Descriptive Statistics

In this section, description of the data collected for the study is presented and discussed. The summary of the descriptive statistics of the data collected is presented in Table 4.1 as follows;

Table 4.1: Summary of Descriptive Statistics

VARIABLES	**Mean**	**SD**	**Min**	**Max**	**Skewness**	**Kurtosis**	**N**
EMGT	0.0000	0.0219	-0.0680	0.1016	1.1922	9.5011	98
AFEE	0.0175	0.0110	0.0008	0.0586	1.2841	4.6348	98
AUDTEN	0.5918	0.4940	0.0000	1.0000	-0.3737	1.1397	98
BIG4	0.9694	0.1732	0.0000	1.0000	-5.4496	30.6983	98
EBLLA	0.0550	0.0775	-0.0856	0.6418	5.1572	36.9371	98

Source: STATA OUTPUT (Appendix A1)

Table 4.1 shows that our measure of earnings management (EMGT), discretionary loan loss provision (scaled by book value) has an average value of 0.0000 with standard deviation of 0.0219, and minimum value of -0.0680 and 0.1016 as the maximum value. The standard deviation of 0.0219 signifies that the data deviate from the mean value from both sides by 0.0219, implying that there is a wide dispersion of the data from the mean because the standard deviation is higher than the mean. The value of the kurtosis (9.5011) on the other hand, supports that most of the values are higher than mean, hence the data does not meet a Gausian distribution assumption. Similarly, the coefficient of Skewness 1.1922 implies that

the data is positively skewed (i.e most of the data are on the right side of the normal curve), thus, the data does not meet the symmetrical distribution.

The table also indicates that the total auditors fees (AFEE) has an average value of 0.0175% with standard deviation of 0.0110%, and the minimum and maximum value of 0.008% and 0.0586% respectively. This shows that the data is widely dispersed from the mean in the sample banks. Moreover, the kurtosis value of 4.6348 shows that most of the values are higher than mean, thus the data does not meet the Gausian distribution, on the other hand, the coefficient of Skewness 1.2841 implies that the data is positively skewed, and thus, the data does not meet the symmetrical distribution.

The summary descriptive statistics in Table 4.1 shows that on average the auditors tenure (AUDTEN) during the period of the study is around 59.18% with standard deviation of 49.40%, the minimum and maximum values of tenure as measured by dichotomous variable are 0 and 1 respectively. This implies that the data in the sample banks deviate from the mean by 49.40%. The coefficient of Skewness -0.3737 implies that the data is negatively skewed, and therefore does not conform to the symmetrical distribution requirement. Similarly, the coefficient of Kurtosis 1.1397 also indicates that the AUDTEN variable does not meet the Gausian distribution criterion.

The table also indicates that our measure of auditor size and expertise (BIG4) has an average value of 0.9694 with standard deviation of 0.1732. While the minimum and maximum values which are dichotomous are 0 and 1 respectively. This implies that BIG4 auditors' service was about 96.94% during the period of the study and the deviation from the mean is 17.32%. The value of skewness of -5.4496 indicates that the data is negatively skewed, that is, the mean is

less than the mode, and thus, the variable does not meet the symmetrical distribution requirement. This is also evidenced by the coefficient of kurtosis of 30.6983 which implies that the Gausian distribution is not met.

Table 4.1 also shows that the minimum and maximum values of earnings before loan loss allowances (EBLLA) variable are -0.0856 and 0.6418 respectively, with the mean value of 0.0551 and standard deviation of 0.0775. This implies that the data is widely dispersed from the mean value; the coefficient of Skewness 5.1572 implies that the data is positively skewed, and therefore does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis 36.9371 also indicates that the EBLLA variable does not meet the Gausian distribution criterion.

Therefore, the descriptive statistics of the variables of the study shows the nature and extent of dispersion of the data, which to a large extent suggested that the data did not follow the normal curve. Therefore, the test of normality is conducted and the results of data normality test of the variables are presented in table 4.2.

Table 4.2: Results for Normal Data Test

VARIABLES	**W**	**V**	**Z**	**P-Values**	**N**
EMGT	0.8282	13.948	5.840	0.0000	98
AFEE	0.8924	8.735	4.803	0.0000	98
AUDTEN	0.9972	0.225	-3.310	0.9995	98
BIG4	0.3960	49.033	8.625	0.0000	98
EBLLA	0.5093	39.836	8.165	0.0000	98

Source: STATA OUTPUT (Appendix A2)

The study apply Shapiro-WIlk (W) test for normal data. Under this technique, null hypothesis principle is used to check a variable that came from a normally distributed population. The null hypothesis of the test is that the data is normally distributed. In this study, Table 4.2 indicates that data from the variables of the models of the study are not normally distributed

because the P-values are significant at 1% level of significance, except the auditor tenure (AUDTEN) variable, which is not significant at all levels of significance (p-value of 0.9995). Thus, the null hypothesis (that, the data is normally distributed) is rejected for EMGT, AFEE, BIG4, and EBLLA, while not rejected for the AUDTEN.

However, a further data reliability test is applied to avoid those factors that could bias our results. Hadri Langrange Multiplier (LM) test for unit root is applied to ascertain whether the data of the variables is stationary or not, the results of the tests is presented in table 4.3

Table 4.3: Results of Unit Root Test

VARIABLES	**No. of Panels**	**No. of Periods**	**Z-Statistic**	**P-Values**
EMGT	14	7	0.7601	0.2236
AFEE	14	7	0.2804	0.3896
AUDTEN	14	7	8.2695	0.0000
BIG4	14	7	1.7075	0.0439
EBLLA	14	7	0.6756	0.2497

Source: STATA OUTPUT (Appendix A3)

The Hadri LM test for panel data has as the null hypothesis that all the panels are (trend) stationery. The results from table 4.3 show that three variables the panel (EMGT, AFEE, and EBLLA) has no unit root (that is, they are stationery) from the p-values of 0.2236, 0.3896 and 0.2497 respectively. The table on the other hand indicates that AUDTEN and BIG4 has unit root (non-stationery) as shown by the p-values of 0.0000 and 0.0439 respectively.

A panel variable is said to be stationary if its mean and variance are constant over time and the value of the covariance between the two time periods depends only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed (Gujarati, 2004). According to him, if a time series is nonstationery (has unit root), it is not possible to generalize the result to other time periods, and thus, a nonstationerity may have a little practical value.

Therefore, having analyzed the descriptive statistics and normality of the data, the inferential statistics of the data collected from which the hypotheses of the study are tested are presented and interpreted in the following section.

4.3 Inferential Statistics

In this section of the chapter, the analysis of the correlation results and the regression results are presented and interpreted. The section begins with the correlation analysis.

4.3.1 Correlation Results

In this section, the summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.4.

Table 4.4: Coefficient of Correlation

Variables	EMGT	AFEE	AUDTEN	BIG4	EBLLA
EMGT	1				
AFEE	0.2756	1			
	(0.0060)				
AUDTEN	0.2014	-0.1859	1		
	(0.0467)	(0.0668)			
BIG4	-0.1530	0.0084	-0.0323	1	
	(0.1326)	(0.9346)	(0.7575)		
EBLLA	-0.0024	0.5863	-0.0333	0.0141	1
	(0.9814)	(0.0000)	(0.7447)	(0.8900)	

P-Values in Parentheses

Source: STATA OUTPUT (Appendix A13)

The results in Table 4.4 show the Pearson correlation coefficients of the variables of auditor independence (audit fees, auditor tenure, big4 auditor and the control variable earnings before loan loss provision) and earnings management (measured by discretionary loan loss provisions) of the listed deposit money banks in Nigeria. The table presents a significant positive association between earnings management (EMGT) and total audit fees (AFEE) from the correlation coefficient of 0.2756 which is significant at 1% level of significance (from the p-value of 0.0060). This result is consistent with the prediction of the economic

bonding theory which states that, when earnings management increases with the increase in economic bond (that is fees) independence is decreasing by economic bond (that is fees paid to auditors). This relationship suggests that auditors' independence is likely compromised, since the association is positive.

Similarly, the results reveal that, there is a significant statistical positive association between earnings management (EMGT) and audit firm tenure (AUDTEN) from the correlation coefficient of 0.2014 which is significant at 5% level of significance (from the p-value of 0.0467). This implies that, the more audit firm stays with a client the earnings management increases, suggesting that tenure and/or familiarity between audit firm and the client did impairs auditor independence in the deposit money banks in Nigeria during the period of the study. This relationship supports the view of regulators of mandatory audit rotation.

The results also show a negative association between auditor size/expertise (BIG4) and earnings management (EMGT), from the correlation coefficient of -0.1530 which is not significant at all levels of significance (p-value of 0.1326), suggesting that audit firm size/expertise appear to be independence as the more the audit a bank the less the amount earnings management. Though not statistically significant, the result is consistent with the proposition that BIG4 audit firm has higher chances of detecting and preventing earnings management. The results from the table also show a negative correlation between EMGT and EBLLA, from the correlation coefficient of -0.0024, which is not significant at all levels of significance (from the p-value of 0.9814). This implies that earnings management increases as management forecast that the performance is low, suggesting high performance is linked with high possibility of earnings management. Similarly, the table shows that EBLLA is positively associated with total audit fees, from the correlation coefficient of 0.5863), which

is significant at 1% level of significance (from the p-value of 0.0000). This implies that when the auditors perceived a poor performance in a bank they charged higher fees, which is an evidence of independence compromise.

Following the analysis of the relationships among the variables of the study, the regression results of auditor independence and the earnings management are presented and analyze in the following sections. The hypotheses of the study are tested in this section.

4.3.2 Presentation of Regression Results

This section analyzes and presents the regression results of the models of the study. The section begins with the analysis of model one as presented in table 4.5 below;

Table 4.5: Summary of Robust OLS Regression Results: Model One

Variables	Statistics	P-Values
R^2	0.9347	
F-Statistic	1124.44	0.0000
Hettest: Chi2	6.55	0.0105
Mean VIF	2.18	
Random Effect Test: Chi2	1.11	0.2929

Source: STATA OUTPUT (Appendix A6, A7, A11, & A12)

Panel data does not usually meets all the classical assumptions of OLS, as such this study subjected the models to other regression models (Fixed and Random Effects) in addition to OLS. The results in table 4.5 shows a presence of Heteroskedasticity in the panel as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 6.55 with p-value of 0.0105. This is corrected using robust OLS (heteroskedasticity corrected standard errors), after the results of random effect test, Breusch and Pagan Lagrangian Multiplier Test for Random Effects, which indicates that there is no statistically significant variance among the units in the panel (from the Chi2 of 1.11 with p-value of 0.2929), implying that OLS technique is appropriate with respect to model one. The table on the other hand, indicates the

absence of the perfect multicolinearity among the explanatory variables, as shown by the mean VIF of 2.18. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity.

The results from Table 4.5 indicate that the independent variables of model one (beginning loan loss allowances, loan charge off, changes in non-performing loans, changes in loans, and total loans) explained around 93.47% of the variations in the total loan loss provision (LLP) of listed deposit money banks in Nigeria, from the coefficient of determinations (R^2 value of 0.9347). The table also shows that the model is fitted as evident by the F-Statistic of 1124.44 which is significant at 1% level of significance (as indicated by the P-value of 0.0000). Therefore, the study measured the earnings management from this regression model, which is the residual of the model (Discretionary Loan Loss Provision). The study therefore assesses the auditors' independence (through fees, tenure, and the size and expertise of the auditor) in relation to earnings management. The regression results are presented in Table 4.5.

Table 4.6: Summary of OLS Regression Results and Robustness Tests: Model Two

Variables	Statistics	P-Values
R Square	0.2148	
Adj. R Square	0.1810	
F-Statistic	6.36	0.0001
Hettest: Chi2	0.71	0.3992
Mean VIF	1.29	
Random Effect Test: Chi2	0.01	0.9386

Source: STATA OUTPUT (Appendix A14, A15, A16, & A20)

The results from Table 4.6 show an absence of Heteroskedasticity in the model as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 0.71 with p-value of 0.3992. The table also indicates the absence of the perfect multicolinearity among the explanatory variables, as shown by the mean VIF of 1.29. The Breusch and Pagan Lagrangian Multiplier Test for Random Effects indicates the absence of significant statistical

variance in the panel, from the Chi2 of 0.01 with p-value of 0.9386, implying that OLS regression model is appropriate with respect to the model of the study (model two).

The table on the other hand indicates that the independent variables (audit fees, auditor tenure, big4 auditor and the control variable earnings before loan loss provision) explained around 18.10% of the variations in the earnings management (measured by discretionary loan loss provisions) of the listed deposit money banks in Nigeria, from the adjusted coefficient of multiple determinations (Adj. R^2 value of 0.1810). The table also shows that the model is fitted as evident by the F-Statistic of 6.36 which is significant at 1% level of significance (as indicated by the P-value of 0.0001).

Following the fitness of the model, test of hypotheses formulated in this study is conducted in the following section.

4.3.3 Hypotheses Testing

In this section of the chapter, the study tests the hypotheses formulated for the study, Table 4.7 presents the coefficients of the variables of the study from which the hypotheses are tested.

Table 4.7: OLS Coefficients/Estimators: Model Two

Variables	Coefficients	P-Values
AFEE	60.1666	0.000
AUDTEN	0.7606	0.004
BIG4	-0.3869	0.120
EBLLA	-4.8677	0.016
CONSTANT	-22.9918	0.000

Source: STATA OUTPUT (Appendix A14)

The results from Table 4.7 show that total audit fees (AFEE) has a statistically significant positive effect on the earnings management of the deposit money banks in Nigeria, as

evidenced from the coefficient of 60.1666 which is significant at 99% confidence level (p-value of 0.000). This suggests that, a N1 increase in total audit fees earnings management (discretionary loan loss provision) increases by 60.17% and, this implies poor quality of earnings, and also an evidence of compromise of independence through fees, which is the main assumption of economic bonding theory . Based on this, the study rejects the null hypothesis one (H_{01}) which states that, total audit fee has no significant effect on the earnings management of deposit money banks in Nigeria. The study therefore infers that total audit fees in the listed deposit money banks in Nigeria impair auditor independence, and allows for earnings management.

Table 4.7 also shows that audit firm tenure (AUDTEN) has a significant positive impact on the earnings management (EMGT) of deposit money banks in Nigeria, considering the coefficient of 0.7606 which is significant at 1% level of significance, (p-value of 0.0004). This implies that when audit firm spend additional year with a bank earnings management increases by 0.76%. It also suggests that tenure and/or familiarity between audit firm and the client bank did impair auditor independence in the deposit money banks in Nigeria during the period of the study. This result supports the view of regulators of mandatory audit rotation. Based on this, the study rejects the null hypothesis two (H_{02}) which states that, audit firm tenure has no significant impact on the earnings management of deposit money banks in Nigeria. The study therefore infers that audit firm tenure impairs auditor independence through long tenure that is the more the same auditor stays with the client the more their familiarity increases and the lower the independence and objectivity in audit exercise. Consequently, this lower the chances of discovering earnings management.

Moreover, from Table 4.7, BIG4 audit firm has a negative effect on the earnings management of deposit money banks in Nigeria as shown, from the coefficient of -0.3869 which is not significant at all levels of significance (p-value of 0.120). This implies that the large reputable audit firm with relevant expertise do not comprise independence in the course of their audit exercise, as indicated by a negative effect on earnings management, but the result is not statistically significant at all levels. Based on this, the study fails to rejects the null hypothesis three (H_{03}) which states that, audit firm reputation and size has no significant impact on the earnings management of deposit money banks in Nigeria. However, the study infers that, audit firm reputation and size has no significant effect on the earnings management of deposit money banks in Nigeria. But audit firm reputation and size appear to be independent and object in audit exercise, which could result in the higher chances of discovering earnings management.

The results show that bank performance (EBLLA) has a negative impact on the earnings management of deposit money banks in Nigeria, from the coefficient of -4.8677 which is significant at 5% level of significance (p-value of 0.016). This suggests that as performance decreases earnings management increases, implying that managers' likely committing earnings management when the performance of their banks is poor.

4.4 Discussion of Major Findings

Following the tests conducted and the analysis of the results, the study found that there is a positive relationship between auditor independence and earnings management via auditor independence proxies (total audit fees and audit firm tenure), and an insignificant negative

relationship between reputable audit firm and earnings management. The study specifically, found that total audit fee has significant positive effect on the earnings management via discretionary accruals (discretionary loan loss provision). This finding is consistent with the economic bonding theory, and confirmed the position of regulators around the world, particularly US SEC that, independence is compromised through auditors' dependence on non-audit fees and 'excessive' audit fees, thereby making auditors less likely to report a discovered misstatement in the financial statements. The finding is also in line with the findings of Wines (1994); Frankel *et al.,* (2002); Dee *et al.,* (2002); Ashbaugh *et al.,* (2003); Brown *et al.,* (2006); Basioudis *et al*., (2006); Kanagaretnam *et al.* (2008). It shows clients or managers are more likely to manage earnings via accruals if they pay their auditors high amount of audit and non-audit fees. The finding also support the findings of Semiu and Kehinde (2011) and Semiu and Johnson (2012) in Nigeria, and contradict the findings of Umar (2011).

The study also found a significant positive impact of audit firm tenure on earnings management via discretionary loan loss provision, indicating that the more time an audit firm spends with the client, the more auditor independence decreases, and the greater the possibilities of not discovering earnings management. This finding supports the view of auditor mandatory rotation, and is consistent with the findings of Davis *et al.,* (2003); Carey and Simnett (2006); and Vanstaelen (2000). This finding also contradicts the finding of Umar (2012) in Nigeria. The finding, however, contradicts the findings of Geiger and Rughunandan (2002); Carcello and Nagy (2004); Myers *et al.,* (2003); who found no evidence of impaired audit quality when auditor tenure is longer, and conclude that, auditors with longer tenure actually restrict management discretion in the reporting of earnings.

Lastly, the finding from the results indicate a negative impact of reputable audit firm on earnings management via discretionary loan loss provision, but not statistically significant. This provides evidence of higher independence and objectivity associated with reputable large audit firm. The finding supports the view of DeAngelo (1981), Krishnan and Schauer, (2000), Lennox (1999), Colbert and Murray (1998), Krishnan (2003) Zhou and Elder (2001) Bauwhede et al., (2000) and Becker et al., (1998).

4.5 Policy Implication of Findings

The implication of the findings of this study are that, if the regulatory authorities do not address the issues of excessive audit fees and long auditor tenure, the financial statements of deposit money banks could not be objectively audited. Existing and potential shareholders also would not have clear financial statements, as errors and deliberate misstatements would affect the quality of the information reported. The findings also implied that the audited financial statements of deposit money banks in Nigeria as prepared by the management is of low quality, due to the evidences of impaired auditor independence.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of auditors' independence, via fee dependence, audit firm tenure and auditor type on earnings management of deposit money banks in Nigeria. However, the specific objectives are, to assess the impact of total audit fees on earnings management of Deposit Money Banks in Nigeria; to investigate the effect of audit firm tenure on earnings management of Deposit Money Banks in Nigeria; and to examine the effect of reputable large audit firm on earnings management of Deposit Money Banks in Nigeria.

The study employs Secondary sources of data for the period of seven years (2006 – 2012). Ordinary Least Squares (OLS) regression was used in analysis of the data. Based on the tests conducted and the analysis of the results, the study found that there is a positive relationship between auditor independence and earnings management through auditor independence proxies (total audit fees and audit firm tenure) and discretionary loan loss provisions (earnings management), and an insignificant negative relationship between reputable audit firm and earnings management. It is also found that total audit fees have significant positive effect on the earnings management at 99% confidence level. The study also found a significant positive impact of audit firm tenure on earnings management at 99% confidence level too, indicating that the more time an audit firm spends with the client the more its independence decreases, and the more the possibilities of not discovering earnings management. Lastly, the finding from the results indicates a weak negative impact of reputable audit firm on earnings management in the banks.

5.2 Conclusions

Emanating from the review of relevant literature and theories on auditor independence and earnings management and based on the data collected and analyzed and the hypotheses tested the study concludes that auditor independence in the deposit money banks in Nigeria is compromised via total audit fees and audit firm tenure during the period covered by the study. As evidence by the significant positive effects of total audit fees and audit firm tenure on earnings management of the deposit money banks. That is, excessive total audit fees and/or non-audit fees have significant effect on the quality of earnings of deposit money banks in Nigeria.

Specifically, the study conclude that, total audit fees has significant positive effect on earnings management of deposit money banks in Nigeria, and it implies compromise of auditor independence. The study also concludes that audit firm tenure impair auditors independence in the deposit money banks in Nigeria during the period covered by the study; as indicated by the positive effects of audit tenure on the earnings management. Lastly, the study concludes that, large reputable audit firm has no significant effect on the earnings management of deposit money banks in Nigeria.

5.3 Recommendations

Based on the findings from this study and the conclusions reached, the study recommends that the regulators of the Nigerian banking industry should improve the safeguards for mitigating independence risks; these should include corporate governance, regulatory

oversight, auditing firm policies and culture, and individual auditor characteristics. These safeguards have a critical role in preventing auditor and client relationships from creating independence risk. Specifically, the study offers the following recommendations;

a. Non-audit services that are likely to increase total audit fees and make the auditors closer to management should be abolished, and where it is deemed necessary, separate audit firm should be employed to provide non-audit services to a client and that firm should not be engaged in statutory audit of same client in the future. Similarly, the existing audit fees from one client or group of connected clients of 25% should be less than the existing 25%.
b. The present audit firm tenure policy of the CBN (a bank external auditor should maintain the tenure with a given bank of the maximum period of ten years) should not be increase beyond the ten years.
c. Regulatory agencies around the world should increase surveillance on audit practices particularly statutory audit with regards fees.
d. Regulators should emphasize the use of large reputable audit firms by the deposit money banks, so as to avoid possible instances of low audit quality and poor financial reporting.
e. Standard setters should make a standard limiting managerial discretion in respect of judgements and estimations in financial reporting; this could narrow the wide opportunity of financial information manipulations. While Professional accounting bodies should be updating their ethical code of conduct for their members and make severe penalties for defaulting members.
f. Managements of deposit money banks in Nigeria should subscribe to acceptable ethical standards in discharging their duties and responsibilities.

5.4 Limitations

The findings of this study are limited to listed deposit money banks, and the auditor independence variable covered in this study. This is because there are other proxies of auditor independence that are not captured in this study. Another limitation is that, the study did not conduct a survey of opinions from the stakeholders in the Nigerian banking sector; this could have increase the robustness of the results. However, this could not affect the findings of this study in any way, due to the adequate empirical supportive evidences available in the study.

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APPENDIX A

```
. xtset id year, yearly
       panel variable:  id (strongly balanced)
        time variable:  year, 2006 to 2012
                delta:  1 year
```

1. Descriptive Statistics of all the Variables

```
. su llp beglla lco cnpl cloan loan emgt afee audten big4 eblla, detail
```

llp

Percentiles		Smallest		
1%	.0034	.0034		
5%	.0052	.0036		
10%	.0072	.0043	Obs	98
25%	.011	.0048	Sum of Wgt.	98
50%	.02205		Mean	.0442633
		Largest	Std. Dev.	.0859251
75%	.0468	.1484		
90%	.0908	.1652	Variance	.0073831
95%	.1331	.3659	Skewness	6.270193
99%	.747	.747	Kurtosis	48.75688

beglla

Percentiles		Smallest		
1%	.0017	.0017		
5%	.0034	.0026		
10%	.0051	.0031	Obs	98
25%	.0083	.0032	Sum of Wgt.	98
50%	.01675		Mean	.0376327
		Largest	Std. Dev.	.0740585
75%	.0335	.1893		
90%	.0667	.2474	Variance	.0054847
95%	.1525	.2572	Skewness	5.625527
99%	.6181	.6181	Kurtosis	41.07553

lco

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	98
25%	0	0	Sum of Wgt.	98
50%	.00135		Mean	.016002
		Largest	Std. Dev.	.0582981
75%	.0113	.0579		
90%	.0419	.0794	Variance	.0033987
95%	.0536	.1016	Skewness	8.360414
99%	.5576	.5576	Kurtosis	77.66068

cnpl

Percentiles		Smallest		
1%	-.1599	-.1599		
5%	-.0919	-.152		
10%	-.0339	-.128	Obs	98
25%	-.0135	-.1248	Sum of Wgt.	98
50%	.0004		Mean	.0091867
		Largest	Std. Dev.	.0812402
75%	.0151	.101		
90%	.0682	.1059	Variance	.0066
95%	.096	.2215	Skewness	4.685967
99%	.6348	.6348	Kurtosis	37.76161

cloan

Percentiles		Smallest		
1%	-.2637	-.2637		
5%	-.1184	-.1722		
10%	-.0029	-.17	Obs	98
25%	.0213	-.1474	Sum of Wgt.	98
50%	.06035		Mean	.0814663
		Largest	Std. Dev.	.1067386
75%	.1311	.301		
90%	.2418	.3302	Variance	.0113931
95%	.2963	.3421	Skewness	.0320262
99%	.3628	.3628	Kurtosis	4.254638

loan

Percentiles		Smallest		
1%	.0224	.0224		
5%	.1665	.1042		
10%	.2114	.1259	Obs	98
25%	.2873	.1425	Sum of Wgt.	98
50%	.36665		Mean	.3660429
		Largest	Std. Dev.	.1171147
75%	.4471	.5565		
90%	.5276	.5718	Variance	.0137159
95%	.5546	.5769	Skewness	-.2351734
99%	.6104	.6104	Kurtosis	2.826775

emgt

Percentiles		Smallest		
1%	-.0680358	-.0680358		
5%	-.0354889	-.0631595		
10%	-.0188233	-.0407464	Obs	98
25%	-.0070814	-.0355537	Sum of Wgt.	98
50%	-.0035009		Mean	9.69e-10
		Largest	Std. Dev.	.021965
75%	.0060399	.0484392		
90%	.0243463	.0550789	Variance	.0004825
95%	.0339557	.0802919	Skewness	1.192181
99%	.101647	.101647	Kurtosis	9.501112

afee

Percentiles		Smallest		
1%	.0008	.0008		
5%	.0054	.0047		
10%	.0063	.0053	Obs	98
25%	.0098	.0053	Sum of Wgt.	98
50%	.0148		Mean	.0175194
		Largest	Std. Dev.	.0110296
75%	.0214	.0409		
90%	.0337	.0436	Variance	.0001217
95%	.0389	.0525	Skewness	1.284124
99%	.0586	.0586	Kurtosis	4.634808

audten

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	98
25%	0	0	Sum of Wgt.	98
50%	1		Mean	.5918367
		Largest	Std. Dev.	.4940206
75%	1	1		
90%	1	1	Variance	.2440564
95%	1	1	Skewness	-.3737047
99%	1	1	Kurtosis	1.139655

big4

Percentiles		Smallest		
1%	0	0		
5%	1	0		
10%	1	0	Obs	98
25%	1	1	Sum of Wgt.	98
50%	1		Mean	.9693878
		Largest	Std. Dev.	.1731504
75%	1	1		
90%	1	1	Variance	.0299811
95%	1	1	Skewness	-5.44961
99%	1	1	Kurtosis	30.69825

ebllа

Percentiles		Smallest		
1%	-.0856	-.0856		
5%	-.0012	-.0126		
10%	.0162	-.0039	Obs	98
25%	.0287	-.0017	Sum of Wgt.	98
50%	.03765		Mean	.055149
		Largest	Std. Dev.	.0774614
75%	.0608	.1756		
90%	.0866	.2062	Variance	.0060003
95%	.1747	.3513	Skewness	5.157185
99%	.6418	.6418	Kurtosis	36.9371

2. Result of Normal Data Test

```
. swilk llp beglla lco cnpl cloan loan emgt afee audten big4 ebllа

                    Shapiro-Wilk W test for normal data
```

Variable	Obs	W	V	z	Prob>z
llp	98	0.38933	49.577	8.650	0.00000
beglla	98	0.41590	47.420	8.551	0.00000
lco	98	0.26908	59.340	9.048	0.00000
cnpl	98	0.58311	33.845	7.804	0.00000
cloan	98	0.95794	3.414	2.721	0.00325
loan	98	0.99011	0.803	-0.486	0.68653
emgt	98	0.82820	13.948	5.840	0.00000
afee	98	0.89241	8.735	4.803	0.00000
audten	98	0.99723	0.225	-3.310	0.99953
big4	98	0.39604	49.033	8.625	0.00000
ebllа	98	0.50930	39.837	8.165	0.00000

3. Result of Stationarity Test of all the Variables

```
. xtunitroot hadri llp

Hadri LM test for llp
---------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     0.8542        0.1965
------------------------------------------------------------------------------

. xtunitroot hadri beglla

Hadri LM test for beglla
------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                    -0.8551        0.8037
------------------------------------------------------------------------------

. xtunitroot hadri lco

Hadri LM test for lco
---------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                    -1.0699        0.8577
------------------------------------------------------------------------------

. xtunitroot hadri cnpl

Hadri LM test for cnpl
----------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                    -0.3356        0.6314
------------------------------------------------------------------------------
```

```
. xtunitroot hadri cloan

Hadri LM test for cloan
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                    -0.3422        0.6339
------------------------------------------------------------------------------

. xtunitroot hadri loan

Hadri LM test for loan
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     3.7534        0.0001
------------------------------------------------------------------------------
. xtunitroot hadri emgt

Hadri LM test for emgt
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     0.7601        0.2236
------------------------------------------------------------------------------

. xtunitroot hadri afee

Hadri LM test for afee
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     0.2804        0.3896
------------------------------------------------------------------------------
```

```
. xtunitroot hadri audten

Hadri LM test for audten
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     8.2695        0.0000
------------------------------------------------------------------------------

. xtunitroot hadri big4

Hadri LM test for big4
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     1.7075        0.0439
------------------------------------------------------------------------------

. xtunitroot hadri eblla

Hadri LM test for eblla
------------------------------

Ho: All panels are stationary                Number of panels  =     14
Ha: Some panels contain unit roots           Number of periods =      7

Time trend:         Not included             Asymptotics: T, N -> Infinity
Heteroskedasticity: Not robust                                sequentially
LR variance:        (not used)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 z                     0.6756        0.2497
------------------------------------------------------------------------------

.
```

4. Correlation Matrix of Model One

```
. pwcorr llp beglla lco cnpl cloan loan, star (0.05) sig
```

	llp	beglla	lco	cnpl	cloan	loan
llp	1.0000					
beglla	0.5941*	1.0000				
	0.0000					
lco	0.8868*	0.3373*	1.0000			
	0.0000	0.0007				
cnpl	0.6369*	-0.1337	0.7178*	1.0000		
	0.0000	0.1892	0.0000			
cloan	-0.3044*	-0.4041*	-0.2753*	-0.0474	1.0000	
	0.0023	0.0000	0.0061	0.6433		
loan	-0.0055	-0.2023*	0.0553	0.1743	0.3318*	1.0000
	0.9575	0.0458	0.5889	0.0860	0.0008	

5. OLS Regression Result: Model One

```
. reg llp beglla lco cnpl cloan loan
```

Source	SS	df	MS		
Model	.669364479	5	.133872896	Number of obs	= 98
Residual	.046798564	92	.00050868	F(5, 92)	= 263.18
				Prob > F	= 0.0000
				R-squared	= 0.9347
				Adj R-squared	= 0.9311
Total	.716163043	97	.007383124	Root MSE	= .02255

llp	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
beglla	.5916342	.04174	14.17	0.000	.508735	.6745335
lco	.667711	.0731673	9.13	0.000	.5223943	.8130276
cnpl	.4060237	.0495618	8.19	0.000	.3075897	.5044576
cloan	.0385549	.0249786	1.54	0.126	-.0110547	.0881645
loan	-.0074583	.0212203	-0.35	0.726	-.0496037	.034687
_cons	.0071729	.0080116	0.90	0.373	-.0087388	.0230846

6. Result of Test for Heteroskedasticity: Model One

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of llp

         chi2(1)      =     6.55
         Prob > chi2  =   0.0105
```

7. Result of Test for Colinearity: Model One

```
. vif
```

Variable	VIF	1/VIF
lco	3.47	0.288223
cnpl	3.09	0.323472
beglla	1.82	0.548805
cloan	1.36	0.737726
loan	1.18	0.849075
Mean VIF	2.18	

8. Fixed Effect Regression Result: Model One

```
. xtreg llp beglla lco cnpl cloan loan, fe

Fixed-effects (within) regression               Number of obs      =        98
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.9083                         Obs per group: min =         7
       between = 0.9849                                        avg =       7.0
       overall = 0.9340                                        max =         7

                                                F(5,79)            =    156.47
corr(u_i, Xb)  = 0.3444                         Prob > F           =    0.0000
```

llp	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
beglla	.5544523	.0468473	11.84	0.000	.4612051	.6476996
lco	.6347397	.0848156	7.48	0.000	.4659184	.803561
cnpl	.4109062	.0535192	7.68	0.000	.3043789	.5174336
cloan	.0258686	.0266929	0.97	0.335	-.0272624	.0789995
loan	-.0018743	.0254716	-0.07	0.942	-.0525743	.0488256
_cons	.0080444	.0097495	0.83	0.412	-.0113616	.0274504
sigma_u	.00813771					
sigma_e	.02304423					
rho	.11087707	(fraction of variance due to u_i)				

```
F test that all u_i=0:     F(13, 79) =     0.70                 Prob > F = 0.7558

. est store fixed
```

9. Random Effect Regression Result: Model One

```
. xtreg llp beglla lco cnpl cloan loan, re

Random-effects GLS regression                   Number of obs      =        98
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.9075                         Obs per group: min =         7
       between = 0.9857                                        avg =       7.0
       overall = 0.9347                                        max =         7

Random effects u_i ~ Gaussian                   Wald chi2(5)       =   1315.89
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0000

------------------------------------------------------------------------------
         llp |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      beglla |    .5916342     .04174    14.17   0.000     .5098253    .6734431
         lco |     .667711   .0731673     9.13   0.000     .5243056    .8111163
        cnpl |    .4060237   .0495618     8.19   0.000     .3088844    .5031629
       cloan |    .0385549   .0249786     1.54   0.123    -.0104022     .087512
        loan |   -.0074583   .0212203    -0.35   0.725    -.0490494    .0341327
       _cons |    .0071729   .0080116     0.90   0.371    -.0085295    .0228753
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  .02304423
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. est store random
```

10. Hausman Specification Test Result: Model One

```
. hausman fixed random

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |    fixed        random       Difference          S.E.
-------------+----------------------------------------------------------------
      beglla |   .5544523     .5916342       -.0371819        .0212707
         lco |   .6347397      .667711       -.0329713        .0428979
        cnpl |   .4109062     .4060237        .0048826        .0201975
       cloan |   .0258686     .0385549       -.0126863        .0094119
        loan |  -.0018743    -.0074583         .005584        .0140891
------------------------------------------------------------------------------
                           b = consistent under Ho and Ha; obtained from xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        3.75
                Prob>chi2 =      0.5859
```

11. Random Effect Test Result: Model One

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        llp[id,t] = Xb + u[id] + e[id,t]

        Estimated results:
                     |       Var     sd = sqrt(Var)
             ---------+-----------------------------
                 llp |   .0073831       .0859251
                   e |    .000531       .0230442
                   u |           0              0

        Test:   Var(u) = 0
                            chi2(1) =     1.11
                          Prob > chi2 =     0.2929
```

12. Robust OLS Regression Result: Model One

```
. reg llp beglla lco cnpl cloan loan, robust

Linear regression                               Number of obs =      98
                                                F(  5,    92) = 1124.44
                                                Prob > F      =  0.0000
                                                R-squared     =  0.9347
                                                Root MSE      =  .02255

------------------------------------------------------------------------------
             |               Robust
         llp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      beglla |   .5916342   .0646958     9.14   0.000     .4631427    .7201257
         lco |    .667711   .1345708     4.96   0.000     .4004417    .9349802
        cnpl |   .4060237   .0948004     4.28   0.000     .2177418    .5943055
       cloan |   .0385549   .0280906     1.37   0.173    -.0172355    .0943453
        loan |  -.0074583   .0174017    -0.43   0.669    -.0420197     .027103
       _cons |   .0071729   .0064066     1.12   0.266    -.0055511    .0198969
------------------------------------------------------------------------------

. predict u, residual
```

13. Correlation Matrix: Model Two

```
. pwcorr emgt afee audten big4 eblla, star (0.05) sig
```

	emgt	afee	audten	big4	eblla
emgt	1.0000				
afee	0.2756*	1.0000			
	0.0060				
audten	0.2014*	-0.1859	1.0000		
	0.0467	0.0668			
big4	-0.1530	0.0084	-0.0323	1.0000	
	0.1326	0.9346	0.7525		
eblla	-0.0024	0.5863*	-0.0333	0.0141	1.0000
	0.9814	0.0000	0.7447	0.8904	

14. OLS Regression Results: Model Two

```
. reg emgt afee audten big4 eblla
```

Source	SS	df	MS		
Model	37.7619073	4	9.44047682	Number of obs	= 98
Residual	138.039829	93	1.48429924	F(4, 93)	= 6.36
				Prob > F	= 0.0001
				R-squared	= 0.2148
				Adj R-squared	= 0.1810
Total	175.801737	97	1.81238904	Root MSE	= 1.2183

emgt	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
afee	60.16655	14.14739	4.25	0.000	32.07264	88.26045
audten	.7605838	.2561372	2.97	0.004	.251946	1.269222
big4	-.3869085	.2467547	-1.57	0.120	-.8769144	.1030975
eblla	-4.867743	1.980565	-2.46	0.016	-8.800753	-.9347341
_cons	-22.99181	.3002279	-76.58	0.000	-23.588	-22.39562

15. Result of Test for Heteroskedasticity: Model Two

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of emgt

         chi2(1)      =     0.71
         Prob > chi2  =   0.3992
```

16. Result of Test for Colinearity: Model Two

```
. vif
```

Variable	VIF	1/VIF
afee	1.59	0.628455
eblla	1.54	0.650131
audten	1.05	0.955684
big4	1.00	0.998747
Mean VIF	1.29	

17. Fixed Effect Regression Result: Model Two

```
. xtreg emgt afee audten big4 eblla, fe

Fixed-effects (within) regression               Number of obs      =        98
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.1388                         Obs per group: min =         7
       between = 0.4948                                        avg =       7.0
       overall = 0.2128                                        max =         7

                                                F(4,80)            =      3.22
corr(u_i, Xb)  = 0.1319                         Prob > F           =    0.0166

------------------------------------------------------------------------------
        emgt |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        afee |   51.72923   25.13225     2.06   0.043     1.714466    101.744
      audten |    .769253   .2616192     2.94   0.004     .2486142    1.289892
        big4 |  -.3150005   .2504844    -1.26   0.212    -.8134803    .1834792
       eblla |  -4.051997    2.30758    -1.76   0.083    -8.644227    .5402342
       _cons |  -22.92627    .449405   -51.01   0.000    -23.82062   -22.03193
-------------+----------------------------------------------------------------
     sigma_u |  .47170452
     sigma_e |  1.2170185
         rho |  .13060579   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(13, 80) =     1.02                 Prob > F = 0.4452

. est store fixed
```

18. Random Effect Regression Result: Model Two

```
. xtreg emgt afee audten big4 eblla, re

Random-effects GLS regression                   Number of obs      =        98
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.1373                         Obs per group: min =         7
       between = 0.5020                                        avg =       7.0
       overall = 0.2148                                        max =         7

Random effects u_i ~ Gaussian                   Wald chi2(4)       =     24.73
corr(u_i, X)       = 0 (assumed)                Prob > chi2        =    0.0001

------------------------------------------------------------------------------
        emgt |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        afee |   59.91628   14.42176     4.15   0.000     31.65015    88.18241
      audten |    .761906   .2550859     2.99   0.003     .2619469    1.261865
        big4 |  -.3817536    .245717    -1.55   0.120    -.8633501     .099843
       eblla |  -4.825489    1.98789    -2.43   0.015    -8.721681   -.9292959
       _cons |  -22.99272   .3048933   -75.41   0.000     -23.5903   -22.39514
-------------+----------------------------------------------------------------
     sigma_u |  .13221252
     sigma_e |  1.2170185
         rho |  .01166421   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. est store random
```

19. Hausman Specification Test Result: Model Two

```
. hausman fixed random
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
afee	51.72923	59.91628	-8.187049	20.58258
audten	.769253	.761906	.007347	.0581016
big4	-.3150005	-.3817536	.066753	.048637
eblla	-4.051997	-4.825489	.7734921	1.171845

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 2.56
Prob>chi2 = 0.6333

20. Random Effect Test Result: Model Two

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        emgt[id,t] = Xb + u[id] + e[id,t]

        Estimated results:
                     |       Var     sd = sqrt(Var)
             ---------+-----------------------------
                emgt |   1.812389        1.34625
                   e |   1.481134       1.217019
                   u |   .0174801       .1322125

        Test:   Var(u) = 0
                            chi2(1) =     0.01
                        Prob > chi2 =     0.9386
```

APPENDIX B
POPULATION AND SAMPLE OF THE STUDY

S/N	POPULATION	DATE OF LISTING ON NSE	SELECTED BANKS
1	Access Bank Plc	November 1998	Selected
2	Diamond Bank Plc	May 2005	Selected
3	First Bank of Nigeria Plc	March 1971	Selected
4	First City Monument Bank Plc	December 2004	Selected
5	Guaranty Trust Bank Plc	September 1996	Selected
6	Stanbic IBTC Bank Plc	April 2005	Selected
7	Sterling Bank Plc	August 1993	Selected
8	Sky Bank Plc	November 2005	Selected
9	Unity Bank Plc	December 2005	Selected
10	United Bank for Africa Plc	1970	Selected
11	Union Bank of Nigeria Plc	1970	Selected
12	Ecobank Nigeria Plc	April 2006	
13	EcoBank Trans. Incorp	September 2006	
14	NPF Micro Finance Bank Plc	December 2010	
15	Fidelity Bank Plc	May 2005	Selected
16	Wema Bank Nigeria Plc	February 1991	Selected
17	Zenith Nigeria Plc	October 2004	Selected

Source: NSE FactBook 2011/2012

APPENDIX C

year	id	llp	Beglla	lco	cnpl	cloan	loan	afee
2006	1	0.0288	0.0077	0.0079	0.0363	0.2173	0.31	0.012
2007	1	0.0201	0.0153	0.0006	0.0081	0.1632	0.3279	0.0091
2008	1	0.0072	0.0063	0.0034	-0.0011	0.1311	0.2344	0.0058
2009	1	0.033	0.0068	0.0113	0.0806	0.1788	0.5565	0.0138
2010	1	0.0361	0.0294	0.004	-0.042	0.0589	0.5546	0.0198
2011	1	0.0142	0.0277	0.0015	-0.0093	0.0634	0.4896	0.0211
2012	1	0.0081	0.0089	0.0008	-0.0016	0.0603	0.3659	0.0165
2006	2	0.0097	0.0063	0.0011	0.0041	0.0604	0.2736	0.0118
2007	2	0.0052	0.0062	0.0005	-0.0013	0.0632	0.2377	0.011
2008	2	0.075	0.0034	0.0054	0.0015	0.2477	0.406	0.0123
2009	2	0.0305	0.0077	0.0348	0.0633	0.2418	0.5276	0.013
2010	2	0.0314	0.0292	0.007	-0.0319	0.0238	0.5282	0.0214
2011	2	0.0141	0.0212	0.0119	-0.0062	0.0776	0.4471	0.015
2012	2	0.0179	0.0132	0.0096	-0.008	0.0374	0.4582	0.0156
2006	3	0.0195	0.0527	0.0067	-0.0479	0.1129	0.3252	0.0067
2007	3	0.0084	0.0138	0.0033	0.0062	0.0571	0.2873	0.0047
2008	3	0.0109	0.0051	0.0034	0.0091	0.2788	0.4103	0.0054
2009	3	0.0294	0.0102	0.0072	0.0295	0.1909	0.5769	0.0057
2010	3	0.0254	0.0265	0.0115	0.0044	-0.0026	0.5184	0.0069
2011	3	0.0107	0.0202	0.017	-0.025	0.0452	0.4582	0.0055
2012	3	0.0622	0.0083	0.0039	-0.0057	0.1296	0.4839	0.0089
2006	4	0.0645	0.0149	0	0.0495	0.07	0.3222	0.0142
2007	4	0.0311	0.0356	0	-0.0069	0.1454	0.3235	0.0166
2008	4	0.0168	0.0127	0	0.0018	0.301	0.4328	0.0094
2009	4	0.0585	0.0178	0	0.0811	-0.0309	0.4267	0.0113
2010	4	0.0526	0.0489	0	-0.002	-0.1184	0.3316	0.0136
2011	4	0.01	0.034	0	-0.0402	0.1308	0.3452	0.0101
2012	4	0.0093	0.01	0	-0.0032	0.0341	0.3801	0.0115
2006	5	0.0577	0.0104	0.0082	0.0682	0.0103	0.1789	0.0328
2007	5	0.0096	0.0234	0.0064	-0.021	0.2455	0.318	0.0152
2008	5	0.0421	0.0107	0.0058	0.0527	0.3628	0.5252	0.0175
2009	5	0.0344	0.0471	0.0469	-0.016	-0.0725	0.5148	0.0196
2010	5	0.0232	0.0299	0.0012	-0.0135	0.1635	0.6104	0.0189
2011	5	0.0183	0.0208	0.0054	-0.0109	-0.0142	0.5311	0.0169
2012	5	0.0108	0.0122	0.0002	-0.0023	0.0398	0.3937	0.0146
2006	6	0.0696	0.0041	0	0.101	0.3421	0.4117	0.0344
2007	6	0.0137	0.0272	0	-0.0305	0.0823	0.2431	0.0168
2008	6	0.0112	0.0078	0	0.0041	0.1734	0.3115	0.0115
2009	6	0.0594	0.0141	0	0.096	0.1177	0.5107	0.0121
2010	6	0.0468	0.0548	0	-0.0289	0.1004	0.5718	0.0178
2011	6	0.0246	0.0353	0	-0.0272	0.1181	0.5497	0.0134
2012	6	0.0176	0.0205	0.0001	-0.0144	0.0459	0.5041	0.014
2006	7	0.0647	0.0248	0.0176	0.0802	0.0547	0.3551	0.021
2007	7	0.0531	0.0486	0.024	0.0175	0.048	0.3148	0.024

2008	7	0.0274	0.0328	0.009	-0.0305	0.0838	0.2782	0.0275
2009	7	0.0908	0.0374	0.0534	0.0766	0.004	0.3842	0.0436
2010	7	0.0282	0.0605	0.0068	-0.0339	0.1265	0.3826	0.0262
2011	7	0.0121	0.0145	0.0064	-0.0068	0.1198	0.3167	0.0159
2012	7	0.0122	0.0106	0.0067	-0.0005	0.1201	0.3954	0.0207
2006	8	0.0109	0.0046	0.0008	0.0066	0.0045	0.3494	0.017
2007	8	0.0117	0.0078	0.0061	0.0104	0.0591	0.3087	0.0138
2008	8	0.0345	0.0092	0.007	0.0248	0.2963	0.4444	0.0154
2009	8	0.0501	0.0372	0.0316	0.0641	0.012	0.4907	0.0165
2010	8	0.036	0.0552	0.0304	-0.0283	-0.0029	0.5378	0.0219
2011	8	0.0181	0.0273	0.0579	-0.0135	0.0041	0.412	0.0166
2012	8	0.0126	0.0111	0.0281	-0.0029	0.2439	0.4967	0.0102
2006	9	0.0036	0.0026	0	0.001	-0.17	0.0224	0.0008
2007	9	0.0298	0.0238	0	0.0076	0.0538	0.241	0.0121
2008	9	0.0191	0.0155	0	0.0406	0.1052	0.2699	0.0083
2009	9	0.0648	0.0157	0.0001	0.0385	0.1416	0.3628	0.0077
2010	9	0.0665	0.2474	0	-0.0299	-0.2637	0.2114	0.0112
2011	9	0.013	0.0667	0	-0.0919	-0.0452	0.1665	0.0128
2012	9	0.009	0.0071	0	0	0.0131	0.1042	0.0053
2006	10	0.1652	0.031	0.0321	0.0427	0.0357	0.2826	0.0324
2007	10	0.1321	0.1065	0.0256	0.0539	-0.0021	0.18	0.0369
2008	10	0.1075	0.0657	0.0794	0.0004	0.042	0.1425	0.0275
2009	10	0.1484	0.1525	0.0515	-0.0014	0.1399	0.342	0.0389
2010	10	0.0285	0.1248	0.0184	-0.0605	0.0856	0.3733	0.0409
2011	10	0.0034	0.0232	0.0068	-0.0336	-0.0008	0.304	0.0174
2012	10	0.0048	0.0032	0.0059	0.0026	0.1906	0.4777	0.0303
2006	11	0.0115	0.0071	0	0.0151	0.0203	0.1259	0.0069
2007	11	0.0133	0.008	0	-0.0008	0.1933	0.2905	0.0068
2008	11	0.0062	0.007	0	0.001	0.0561	0.2668	0.0053
2009	11	0.0209	0.0067	0	0.0172	0.0983	0.3878	0.0121
2010	11	0.0147	0.0249	0	0.0004	0.0182	0.3974	0.0063
2011	11	0.006	0.0127	0	-0.0061	0.0164	0.3603	0.006
2012	11	0.0043	0.0054	0	0.0048	-0.0028	0.3214	0.0071
2006	12	0.1331	0.042	0.0536	0.2215	0.0217	0.4471	0.0191
2007	12	0.1273	0.0968	0.0511	-0.128	0.0914	0.4167	0.017
2008	12	0.747	0.1893	0.5576	0.6348	-0.1722	0.4477	0.0586
2009	12	0.3659	0.6181	0.0419	-0.152	-0.1474	0.2006	0.0525
2010	12	0.0947	0.2572	0.1016	-0.1599	0.0492	0.1902	0.0369
2011	12	0.0348	0.0866	0.0164	-0.1248	0.0968	0.2706	0.0337
2012	12	0.0326	0.0315	0.0134	-0.0041	0.0554	0.3001	0.0366
2006	13	0.0071	0.005	0	0.0004	0.1641	0.327	0.0077
2007	13	0.0068	0.0049	0	0.0019	0.021	0.247	0.0081
2008	13	0.008	0.0031	0	0.0032	0.1218	0.2517	0.0064
2009	13	0.0299	0.0086	0	0.0235	0.1566	0.4254	0.0114
2010	13	0.0138	0.0231	0	-0.0025	0.0213	0.3934	0.0078
2011	13	0.011	0.0114	0	0.0075	0.0551	0.3813	0.0098

2012	13	0.0082	0.0098	0	-0.0045	0.028	0.3674	0.0103
2006	14	0.0555	0.0017	0	0.1059	0.3302	0.4519	0.0316
2007	14	0.038	0.0202	0	-0.0032	0.0971	0.2615	0.0203
2008	14	0.0301	0.0335	0	0.0127	0.056	0.2864	0.0274
2009	14	0.035	0.0314	0	0.0065	0.0361	0.3352	0.0314
2010	14	0.0197	0.0311	0	-0.0156	0.1429	0.4407	0.0276
2011	14	0.0147	0.0135	0	0.0096	0.1226	0.4254	0.0273
2012	14	0.01	0.0118	0	0.0015	0.0527	0.3935	0.0279

audten	big4	ebIla	Emgt	u	_est_fixed	_est_random
1	1	0.033	-0.00901	-0.00901	1	1
1	1	0.0386	-0.00366	-0.00366	1	1
1	1	0.0226	-0.00883	-0.00883	1	1
1	1	0.0316	-0.02121	-0.02121	1	1
1	1	0.0538	0.027781	0.027781	1	1
1	1	0.0287	-0.00538	-0.00538	1	1
1	1	0.029	-0.00382	-0.00382	1	1
1	1	0.0382	-0.00389	-0.00389	1	1
1	1	0.0324	-0.00611	-0.00611	1	1
1	1	0.105	0.055079	0.055079	1	1
0	1	0.0539	-0.03555	-0.03555	1	1
0	1	0.0656	0.018252	0.018252	1	1
0	1	0.0455	-0.0107	-0.0107	1	1
0	1	0.0712	0.001731	0.001731	1	1
1	1	0.0492	-0.0058	-0.0058	1	1
1	1	0.0324	-0.01172	-0.01172	1	1
1	1	0.0319	-0.01294	-0.01294	1	1
0	1	0.0301	-0.00365	-0.00365	1	1
0	1	0.0417	-0.00295	-0.00295	1	1
0	1	0.03	-0.00795	-0.00795	1	1
0	1	0.0851	0.048439	0.048439	1	1
1	1	0.0671	0.028118	0.028118	1	1
1	1	0.0503	0.002473	0.002473	1	1
1	1	0.0412	-0.00699	-0.00699	1	1
0	1	0.063	0.012241	0.012241	1	1
0	1	0.0648	0.024346	0.024346	1	1
0	1	0.0181	-0.00343	-0.00343	1	1
0	1	0.0336	-0.00097	-0.00097	1	1
1	1	0.0843	0.012145	0.012145	1	1
1	1	0.0317	-0.01426	-0.01426	1	1
0	1	0.0488	-0.00674	-0.00674	1	1
0	1	0.0359	-0.01882	-0.01882	1	1
0	1	0.0371	0.001266	0.001266	1	1
0	1	-0.0012	0.00415	0.00415	1	1
0	1	0.0243	-0.00139	-0.00139	1	1
1	1	0.0837	0.008874	0.008874	1	1

1	1	0.0261	0.001458	0.001458	1	1
1	1	0.0305	-0.00661	-0.00661	1	1
1	1	0.0612	0.004178	0.004178	1	1
1	1	0.0606	0.019333	0.019333	1	1
1	1	0.032	0.007133	0.007133	1	1
1	1	0.0289	0.006069	0.006069	1	1
1	1	0.0735	-0.00092	-0.00092	1	1
1	1	0.0574	-0.00546	-0.00546	1	1
1	1	0.0549	0.00604	0.00604	1	1
0	1	0.0667	-0.00255	-0.00255	1	1
0	1	0.0443	-0.00757	-0.00757	1	1
0	1	0.0213	-0.00742	-0.00742	1	1
0	1	0.0246	-0.0072	-0.0072	1	1
1	1	0.0281	0.000224	0.000224	1	1
1	1	0.0339	-0.00836	-0.00836	1	1
1	1	0.0452	-0.00097	-0.00097	1	1
1	1	0.042	-0.02301	-0.02301	1	1
1	1	0.0479	-0.00852	-0.00852	1	1
1	1	-0.0126	-0.03549	-0.03549	1	1
1	1	0.0312	-0.02442	-0.02442	1	1
1	1	0.0056	0.001204	0.001204	1	1
1	1	0.0493	0.005184	0.005184	1	1
1	1	0.0464	-0.01577	-0.01577	1	1
1	1	0.0006	0.029886	0.029886	1	1
0	1	0.2062	-0.06316	-0.06316	1	1
0	1	-0.0856	0.006663	0.006663	1	1
0	1	0.0233	-0.0021	-0.0021	1	1
1	1	0.1756	0.101647	0.101647	1	1
1	1	0.1357	0.024364	0.024364	1	1
1	1	0.0712	0.007722	0.007722	1	1
0	0	0.0866	0.014341	0.014341	1	1
0	0	0.0691	-0.04075	-0.04075	1	1
0	0	0.01	-0.0061	-0.0061	1	1
0	1	0.0241	-0.01305	-0.01305	1	1
1	1	0.0249	-0.00585	-0.00585	1	1
1	1	0.0313	-0.00357	-0.00357	1	1
1	1	0.0325	-0.00569	-0.00569	1	1
1	1	0.0301	0.001882	0.001882	1	1
0	1	0.0162	-0.0051	-0.0051	1	1
0	1	-0.0039	-0.00415	-0.00415	1	1
0	1	0.0204	-0.00551	-0.00551	1	1
1	1	0.0781	-0.02215	-0.02215	1	1
1	1	0.1428	0.080292	0.080292	1	1
0	1	0.6418	0.00775	0.00775	1	1
0	1	0.3513	0.033956	0.033956	1	1
0	1	0.1747	-0.06804	-0.06804	1	1

0	1	-0.0017	0.014399	0.014399	1	1
0	1	0.0123	-0.00039	-0.00039	1	1
1	1	0.0259	-0.00708	-0.00708	1	1
1	1	0.0266	-0.00301	-0.00301	1	1
1	1	0.0357	-0.00512	-0.00512	1	1
1	1	0.0415	0.005233	0.005233	1	1
1	1	0.0317	-0.00391	-0.00391	1	1
1	1	0.0301	-0.00524	-0.00524	1	1
1	1	0.0475	-0.00128	-0.00128	1	1
1	1	0.0928	-0.00504	-0.00504	1	1
1	1	0.0608	0.018382	0.018382	1	1
1	1	0.0567	-0.00207	-0.00207	1	1
0	1	0.0565	0.007719	0.007719	1	1
0	1	0.047	-0.00176	-0.00176	1	1
0	1	0.0222	-0.00591	-0.00591	1	1
0	1	0.0308	-0.00386	-0.00386	1	1