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# The Impact of External Audit on Earnings Restatement of Quoted Manufacturing Firms in the Global South Using Nigeria as a Case Study

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## *Abstract*

*The study seeks to investigate the impact of external audit on earnings restatement of quoted manufacturing firm in the global south, using Nigeria as a case study. In the face of growing literature and public anxiety about the concern that audit opinion is fast losing credibility and relevance, the necessity to shed light on external audit quality on earnings restatement of quoted manufacturing firm cannot be overemphasized. Literature review and empirical evidence has shown that low share value of many manufacturing firms have been attributed to many African nations, which recorded a low contribution to economy growth with only few manufacturing firms showing a significant relationship. The issue is whether these corporate collapses are not from the outcome of poor audit quality and the inability of the audit function to curtail the practice of financial misrepresentation. Using numbers, management may abuse "big bath" restructuring charges, premature revenue recognition, reserves, and write-offs of purchased in-process research and development. The contribution of the study will be helpful in evaluating effect of external audit and earnings reinstatement to the manufacturing companies and supporting improvement of their ways in other to increase productivity, profitability, and investment. Quasi-experimental research design adopted for this study. The Pearson's product moment correlation coefficient (PPMC) statistical tool, SPSS used to test the hypotheses formulated in this study. Results indicated that there is significant relationship between external audit and earnings restatement. There is significant relationship between external audit and discretionary accruals. Hence, the study concluded that external audit is a fundamental means of checking and scrutinizing financial statements to prevent the provision of false economic events and activities of business that would cause accounting scandals. The study recommended that the management of manufacturing companies should employ external auditors to independently check their books and records and prevent falsified accounting reports that could lead to accounting scandals.*


*Keywords: External Audit, Earnings Reinstatement, Quoted Manufacturing Firms, the Global South, Nigeria*

## 1. Introduction

The suppose lack of success of audit actions to seize financial false accounts in its acclaimed long-established territory has bring about an ostensible increase of notice and interest in financial reporting. However, audit challenges show in different ways including existence of material financial false account in the form of financial statement restatement. From the postulation of police officer theory, audit is successful in producing a desired result when it can give quick notice to equity and other stakeholders on false accounting reporting in financial position. Consequently, observed that from the angle of police officer theory, it is necessary to make rightful adjustment in other to belief that financial restatement is an indirect confirmation of audit misinterpretation. It is correctly, to say that an increase frequency of audit misrepresentations if not properly monitored and checked it can affect the economy badly.

The reason is because if investors (either internal or external) losses trust in the degree of the desire result of audit activities in bringing about firm managers to adequately give detailed information on correct operational income (earnings), the outcome is always affecting investments in a negative way. It is however, common in Nigeria economy because of the economy is just moving away from recession, this show that a higher private investment is needed to strengthen the current growth rate. Manufacturing sector that is supposed to be the bedrock of growth in Nigeria economy, which serve as an alternative in diversifying away from the oil sector, has been operating below average in many African economies. This might be connected with concerns about the quality of reported earnings and the inability of audit quality to effectively stopping financial misrepresentations of companies, exemplified by recent corporate accounting scandals [1].

Diversity in audit effectiveness during challenges in the trust of auditors and the consistent performance of the earning financial statement of firms. The latest organization financial scandals constitute a great challenge to the accuracy, acceptability, profitability, or quality importance of the audit operations. Information provided on the number of organizations

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that participates in the cases of illegal accounting, which relates to poor audit value and effectiveness, and earning manipulations in the past decade [2]. Therefore, in the face of rising work and people concern about audit opinion, that is fast losing quality and importance, the need to hunt for signs of audit quality cannot be exaggerated [3]. Hence, this study investigates the impact of external audit on earnings restatement of quoted manufacturing firm in the global south, using Nigeria as a case study.

## 2. Statement of the Problems

Despite the regulatory efforts, accounting scandals and corporate failures linked to poor audit quality continue to occur globally. There have been frequent reported cases of firms' malfunction in Nigeria that have brought great anxiety in the progress of corporate businesses. In banking sector alone, more than 20 banks liquidated between 1994 and 2006, couple with the mass liquidation of Nigerian banks in 2007. Consequently, in 2009, the Central Bank of Nigeria (CBN) kicked out the Chief Executives Officers (CEOs) and managing directors of five commercial banks including their entire executive directors. Similarly, on 2nd, October 2009, the CBN further announced the sack of additional three bank CEOs together with their board of directors due to unwarranted elevated level of non-performing loans [4].

In Nigeria, it is noted that research in this area mostly focus on banking sector with the expectation that this predicament mostly occurs in that sector. However, poor external audits also occur in other sectors, and this study focus on manufacturing sector. Similarly, noted that research in this field generally have disregarded the contribution of external audit as an important factor for earnings restatement. Many scholars are of the opinion that this dilemma attributed to the failure of external audit to perform their duties and functions properly. Therefore, this situation encouraged scholars to consider it essential to appraise how external audit affect earnings restatement in quoted manufacturing companies in Nigeria.

*Objectives of the Study*

The main objective of this study seeks to evaluate the effect of external audit and earnings reinstatement of quoted manufacturing companies in Nigeria. While the specific objectives are to:

- Investigate the roles played by external audit in earning restatement in quoted manufacturing companies in Nigeria.

- Examine the relationship between external audit and earnings restatement in quoted manufacturing companies in Nigeria.

*Hypotheses*

The proposed study will test the following hypotheses:

**$H_1$:** There is no role played by external audit in earning restatement in quoted manufacturing companies in Nigeria.

**$H_2$:** There is no relationship between external audit and earnings restatement in quoted manufacturing companies in Nigeria.

*Significance of the Study*

The study will be beneficiary in evaluating the effect of external audit and earnings reinstatement to the manufacturing companies and in helping them to improve their ways in other to increase productivity, profitability, investment etc. The study outcome will also help in laying emphasis on ways to help in boosting their performances in the business environment. Moreover, the result of this study will be more useful to the government, regulators, and policy makers. In addition, it will make sure awareness made in letting the public to that there is a significant relationship between external audit and earnings restatement in quoted manufacturing companies in Nigeria. Finally, the results of the study will also influence the academic research of other researchers who are interested in this area of knowledge and initiate appropriate mitigation measures.

*Scope and Limitations of the Study*

Our research study seeks to evaluate the effect of external audit and earnings reinstatement of quoted manufacturing companies in Nigeria. The study also, covers a period beginning from 2005 to 2019. The population of the study is some listed Nigerian manufacturing firms. More so, there was some limitations faced by the researcher in the cause of study, but the main constraints are financial constraint and time constraint.

*Gap in the Literature*

Many studies already carried out in this area under review. However, most studies have foreign outlooks as well as developed environment. Nevertheless, few studies in this area relates to developing environment such as Nigerian. However, this study seeks to investigate external audit and earnings reinstatement of quoted manufacturing companies in Nigeria.

## 3. Literature Review

The literature reviews is focused the impact of external audit and earnings reinstatement of quoted manufacturing companies in the global south, using Nigeria as case study. Concerning conceptual reviews, theoretical framework and empirical evidence.

*Concept of Audit*

The word “audit” comes from the Latin word audire, meaning, “To hear” “to listen”. Different definitions of audit quality have been put forward such as the assurance that the relevant information about the firm’s underlying economic conditions, the firm’s distinctive features and financial reporting practices are faithfully represented in the financial statement.

Auditors play a fundamental role in bridging the gap between the management of an organization and the users of the financial report. As such as advocated by some auditing scholars that the main aim of audit assignment is to generate a report with good and acceptable quality [5].

*Concept of External Audit*

External auditing is a veritable tool for checkmating fraudulent reports of the internal operations of organizations [6]. External auditors are responsible for auditing the company's financial statements and providing reasonable assurance that they are presented fairly and in conformity with GAAP and that, they reflect true representation of the company's financial position and results of operations. Essentially, the chief roles of external auditors in corporate governance are protecting the interests of shareholders. External auditors report the state of a company's finance and attest to the validity of financial reports that may have been released. They ensure that the board receives accurate and reliable information [7].

An external audit gives shareholders confidence it provides an independent review of the financial statements can provide transparency to the shareholders that the company is being run within their best interests and can highlight any issues that have occurred which may not have been brought to their attention. Corporate governance is an oversight of a corporation's policies, procedures, and practices. This oversight helps to ensure that the business operated in the best interests of the corporation and its shareholders. The corporation may employ a staff of auditors to test and monitor internal controls. External auditors assess the accuracy and correctness of the financial information and of the Internal Controls over Financial Reporting [8].

A typical external audit has three objectives. One goal is to review the company accounts to show that they are accurate and complete. Another objective is to confirm that the accounting records follow standard practices. An external audit also reviews financial statements, such as balance sheets, to certify that they present the company's finances accurately. Certifying the financial statements is the core of an external auditor's job.

Investors and lenders may insist on an external audit before they put money into the company. Corporations that sell shares to the public are legally obligated to audit their financial statements. External Auditors inspect clients' accounting records and express an opinion as to whether financial statements are presented fairly in accordance with the applicable accounting standards of the entity, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS).

*Concept of Earnings Restatement*

Earnings restatement is the act of revealing modified financial statements while earnings recasts have to do with corrections made in financial statements. They can also help investors get a comparative sense of how a company is performing without a recently divested asset, with a change in accounting method, or with some other significant change in operations. Many investors assume reported profits represent cash left after expenses deducted from revenues. However, modern accounting is far more complicated. Decisions made as to when revenues earned and when expenses matched to those revenues. For example, accounting must determine the portion of revenue recognized in the current period for contracts where the cash expected to receive over several periods. The portion of net income not accounted for in cash flow is accruals, and whenever net income grows faster than cash flow, accruals are the cause. While many elements of accruals are entirely proper, accruals also leave room for accounting gimmickry or “earnings management” – fudging numbers to inflate income. A restatement is an act of revising one or more of a company’s previous financial statements to correct an error. Restatements are necessary when it is determined that a previous statement contained a "material" inaccuracy. This can result from accounting mistakes, noncompliance with generally accepted accounting principles (GAAP), fraud, misrepresentation, or a simple clerical error [9].

*Concept of Auditor’s Independence*

Independence is a state of mental attitude and physical manifestation that depicts an auditor as being uninfluenced by others in making decision. Independence is a position required to take an impartial perspective in the performance of audit tests, analysis of results and verification in the audit report. The Conceptual Framework for AICPA

Independence Standards defines independence as the state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism [10]. Independence can be defined "as an auditor's unbiased mental attitude in making decisions throughout the financial reporting auditing process" [11]. Auditor's independence refers to the ability of the external auditor to act with integrity and impartiality during the conduct of the audit engagement [12].

*Audit Committee*

Audit committee is a committee of shareholders and nonexecutive directors charged with the responsibility of liaising between the external auditors and the BOD on one hand, and between management and the external auditors on the other hand [13]. Audit Committees are the most important recent development in the corporate governance structure and expected to contribute significantly to this respect. Expectedly, the independence of the AC from management and the level of accounting knowledge possessed by members. The experience and status of the members, the extent of their involvement and scrutiny of management activities. The appropriateness of their actions (for instance, the degree to which they raise and pursue difficult questions with management), all determine the efficiency and effectiveness of this committee. As an intermediary between the management and the external auditors. It is equally expected that an effective audit committee can enhance the independence and professional scepticism of an external auditor. Interestingly, the BOD and the AC exist in a mutually reinforcing symbiotic relationship. The effectiveness of one enhances the efficiency of the other since an effective AC helps to set a positive tone at the top.

*Audit Tenure and Earnings Reinstatement*

Audit tenure refers to the length of time between the auditor has served a client from the period of his initial engagement. There are two opposing views on the effects of auditor tenure on audit quality. The first view is that a longer tenure enables the auditor to develop competence because decisions are based on extensive client knowledge developed over time; secondly, the opposing view, is that it hampers independence because it enables an auditor gain so much familiarity and therefore likely to act in favour of management [14].

# 4. Theoretical Framework

The theories underpinning this study are agency theory, and stewardship theory.

## 4.1. Agency Theory

The agency theory was first introduced in 1973 [15] and characterized through the conflict of interest between principal (owners) and agents (managers), known as an "agency problem". Agency theory used to understand the relationships between agents and principals. The agent represents the principal in a particular business transaction and expected to represent the best interests of the principal without regard for self-interest. An agency theory is a principle that used to explain and resolve issues in the relationship between business principals and their agents. It attempts to explain and resolve disputes over priorities between principals and their agents. Agency theory assumes both the principal and the agent, motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts.

## 4.2. Stewardship Theory

Stewardship theory is a theory that managers, left on their own, will act as responsible stewards of the assets they control. The steward theory states that a steward protects and maximizes shareholders' wealth through firm Performance. Stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders [16]. The stewardship theorist focuses on structures that empower and facilitate rather than monitor and control. They reject the highly individualistic model of agency theory that promotes a suspicious "policeman's" attitude, assumes that principals and agents have different interests and sees agents as essentially self-serving and self-centred [17]. Thus, stewardship theory maintains that the optimum governance structures are those that enable effective coordination in the enterprise.

The stewardship perspective sees directors, as well as managers, as stewards of the firm and thus likely to increase the shareholders' wealth. However, owing to increase pressure to report the performance of the corporation, managers use discretionary accruals to give fraudulent reports, which in turn cause financial scandals in the organizations. Consequently, corporate stewards are obliged to give true and accurate reports by engaging external auditors.

# 5. The Federal Republic of Nigeria (Case Study)

The impact of an audit on the accounting information quality stem from its role in mitigating the falsification of the economic and financial reality of a firm [18]. Audit Committee is a fundamental figure of corporate governance aimed at enhancing the quality of financial reporting through a transparent and truthful communication of both financial and non-financial information. In Nigeria, the establishment of audit committee as decreed by the revised Companies and Allied Matters Act (CAMA). Section 359 (3) states that "In the case of public companies the auditor shall in addition, formulate a report to the audit committee which shall be constituted by the board of directors of a public company".

Provision of qualitative financial reporting information is essential because it can certainly assist the shareholders as well as other stakeholders in decision making regarding investment, credit, and other resources allocation [19]. The accounting scandals that took place in the early 2000s, evidently shows the significance of financial reporting quality to the stakeholders. Nonetheless, the interpretation of financial reporting quality remains difficult due to diverse financial reporting regulations, environments, procedures, and perceptions [20].

One essential feature of quality issues in financial accounting is from the International Accounting Standard Board (IASB), which explains six (6) qualitative attributes of both enhancing and basic characteristics considered as essential for the accomplishment of their fundamental goal of communicating useful information: understand ability, relevance, verifiability, faithful representation, timeliness, and comparability [21] Nigeria would be classified as industrial underdeveloped. Yet many efforts made to enhance the industrialization process. Plan after plan, investment policies have been renewed, fine-tuned and at times completely revamped. Resources are abundant and investment opportunities are almost unlimited. Various industrial development policies, perspective plans and medium–term economic plans acknowledged the importance of the manufacturing sector in the economy. From a modest 4.8% in 1960, manufacturing contribution to GDP increased to 7.2% in 1970 and to 7.4% in 1975. In 1980, it declined to 5.4%, but then surged to a record high of 10.7% in 1985. By 1990, the share of manufacturing in GDP stood at 8.1% but fell to 7.9% in 1992; 6.7% in 1995 and fell further to 6.3% in 1997. As at 2001, the share of manufacturing in GDP dropped to 3.4% from 6.2% in 2000. However, it increased to 4.16% in 2011, which is less than what it was in 1960. It further declines to 2.61% in 2014 and 1.81% in 2018. It increases to 2.28% in 2019 while it has a negative value of -3.62% in 2020 [22]. Currently, Nigeria manufacturing sectors share in the Gross Domestic Product (GDP) remains minuscule.

Compare that to the strong manufacturing sectors in other emerging economies, where structural change has already occurred and where millions lifted out of poverty as a result: manufacturing contributes 20 percent of GDP in Brazil, 34 percent in China, 30 percent in Malaysia, 35 percent in Thailand and 28 percent in Indonesia. The more recent experiences of the East and Southeast Asian economic transformations prove that diversification into manufacturing and industrial production facilitated by what Arthur Lewis calls the "intelligent governments" are critical to poverty reduction.

## 5.1. Empirical Review

Investigation carried out on nature of the relationship between the effectiveness of audit committee and earnings management in Jordan [23]. In addition, it investigates how external auditor size might moderate this relationship. For this purpose, a panel data consisting of 64 industrial firms listed on Amman Stock Exchange (ASE) used, covering the period between 2009 and 2014. An index consisting of four characteristics, developed to measure the effectiveness of audit committee, namely audit committee independence, size, meetings, and financial expertise. Results show that audit committee effectiveness has a significant and negative impact on earnings management. Moreover, a positive interaction effect of external auditor size and audit committee effectiveness on earnings management, found. This is supportive of the substitute relationship between the external auditor size and effective audit committee in reducing earnings management.

Policy makers and professional accounting bodies in Jordan might benefit from these results, as they show that legislative reforms can motivate firms to adopt good governance practices to mitigate earnings management. Study, which investigated the informative of audit quality for estimate in earning management (EM) during the period of (2006-2010) of Jordanian Banking Firms, listed in Amman Stock Exchange (ASE). The aim of this exploratory research is to test the prediction that external audit quality is positively associated with earnings management. Whilst the main significance it can help stakeholders predict earning management based on some proxies that are not publicly available in annual reports. Some leading proxies taken based on audit quality; Audit tenure (AT), Audit fees (AF), and the affiliation with international big auditing firms (INT). Moreover, other controlling variables; Financial Leverage (FL), (Return on Assets) ROA, (Return on Equity) ROE, (Cash flow/Total assets) CFO, and EM already taken in the analysis. The population of the study includes examining (13) Jordanian working commercial Banks over a five-year period, the author tested the effects of audit quality on earning management using the panel data methodology [24].

Findings: The paper finds that; (AT), (AF), and the (INT) have significant relations with earning management. It means, future earning management forecast is predictable based on audit quality leading indicators (AT, AFEE, and INT). In addition to company size, that is, when external auditing conducted, earning management mitigates. Moreover, no relationship found between Leverage, ROA, CFO, and Earning management. Originality/Value: This research examines earning management forecast based on audit quality leading indicators (AT, AFEE, and INT) in addition to the company size. These groups; whether commercial banks, or audit quality indicators, have not been well researched in the past literature, especially in the Jordanian Banking Sector. Study on effect of internal and external audit on earnings management carried out in the UK [25]. The aim of the study is to assess the relationship between earnings management and internal and external audit practices in the UK. A sample of nonfinancial UK firms investigated throughout the years 2010-2016. Abnormal accruals used to represent earnings management. The results show no significant effect of audit committee characteristics such as size and meeting frequency on earnings management. At the same time, the findings from this dissertation suggest that companies audited by the Big Four are less likely to engage in earning management activities. The findings generally agree with the existing literature.

## 6. Methodology

The quasi-experimental research design adopted for this study. The intention was to investigate the activities of corporations. Typically, the method of investigation needed because data for the study was relied solely on secondary data from the annual reports and accounts of sampled firms quoted in the Nigerian Stock Exchange between 2005 and 2019. The study population covers manufacturing companies in Nigeria. Those quoted in the Nigerian Stock Exchange (NSE) are the targeted population. From the record of the NSE as of June 2020, there are forty-three (43) manufacturing companies quoted on the Nigerian Stock Exchange for the period 2005 – 2019 financial years.

### 6.1. Model Specification

Our study focuses on the relationship between two variables in the research and the variables categorized into dependent variable and the independent variable. The dependent variable of the study was EXAUDIT (external audit) and the independent variable is ERS (earnings restatement). However, given by the following:

EXAUDIT = ERS -----------------------------------1

Where:

EXAUDIT: external audit

ERS: earnings restatement

The regression model, therefore, for this study to test the relationship between the independent variable and dependent variable developed as follows:

$Y = f(X_1, \text{-----} X_n)$ -----------------------------------2

$ERS = \beta_0 + \beta_1 \, EXAUDIT_1 + \varepsilon$ -------------------- 3

Where:

EXAUDIT = External Audit $\beta 0$, $\beta 1$, are the coefficients of the regression, while $\varepsilon$ is the error term capturing other explanatory variables not explicitly included in the model. Equation 3 represents the linear relationship between external audit (independent variable) and earnings reinstatement (dependent variable).

The Pearson’s product moment correlation coefficient (PPMC) statistical tool used in the study. The used of PPMC was because it evaluates the strength of relationship or going togetherness of the two sets of data with coefficient of correlation that ranges between -1 and +1. Lastly, PPMC applied with the aid of SPSS.

The formula for (PPMCC) is, where:

$$\text{PPMCC: } r = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{N\Sigma X^2 - (\sum X)^2}\sqrt{n\Sigma Y^2 - (\sum Y)^2}}$$

X and Y = original scores
N= numbers of pairs of scores
∑= summation of symbol
∑xy= sum of the product of each X and Y

## 7. Analysis of Findings

The results of our analysis on the effect of external audit and earnings reinstatement of quoted manufacturing companies in Nigeria from 2005 to 2019 are presented in Table 1. The results of the summary of the descriptive statistics of external audit and earnings reinstatement of quoted manufacturing companies considered in this study from year 2005 to 2019. For Earning Restatement, the mean value for all the firms during the period is 0.1175, while the minimum value is 0.344 and maximum value is 2.065 with a standard deviation of 0.114. This shows that there is a difference in the Earning Restatement of the manufacturing firms for the given period range. In addition, the mean value for External Audit is 10.623, the minimum and maximum values are 0.036 and 8.213 respectively while the standard deviation is 1.094. This shows that the sampled manufacturing firms have different external audit positions and there are situations of very low and high external audit for the given period range.

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Table 1. The Descriptive Statistics Result

| Variables | Minimum | Maximum | Mean | Standard Deviation |
|---|---|---|---|---|
| Earnings restatement | 0.344 | 2.065 | 0.1175 | 0.114 |
| External audit | 0.036 | 8.213 | 10.623 | 1.094 |
| Error Term | 1.003 | 0.268 | .5094 | 0.434 |

Source: Author's Computation, underlying data from annual reports of firms listed on NSE (2005-2019).

*Correlation Regression Result*

The correlation matrix for the selected variables (External Audit and Earning Restatement) in this study is important to examine the level of associations among the variables and check for multi-collinearity.

Table 2. Correlation Matrix

| Variables | Pearson Correlation | Significant |
|---|---|---|
| Earnings restatement | 0.738 | 0.000 |
| External audit | 0.500 | 0.000 |

Source: Author's Computation, underlying data from annual reports of firms listed on NSE (2005-2019).

Note: 'EXAUDIT' = External Audit, 'ERS' = Earning Restatement

Table 2 shows that Earning Restatement have a positive relationship with External Audit while External Audit also have a positive relationship with Earning Restatement. On the other hand, some of the variables weakly correlated. In addition, there is correlation value above 0.700; hence, the variables suggest they are multi-collinearity free.

*Regression Result*

Table 3 reveals the effect of external audit on earnings restatement.

Table 3. Regression Analysis

| Variables | Standard Error | Beta | T-value | P-value |
|---|---|---|---|---|
| (Constant) | | | | |
| Earnings restatement | 0.006 | 0.0242 | 2.033 | 0.005 |
| External audit | 0.013 | 0.031 | -1.012 | 0.051 |

Source: Author's Computation, underlying data from annual reports of firms listed on NSE (2005-2019)

The outcome shows that there is a positive relationship between external audit and earnings restatement with a p value of 0.005 and 0.051 and a beta value of 0.0242 and 0.031. Consequently, since the explanation variable is greater than 50%, it shows that the model has a good fit. The adjusted $R^2$ value of 74.8% is slightly below the $R^2$ of 78.6%. F-statistics shows the validity of model as its value of 80.132 is well above its probability (F-statistics) value of 0.000.

Table 4. Other values of Regression Analysis

| Statistic | Value |
|---|---|
| $R^2$ | 0.786 |
| Adjusted $R^2$ | 0.748 |
| Values Explained by other variables | 21.4% |
| F-Statistics | 80.132 |
| Prob (F-Statistics) | 0.000 |

Source: Author's Computation, underlying data from annual reports of firms listed on NSE (2005-2019)

The Table 4 show F-statistic value of the regression model 80.132 is significant at 5%, which shows that External Audit and Earning Restatement are statistically significant in explaining the variations in External Audit of the quoted manufacturing companies in Nigeria.

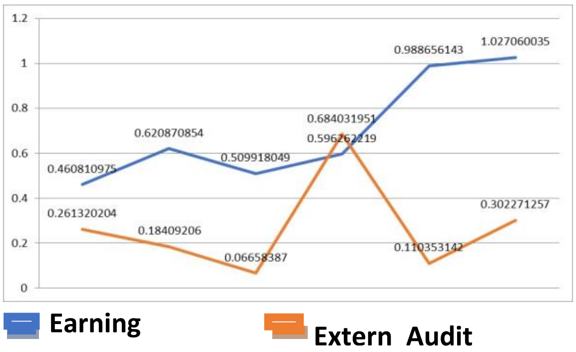


Figure 1. Earning Restatement

Trend of Earning Restatement and External Audit of Quoted Manufacturing Companies in Nigeria from 2005 to 2019.

The result presented reveals that the coefficient of the explanatory variable (Earning Restatement) is significant. It also shows that r-squared ($R^2$) value of 0.786 (78.6%.), is higher a bit than that of the adjusted r-square (Adjusted $R^2$) value of 0.748 (74.8%.) which fits the regression model.

In addition, $R^2$ indicates that only 74.8% of variations in dependent variable of earnings restatement explained by the variations in the independent variable of external audit. The implication of this is that the remaining 21.4% explained by other variables not included in the model.

*Statistical Testing of Hypotheses*

The testing of hypotheses of study are explained below. From hypothesis one of the research study hence the null hypothesis has been rejected and the alternative hypothesis was accepted that there are roles played by external audit in earning restatement in quoted manufacturing companies in Nigeria. The correlation result also shows a positive correlation of Earning Restatement (0.738), with a positive correlation of External Audit (0.500), significant at only 0.05%, which entails that external audit are minimize while more earnings restatement would be maximized by the manufacturing companies in Nigeria.

This implies that external audit produces report about economic activities of economic units (entity) for all interested parties (stakeholders). In addition, external audit provides information for economic situation of unit and its performance for a certain period. This information comes registering on time and correct way all economic transactions submitted by financial numbers, which read and used by users, business operators to make effective and appropriate decisions.

From hypothesis, two of the research study the null hypothesis rejected and the alternative hypothesis accepted that there is a significant relationship between external audit and earnings restatement in quoted manufacturing companies in Nigeria. This confirms that external audit has substantial effect on earnings restatement in the manufacturing companies in Nigeria.

The manufacturing company provides managers with the necessary information they need. In this case, the external auditors of the manufacturing companies that provide the information with which the management use to make decision. Managements can only come up with a good decision if they are able to get audit reports from the external auditor. In a situation where the external audit does not provide true and fair view, this is bond to affect the decision making of the management adversely.

*Cross Dependence Test*

Cross dependence test used to test whether the residuals correlated across entities. Cross-sectional dependence can lead to bias in tests results. The alternative hypotheses of this test are that residuals correlated. The F-statistics values of 80.132 (p = 13.6957) shows the result of this test are significant, hereby accepting the alternative hypotheses that residuals are significant across entities.

## 8. Conclusion

Our study empirically examines the impact of external audit and earnings reinstatement of quoted manufacturing companies in Nigeria from the year 2005-2019. The effect of external audit and earnings reinstatement of quoted manufacturing companies in Nigeria is essential to verify and investigate financial statements. Typically, external auditors are independent of the organization they are auditing. They report to the company's shareholders. They provide their experienced opinion on the truthfulness of the company's financial statements and perform work on a test basis to monitor systems in place. The independent role of an external auditor is important for reinforcing the credibility of a company's financial statements and compliance with regulations. Auditors objectively evaluate the effectiveness of internal controls within the company. Therefore, we could conclude external audit is a fundamental means of checking and scrutinizing financial statements to prevent the provision of false economic events and activities of business that would cause accounting scandals.

*Recommendation*

In view of the findings, we recommend that the management of manufacturing companies in Nigeria should allow external auditors to independently check their books and records and prevent falsified accounting reports that could lead to accounting scandals.

*Contribution to Knowledge*

Our study shows a significant discussion, theoretical and empirical contribution to owners of manufacturing companies, government, regulator, and to policy makers. It filled a gap in unresolved of external audit and earnings reinstatement in manufacturing companies which have inhibited the way forward in their operations, productivity, profitability, and performance since some years back. The study also shed a light to an effective way of achieving external audit and earnings reinstatement in manufacturing companies, as well as growth rate with a properly structured policy to increase their level of operation, productivity performance, and profitability of organization operations(see Table 5).

Table 5. Manufacturing Share Value of Nigeria

| **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|---|---|
| 188.0 | 188.0 | 183.0 | 169.0 | 166.0 | 164.0 | 180.0 | 177.0 |

More so, boasting the confidence of shareholders and investors is key to the survival of corporate bodies. This is the essence of external audit. Any organization that does not check its books of accounts may collapse because of errors and fraud as well as misrepresentations that could lead to corporate failure.

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