

MODERATING EFFECT OF AUDITOR INDEPENDENCE ON FINANCIAL REPORTING AND MARKET SHARE PRICES OF QUOTED FINANCIAL FIRMS IN NIGERIA



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ABSTRACT

This study examined moderating effect of auditor independence on financial reporting and market share prices of quoted financial firms in Nigeria. The population comprises all the 49 financial firms quoted on the Nigerian Exchange group as of December 31, 2022 and filtering criteria was used to arrive at forty-three (43) sampled firms covering the periods of 2013 to 2022. The data were analysed using Robust Random Effect Model. The study revealed that earning per share (EPS) has a significant positive effect on market share prices (MSP) of quoted financial firms in Nigeria. However, return on capital employed (ROCE) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria. The study equally revealed that auditor independence significantly moderates the relationship between returned on capital employed and market share prices of quoted financial firms in Nigeria. The study recommends among others that the financial firms in Nigeria should focus on strategies to improve their ROCE by optimizing asset utilization and managing capital more efficiently. This can be achieved through better investment decisions, cost management, and operational efficiencies. The study also recommends that the regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) should enforce strict guidelines and regulations to ensure auditor independence. This includes rules on auditor rotation, prohibition of certain non-audit services, and stringent conflict-of-interest policies.

Keywords: Auditor Independence; Capital Employed; Earnings Per Share; Financial Reporting; Market Share Prices

INTRODUCTION

The share price represents the highest amount an investor is willing to pay for a share or the lowest amount at which it can be bought. Share prices are volatile, primarily influenced by the expectations of buyers and sellers (Menaje, 2015). Numerous factors can affect stock prices, including merger and acquisition activity, business expansion and growth, expected return rates, government policies, market performance, the type of shareholders, investor psychology oscillating between pessimism and optimism, and the overall state of the country's economy. Generally, factors influencing stock prices can be categorized into three groups: external influences, investor behavior, and the financial performance of the issuers. High-quality financial reporting ensures that the information provided is transparent and accurate, reducing information asymmetry and allowing investors to make informed decisions. Reliable financial statements build investor confidence, which is reflected in the stability and growth of market share prices.

Financial reports are formal, comprehensive statements detailing an organization's financial activities. According to Afolabi (2013), these reports present all pertinent financial information in a structured and easily understandable format, aiding investors in making informed decisions and enabling business management to take prompt and informed actions. The primary goal of financial reports is to provide valuable insights for assessing management's effectiveness in utilizing resources. Investors and creditors rely on these reports to decide whether to invest their limited resources in a particular organization (Akintoye, 2002).

Financial firms have a responsibility to stakeholders and the general public to fully disclose information about the strengths, weaknesses, and prospects of their operations, aiding in investment decision-making. The data from financial reports is crucial for predicting future investments. Both large and small organizations aim to meet legislative requirements while also retaining existing investors and attracting potential ones by publishing their financial statements. This is particularly important when a corporation's capital stock is widely held, and its activities are of public interest (Anaja & Onoja, 2015).

Investors are constantly seeking opportunities to allocate their resources in the most efficient capital markets. A crucial factor in their decision-making process is paying special attention to stock price movements. One of the most common methods for assessing the relative values of stocks is through the comparison of financial ratios computed from the financial statements. DeWet and DuToit (2007) observed that over the years, various performance measures have been utilized based on the assumption that they correlate with shareholder value. Financial managers, analysts, and researchers have long believed that a company's value can be determined using traditional accounting performance measures expressed as financial ratios, such as return on capital employed and earnings per share.

Return on Capital Employed (ROCE) is a financial ratio that measures the efficiency and profitability of a company's capital investments. It indicates whether the company is generating sufficient revenues and profits by effectively utilizing its capital assets. A high ROCE confirms a company's competitive advantage, suggesting that it offers products or services with high returns. Typically, a high ROCE corresponds to an above-average profit margin (Singh & Yadav, 2013). Therefore, the trends in both capital employed and profit margins are of significant importance to investors. Companies with low ROCE are often viewed with suspicion by investors, as they are at risk of becoming unprofitable if trading conditions do not improve, which would negatively impact their market share prices.

Dividend strategy is crucial for both management and shareholders. Management must plan and decide on dividend disbursements, while shareholders view dividends as a return on their investment. Shareholders are interested in both increasing earnings per share (EPS) and the dividends received, as these factors influence share price movements in the market. Dividend payments signal to investors that the company is performing well and impact share prices. The price of a share is influenced by the dividend paid out, as both the payout and its growth help determine the market price of the share. Additionally, earnings per share is a key piece of market information that guides investors in their decision-making. Consequently, information related to earnings significantly affects a company's share market price.

Auditor independence is a cornerstone of high-quality financial reporting, serving as a critical component for ensuring the credibility and reliability of financial statements. In Nigeria, where the financial sector plays a pivotal role in the economy, the independence of auditors impacts financial reporting and market share prices of quoted financial firms (Okolie, 2014). Auditor independence ensures that financial statements are free from bias and undue influence from management. When auditors maintain objectivity and impartiality, stakeholders, including investors, regulators, and the public, are more likely to trust the financial reports (Enofe *et al.*, 2013). This trust is essential in Nigeria's financial markets, where transparency and reliability of information are critical for investment decisions (Agaba & Chukwu, 2019). Firms that demonstrate high auditor independence often experience positive market reactions, especially following the release of financial reports (Nwanyanwu, 2017).

The prevalence of fraud, excessive earnings management, and other financial crimes in Nigeria has diminished confidence in financial reporting and in the ability of these reports to fulfill their intended purpose (Ndubuisi & Ezechukwu, 2017). Financial statements can be manipulated by recording fictitious transactions or amounts, timing transactions improperly, misstating percentages or amounts, misstating assets or liabilities, changing accounting methods or estimates without substantive reasons, and using related parties to alter reported profits deceitfully. Adeyemo *et al.* (2017) stated that companies' financial statements often provide insufficient information to stakeholders, indicating that the quality of information in annual reports is poor and that the financial information needs of different users vary. Akubo *et al.* (2022) also argued that many items are inadequately disclosed, creating a gap between the information users need and what is actually supplied in annual reports, which affects the quality of investors' decision-making. Accurate financial reporting is crucial for investment decision-making, as it protects and guides investors, helping them avoid falling victim to financial fraud and incurring losses in their investments.

Return on Capital Employed (ROCE) is a widely recognized financial metric that measures a company's profitability and efficiency in utilizing its capital investments. Understanding the relationship between ROCE and share prices is essential for investors, financial analysts, and policymakers to make informed decisions and formulate effective strategies. Despite the importance of ROCE, there is notable few comprehensive research examining its specific impact on the share prices of quoted financial firms in Nigeria. Similarly, while earnings per share (EPS) is an important indicator of a company's profitability, there is a knowledge gap regarding its effect on the share prices of quoted financial firms in Nigeria. This study addresses the key problem of weak methodological analysis on the relationship between EPS and share prices in the Nigerian financial market. Gaining insight into this relationship is crucial for investors, financial institutions, and policymakers aiming to optimize investment strategies, accurately assess the value of financial firms, and make informed decisions within the Nigerian financial market.

According to Olatunji (2021), despite the significant focus on financial statements, there remains a limited understanding of the impact that financial reporting practices have on the market share prices of Nigerian financial firms. Adetula *et al.* (2018) emphasize the necessity of thoroughly examining the relationship between financial reporting and market share prices, particularly within the unique context of the Nigerian financial industry and its regulatory framework. The decision to study Nigeria

was purposeful, motivated by the substantial losses investors faced in banks such as Intercontinental Bank Plc, Oceanic Bank International Plc, Diamond Bank, and Afri Bank Plc. The share prices of these banks experienced significant declines, resulting in heavy losses for investors.

A cursory review of most empirical studies in Nigeria reveals that they often combine data from both pre-IFRS and post-IFRS implementation periods. This approach affects the findings due to changes in financial reporting standards. Additionally, recent empirical works on the relationship between financial reporting and market share prices, both in Nigeria and globally, frequently use outdated data. Most of these studies rely on data from 2020 and earlier, failing to reflect current economic realities, with only a few exceptions using more recent data.

Moreover, studies on this topic conducted in Nigeria were notably scarce, with the majority of research focused on other countries worldwide. These gaps in the literature have served as a motivation for further exploration in this area. Consequently, this study aims to investigate the moderating effect of auditor independence on the relationship between financial reporting and market share prices. It seeks to address these gaps by updating the data up to 2022, focusing solely on the periods of IFRS implementation in Nigeria, and contributing to the limited literature available on this subject within Nigeria.

The main objective of this study is to examine the moderating effect of auditor independence on financial reporting and market share prices of quoted financial firms in Nigeria, while the specific objectives are to: (i) evaluate the effect of return on capital employed (ROCE) on market share prices of quoted financial firms in Nigeria; (ii) determine the effect of earnings per share (EPS) on market share prices of quoted financial firms in Nigeria; (iii) evaluate the moderating effect of auditor independence (AIN) on capital employed and market share prices of quoted financial firms in Nigeria and (iv) assess the moderating effect of auditor independence (AIN) on earning per share and market share prices of quoted financial firms in Nigeria. The null hypotheses guiding this study are formulated as follow: Ho₁: Return of capital employed (ROCE) has no significant effect on market share prices of quoted financial firms in Nigeria; Ho₂: Earnings per share (EPS) has no significant effect on market share prices of quoted financial firms in Nigeria; Ho₃: Auditor independence has no significant moderating effect on capital employed and market share prices of quoted financial firms in Nigeria and Ho₄: Auditor independence has no significant moderating effect on earning per share and market share prices of quoted financial firms in Nigeria

REVIEW OF RELATED LITERATURE

Conceptual Framework

The conceptual framework for this as adapted from Ali *et al.* (2017) comprises three proxies (Returned on Capital Employed and Earning Per Share) representing independent variable and a proxy (Market Share Prices) as a dependent variable with a moderating variable of Auditor Independence.

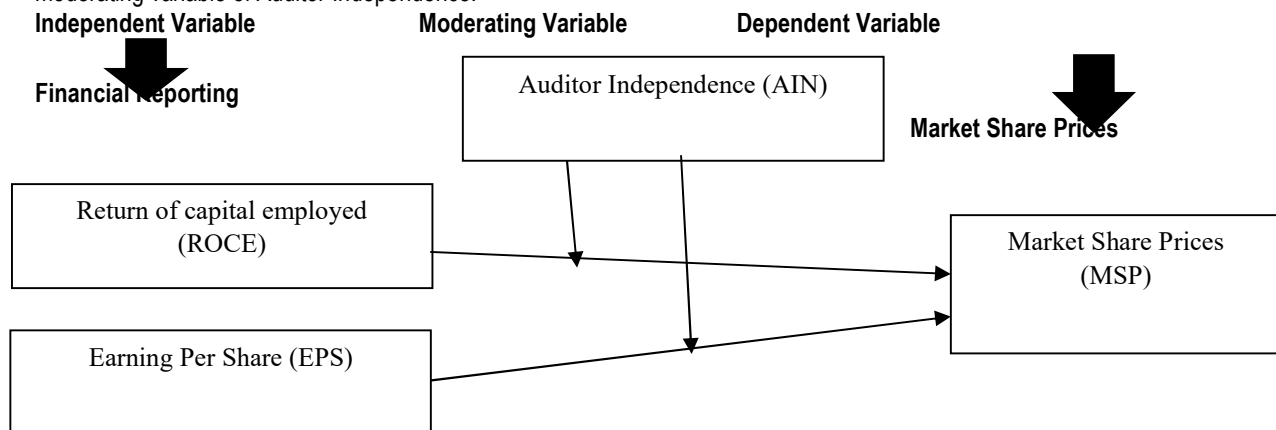


Figure 1: Adapted Conceptual Framework of the Study from Ali *et al.* (2017)

Financial Reporting

Financial reporting refers to the process through which organizations communicate financial information to stakeholders. Alexander and Britton (1993) describe it as the preparation and presentation of financial statements that disclose an organization's financial status to users such as management, investors, and government agencies. These statements typically include the income statement, statement of financial position, statement of retained earnings, and statement of cash flows. Similarly, Hendriksen and Van Breda (1992) explain that financial reporting aims to provide useful financial information for economic decision-making by presenting details about a firm's financial position, performance, and changes in its financial condition.

The International Accounting Standards Board (IASB, 2008) also defines financial reporting as the provision of financial information about an entity to external users to assist them in making economic decisions. Revsine et al. (2005) view financial reporting as the communication of financial data to users such as investors, creditors, and regulators through financial statements and related disclosures. Likewise, Wild et al. (2007) note that financial reporting supports financial analysis and decision-making by presenting key financial statements, including the statement of financial position, income statement, statement of cash flows, and statement of changes in equity. Furthermore, Scott (2012) emphasizes that financial reporting involves presenting financial data in a structured manner that enables stakeholders to assess an organization's financial health and performance. In this study, financial reporting is defined as the communication of financial information for the purpose of financial analysis and decision-making.

Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) is an important financial performance indicator used to assess how efficiently a firm utilizes its capital to generate profits. Kaplan and Norton (1992) identify ROCE as a key financial measure within the balanced scorecard framework for evaluating corporate performance. Similarly, Eilon (1988) and Das (2017) describe ROCE as the relationship between a firm's profit and the total capital employed in its operations, indicating how effectively capital invested in the business is converted into earnings. A higher ROCE therefore reflects better operational efficiency and effective management of financial resources (Eilon, 1992; Bourne & Bourne, 2011).

ROCE is also widely used by investors to evaluate a firm's profitability and growth potential. McClure (2011) explains that ROCE compares operating earnings with the total capital employed, making it a reliable indicator of corporate performance. When ROCE exceeds the firm's borrowing cost, it indicates efficient capital utilization and the ability to reinvest profits to enhance growth and shareholder value. Singh and Yadav (2013) further note that firms with higher ROCE are more likely to achieve stronger growth prospects. In this study, ROCE is defined as a measure of a company's profitability relative to the total capital employed in its operations.

Earning per Share (EPS)

Earnings per Share (EPS) represents the portion of a company's net earnings allocated to each outstanding ordinary share. It is calculated by dividing net profit after tax by the total number of ordinary shares outstanding during a given reporting period (Islam et al., 2014). EPS is widely regarded as an important indicator of corporate profitability and shareholder wealth. Brigham and Ehrhardt (2007) note that EPS provides signals to investors regarding a company's future prospects, while Mkhonza (2007) explains that an increase in EPS is often associated with an increase in share value. Ahmed (2006) also identifies EPS as one of the key variables influencing changes in share prices.

Investors place significant importance on EPS because it reflects a firm's ability to generate returns for shareholders and indicates potential future earnings and dividends. According to Robbette (2015), EPS provides valuable insights into a company's financial performance and future outlook. Strong EPS performance is often associated with rising stock prices and increased investor confidence, whereas weak earnings may lead to declining share prices and reduced investor interest (Islam et al., 2014). Similarly, Jain and Bajaj (2017) emphasize that EPS is a critical factor influencing investor sentiment and stock market performance. Kumar (2015) further notes that positive earnings announcements generally increase investor confidence and demand for shares, while poor earnings results may cause share prices to decline.

Market Share Prices

company performance often leads to an increase in share prices, while poor performance may result in a decline (Anike, 2014). Share price movements are influenced by the interaction of buyers and sellers in the capital market, reflecting their perceptions of the firm's financial health and future prospects. Several factors contribute to changes in share prices, including financial indicators such as dividend per share, earnings per share, return on equity, and return on assets (Anike, 2014). In addition, investment expenditures that signal future growth prospects can increase a company's market value and, consequently, its share price (Correia et al., 2011). Attah-Botchwey (2014) further explains that share price indicators reflect the market valuation of ordinary shares of publicly traded companies on a country's stock exchange. These prices are often measured by averaging the daily closing prices of shares over a specific period. In this study, market share price is defined as the value at which a company's shares are traded in the stock market, measured using the daily closing price of the shares.

Auditor independence Moderating Financial Reporting and Market Share Prices

Auditor independence plays a vital role in moderating the relationship between financial reporting and market share prices by enhancing the credibility and reliability of financial information disclosed to investors. Auditor independence refers to the ability of auditors to perform their duties objectively without external influence that may compromise their judgment. When auditors are perceived as independent, their audit opinions increase confidence in financial statements and improve the reliability of reported

information. Independent audits also help ensure that financial reports present a true and fair view of a company's financial position, thereby reducing the risk of bias or manipulation. According to Watts and Zimmerman (1986), independent auditing helps reduce information asymmetry between management and investors, while Francis (2004) notes that it improves transparency and enables investors to make better-informed decisions.

The relationship between financial reporting and market share prices is therefore influenced by the perceived quality and independence of the audit process. High-quality and independent audits increase investor confidence in financial statements, which can contribute to stable and higher share prices. Conversely, when auditor independence is compromised, the credibility of financial reports may be questioned, leading to uncertainty and possible declines in share prices. DeAngelo (1981) argues that the value of audit services largely depends on the auditor's perceived independence, which affects a firm's market valuation and cost of capital. Empirical evidence also supports this view, as Lennox (1999) found that firms audited by more independent auditors experience less negative market reactions to earnings restatements, while Gul et al. (2007) reported that auditor independence is associated with higher earnings quality and more favorable investor perceptions.

Empirical Review

Return on Capital Employed and Market Share Prices

Several studies have examined the relationship between accounting information and market share prices. Anaja et al. (2021) investigated this relationship among quoted financial firms in Nigeria for the period 2013–2020 using a sample of 27 banks and insurance firms selected from a population of 53 firms. Using a robust fixed-effects regression model, the study found that return on equity (ROE) and return on capital employed (ROCE) had significant positive effects on market share prices, while return on assets (ROA) had a positive but insignificant effect. Similarly, Adedoyin et al. (2019) examined accounting information and investment decisions of quoted Nigerian firms for the period 2013–2017 using pooled panel regression. The results showed that earnings per share (EPS) and dividend per share (DPS) significantly influenced share prices, whereas ROCE had a positive but insignificant relationship. However, the study used relatively older data, indicating the need for updated research to reflect current economic conditions in Nigeria.

Studies conducted outside Nigeria also provide evidence on the relationship between financial indicators and share prices. Ali et al. (2017) found that ROA, ROCE, and EPS had significant positive relationships with share values of firms listed on the Karachi Stock Exchange, while ROE showed an insignificant effect. Likewise, Rajapaksha and Yapa (2016) reported that EPS and DPS significantly influenced share prices of firms listed on the Colombo Stock Exchange, although other variables such as ROA, ROE, and ROCE showed insignificant relationships. Similarly, Hamidah (2015) examined banks listed on the Indonesian Stock Exchange and found that ROCE and EPS positively and significantly influenced shareholders' wealth, while ROE had a negative significant effect. Although these studies used appropriate statistical techniques, they were conducted in different economic environments outside Nigeria, which limits the generalizability of their findings and highlights the need for updated studies within the Nigerian context.

Earnings per Share and Market Share Prices

Several empirical studies have examined the relationship between accounting information and share prices. For instance, Akubo et al. (2022) investigated the effect of corporate information on the market price of shares of listed non-financial firms in Nigeria using data from 2012–2019 and a sample of 48 firms selected through filtration sampling. Using the Robust Fixed Effects regression model, the study found that dividend per share (DPS) had a significant positive effect on share prices, while earnings per share (EPS) had a positive but insignificant effect. Similarly, Shuaibu and Akubo (2020) analyzed accounting information and market share prices of deposit money banks in Nigeria for the period 2012–2018 using panel least squares regression. The results revealed that DPS and EPS both had significant positive effects on market share prices, suggesting that improved shareholder returns enhance investor confidence. Solomon et al. (2016) also reported that EPS significantly influences equity investment decisions in companies listed on the Nigerian Stock Exchange. However, some Nigerian studies such as Adedoyin et al. (2019) and others used relatively older data, highlighting the need for updated research reflecting current economic conditions.

Studies conducted outside Nigeria also provide evidence on the relationship between financial information and share prices. Hutagalung (2021) found that EPS had a positive and significant effect on stock prices, while ROE had a negative but insignificant effect among banks listed on the Indonesian Stock Exchange, and the price-earnings ratio (PER) did not significantly moderate the relationship. Similarly, Muhammad et al. (2021) reported that EPS positively influences stock prices, although it did not significantly mediate the relationship between dividend yield and stock prices. Other studies such as Ngoc et al. (2018) and Neha and Kanchan (2017) found that financial indicators including EPS significantly influence stock prices in Vietnam and India respectively. Earlier works including Balakrishnan (2016) and Zaroug and Syed (2015) also examined dividend policy and earnings indicators and found mixed results regarding their influence on stock prices. Despite the use of appropriate statistical

techniques, many of these studies were conducted in different economic environments outside Nigeria, limiting the generalizability of their findings and suggesting the need for updated studies within the Nigerian context.

Theory underpinning the study

Signaling theory suggests that firms use various signals, such as audited financial statements, to convey information about their quality and prospects to external stakeholders. Auditor independence enhances the credibility of these signals by providing assurance that financial statements are free from bias or manipulation. When auditors are independent, their opinions serve as a credible signal of the firm's financial health and integrity, influencing investor perceptions and market share prices.

METHODOLOGY

This study adopted an ex post facto research design because the data used are historical and cannot be manipulated. The population comprised forty-nine (49) financial firms listed on the Nigerian Exchange (NGX) Group as of 31 December 2022, while the sample consisted of forty-three (43) firms covering the period 2013–2022. A filtration sampling technique was applied, selecting firms that were actively operating in Nigeria, had been listed on the NGX for at least one year after the adoption of International Financial Reporting Standards (IFRS) in 2012, and had their shares consistently traded during the study period. The study relied on panel data obtained from secondary sources, specifically the annual reports and accounts of the selected firms. For data analysis, a panel regression model was employed to examine the moderating effect of auditor independence on financial reporting and market share prices, with the analysis conducted using STATA 15 software to test the study hypotheses.

Model Specification

This study used two different models to achieve the objectives. The first model captures the direct relationship between returned on capital employed (ROCE) and earning per share (EPS); the moderating variable (auditor independence) with market share prices without moderation. The second model captured the indirect relationship between returned on capital employed (ROCE) and earning per share (EPS); as moderated by auditor independence with market share prices. The first model shows the direct relationship between returned on capital employed (ROCE) and earning per share (EPS), the moderating variable (auditor independence) with market share prices as adopted from Dian and Slamet (2020) as follows:

$$MSP = f(ROCE, EPS, AIN)$$

Econometrically the equation is express thus:

$$MSP_{it} = \alpha + \beta_1 ROCE_{it} + \beta_2 EPS_{it} + \beta_3 AIN_{it} + e_{it} \dots \dots (Model I)$$

Where:

β_1 and β_2 = Coefficients of proxies of independent variable.

β_3 = A coefficient of moderating variable

MSP= Market Share Price

α = Constant

ROCE = Returned on Capital Employed

EPS = Earning Per Share

AIN = Auditor Independence

e = Error term

i = Firms

t = Periods and

f = Functional relationship.

The second model is specified to establish the indirect relationships of independent variables and dependent variables as moderated by auditor independence. However, in the second model, the researcher collectively captured both the direct and indirect relationship of returned on capital employed (ROCE) and earning per share (EPS); moderated by auditor independence (AIN) as they affect MSP. The model is specified thus:

$$MSP = f(ROCE + EPS + AIN + AIN*ROCE + AIN*EPS)$$

The above function is rewritten econometrically, as follows:

$$MSP_{it} = \alpha + \beta_1 ROCE_{it} + \beta_2 EPS_{it} + \beta_3 AIN_{it} + \beta_4 AIN_{it} * \beta_4 ROCE_{it} + \beta_5 AIN_{it} * \beta_5 EPS_{it} + e_{it} \dots (Model II)$$

Where:

MSP = an indicator representing market share prices (proxy for dependent variable);

α = Intercept term (a constant);

$\beta_1, \beta_2, \beta_4$ and β_5 = Coefficients of the proxies of independent variable;

β_3 = Coefficient of a moderating variable.

A-priori expectations: $\beta_1, \beta_2, \beta_4$ and $\beta_5 > 0$

These a-priori expectations mean that increase in financial reporting will increase market share prices of quoted financial firms in Nigeria.

Operationalisation of Variables and Justifications

Table 1 below explains the variables under study

Variable	Acronym	Type of variable	Measurement	Justification
Market Share Prices	MSP	Dependent	Average annual share price in naira.	Amahal <i>et al.</i> (2018); and Rajapaksha and Yapa (2016).
Return on Capital Employed	ROCE	Independent	Profit before interest and tax divided by total assets.	Adedoyin <i>et al.</i> (2019), Ali <i>et al.</i> (2017), Rajapaksha and Yapa (2016).
Earning Per Share	EPS	Independent	Net income divided by the total number of issued shares.	Dian and Slamet (2020), Hutagalung (2021), Muhammad <i>et al.</i> (2021) and Shuaibu and Akubo (2020).
Auditor Independence	AIN	Independent	If external auditor is rendering non-audit services 1, if otherwise 0.	Hutagalung (2021).

Source: Researcher's compilation (2023)

DATA PRESENTATION AND ANALYSIS

Data Presentation

The data of forty-three (43) financial firms regarding the market share prices, return on capital employed, earning per share and auditor independence are presented in appendix B.

Data Analysis and Results

The data were analysed with the aid of Stata 15 software using Descriptive Statistics, Shapiro-Wilk Test, Pearson Correlation, Variance Inflation Factor (VIF), Heteroscedasticity test, Breusch-Pagan Lagrangian Multiplier Test, Hausman Specification Test and robust random effect regression model based on the data attached in appendix B and the detailed results are equally attached in appendix C.

Descriptive Statistics

Table 2 summarises the descriptive statistics of the entire data set.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min.	Max.
MSP	430	7.680	18.787	0.12	113.25
ROCE	430	0.514	6.815	-19.54	28.5
EPS	430	2.334	6.140	-33.24	43.05
AIN	430	0.574	0.495	0	1

Source: Researcher's Computation using STATA 15 software

Table 2 shows that the market share prices (MSP) has a minimum value of 0.12, a maximum value of 113.25 and a mean value of 7.680. The Table also revealed that MPS has a standard deviation of 18.787 that is more than the mean, which implies that it is highly skewed for the period under review. Table 2 shows that the return on capital employed (ROCE) has a minimum value of -19.54, a maximum value of 28.5 and a mean value of 0.514. The Table also reveals that ROCE has a standard deviation of 6.815 which is more than the mean, which implies that it is highly skewed for the period under review.

Table 2 further showed that earning per share (EPS) has a minimum value of -33.23, a maximum value of 43.05 and a mean value of 2.334. The table also revealed that EPS has a standard deviation of 6.140 that is more than the mean, which implies that it is highly skewed for the period under review. Table 2 finally shows that the auditor independence (AIN) has a minimum value of 0, a maximum value of 1 and a mean value of 0.574. The Table also revealed that AIN has a standard deviation of 0.495 that is less than the mean, which implies that it is lowly skewed for the period under review.

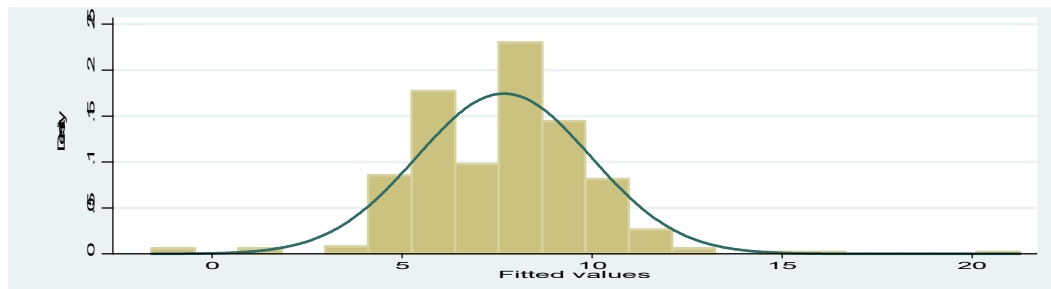
Shapiro Wilk Normality Test

Table 3 and figure 2 below presents the results of the normality test conducted with the use of Shapiro-Wilk normality test and normal distribution curve. The decision rule is if P-Value > 0.05, the residual is normally distributed but if P-Value is equal to or < 0.05, the residual is not normally distributed.

Variable	OBS	W	V	Z	Prob>Z
Residual	430	0.945	15.987	6.617	0.000

Source: Researcher's Computation using STATA 15 software

Figure 2: Normal Distribution Curve



Source: Researcher's Computation using STATA 15 software

Table 3 above presented the residual and the z-value of 6.617 and the corresponding probability of value of 0.00 that is less than 0.05 which signifies that the residual is not normally distributed around the mean. This result is further collaborated by the normal distribution curve presented in figure 2 above. This implies that one of the basic assumptions of linear regression technique which allows only normally distributed residual has been violated

Pearson Correlation

Table 4 below is the Pearson correlation matrix for the data set to show the extent of associations between the variables.

Table 4: Pearson Correlation

Variable	MSP	ROCE	EPS	AIN
MSP	1			
ROCE	-0.0189	1		
EPS	0.0923	0.1590	1	
AIN	0.0730	-0.0933	-0.0168	1

* = Significant at 1%

** = Significant at 5%

Source: Researcher's Computation using STATA 15 software

The correlation matrix determines the degree of relationships between the proxies of an independent variable and the dependent variable. It is also used to show whether there is an association among the proxies of independent variable themselves, to detect if a multicollinearity problem exists in the model.

The table showed 2% negative and weak association between return on capital employed (ROCE) and market share prices (MSP) of quoted financial firms in Nigeria, from a correlation coefficient of -0.0189. Also, the table showed 9% positive and weak relationships between earning per share (EPS) and market share prices (MSP) of quoted financial firms in Nigeria, from the correlation coefficient of 0.0923. The result from table 4 further showed that there exist 7% positive and weak relationships between auditor independence (AIN) and market share prices (MSP) of quoted financial firms in Nigeria from the correlation coefficient of 0.0730. Finally, the relationships between proxies of independent variable themselves suggest being mild as all coefficients are below the threshold of 0.80 as suggested by (Gujarati, 2003).

Variance Inflator Factor (VIF) Results**Table 5:** Variance Inflator Factor (VIF)

Variable	VIF	I/VIF
ROCE	1.03	0.966507
EPS	1.03	0.974725
AIN	1.01	0.991284
Mean VIF	1.02	

Source: Researcher's Computation using STATA 15 software

In a bid to further test the absence of multicollinearity problem among the exogenous variables, colinearity diagnostics test were observed as the Variance Inflation Factors (VIF) and the Inverse Variance Inflation Factors (1/VIF) values portray no multicollinearity problem in the data as their values are less than 10 and 1 respectively (Gujarati, 2003) as presented in table 5. This point to the fact that the variables are well selected and fit in the same regression model because the multicollinearity problem is absent in the model, which is one of the requirements for regression analysis.

Heteroscedasticity test for Model**Table 6:** Heteroscedasticity test

Type of test	Chi2	P-Value
Heteroscedasticity Test	42.89	0.00

Source: Researcher's Computation Using STATA 15 software

To establish that the data for this study was robust for the model, a heteroscedasticity test was carried out. However, the study revealed that data is heteroskedastic; as such the basic linear regression model would not be reliable. This can be confirmed from the heteroskedasticity result in table 6 which revealed the chi2 value of 42.89 with a p-value of 0.000. To correct this anomaly, the robust linear regression technique was used as suggested by (Hoechle, 2007), as it fails to satisfy the classical linear regression assumption of homoskedasticity (constant error variance).

Breusch-Pagan Lagrangian Multiplier test

The Lagrangian Multiplier test examines the present of unobserved effects in the random effect model. If the calculated value of the test exceeds the critical value (in other words significant of chi-square), null hypothesis is rejected and the random effects model of panel data is chosen or vice versa.

Breusch-Pagan Lagrangian Multiplier Test

Table 7 below presents the result of the Breusch-Pagan Lagrangian Multiplier test conducted.

Variable	Chibar2	P-Value
MSP	1842.77	0.000

Source: Researcher's Computation using STATA 15 software

Table 7 showed that the calculated Breusch-Pagan Lagrangian Multiplier test with chibar2 value of (1842.77) and the corresponding probability of (0.00) is equal to the critical value for all the models ($p = 0.000$), thus the null hypothesis is accepted. The significance of the chi-square of the Lagrangian Multiplier test signifies that the variance of the random effect model is zero (0). Hence, Random Effect Regression Model (REM) is more suitable than pooled effect Model.

Hausman Specification Test the Model

Table 8 below presents the result of a Hausman specification test conducted.

Table 8: Hausman Specification Test

Chi2	0.32
Prob. Chi2	0.9559

Source: Researcher's Computation using STATA 15 software

The data for this study is panel and panel data can lead to an error that is clustered and possibly correlated over time. This is because each financial firm may have its entity-specific financial reporting that can determine its information (i. e. unobserved heterogeneity). And this may bias the outcome variable or even the explanatory variables. As such, there is a need to control that. The Hausman test was carried out and shows that the random effect model is more appropriate. This can be confirmed from the Chi2 value of 0.32 with a p-value of 0.9559 in table 8 above which is not significant at all levels of significance as suggested by (Hoechle, 2007).

Moderating Effect of Auditor Independence on Financial Reporting and Market Share Prices Using Robust Random Effect Model (REM).

Table 9: Random Effect Regression Results: Auditor Independence Moderating Effect: Financial Reporting and Market Share Prices

Variables	Model 1			Model 2		
	Coefficient	Z-value	P-value	Coefficient	Z-value	P-value
ROCE	0.076	0.26	0.798	-.630	-2.03	0.042
EPS	0.433	3.85	0.000	0.358	3.15	0.002
AIN	3.531	5.20	0.000			
AIN*ROCE				0.690	3.36	0.001
AIN*EPS				0.009	0.14	0.887
Constant	2.169	0.57	0.566	6.546	1.62	0.106
R-Sq. (Overall)	0.6321			0.6511		
Wald Chi2	114.91			119.34		
Prob>Chi2	0.0009			0.0000		

Note: Step 1 (IVs, MV and DV) and step 2 (IVs, MV*DV).

Results from Table 9 model 1 above revealed an overall coefficient of determination (R-sq) of 0.6321 which means that the proxies (ROCE and EPS) of the independent variable and the variable of the moderator (AIN) without moderating have 63% combined effect on the systematic changes in the dependent variable (MSP) during the period under review. The Wald chi2 of 114.91 and the corresponding prob. >chi2 of 0.000 indicates that the model is fit and reliable for decision making. This indicates that the explanatory powers of financial reporting (ROCE and EPS) and the moderator variable of the auditor independence used are suitable for the study.

Results from Table 9 model 2 above revealed an overall coefficient of determination (R-sq) of 0.6511 which means that the proxies (ROCE and EPS) of the independent variable moderated by auditor independence (AIN) used in this study have 65% combined effect on the systematic changes in the dependent variable (MSP) during the period under review. The Wald chi2 of 119.34 and the corresponding prob. >chi2 of 0.000 indicates that the model is fit and reliable for decision making. This indicates that the explanatory powers of financial reporting (ROCE and EPS) moderated by auditor independence used are suitable for the study financial reporting and market share prices of financial firms in Nigeria: Moderating effect of auditor independence.

Discussion of Findings

Return on Assets and Market Share Prices

This study revealed that return on capital employed (ROCE) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. This implies that an increase in return on capital employed will increase the market share price (MSP) of quoted financial firms in Nigeria by 0.076. The finding is in line with the a-priori expectation of the researcher because the return on capital employed positively enhances the market share prices of quoted financial firms in Nigeria. The finding is also in line with the signaling theory that emphasized that firms use various signals, such as audited financial statements, to convey information about their quality and prospects to external stakeholders which influences investor perceptions and market share prices. The return on capital employed has an insignificant positive effect on market share prices of quoted financial firms in Nigeria for the period under review. This finding is in line with the findings of Adedoyin *et al.*

(2019) and Rajapaksha and Yapa (2016). However, the finding disagrees with the findings of Ali *et al.* (2017) and Anaja *et al.* (2021).

Earning Per Share and Market Share Prices

The study also revealed that earning per share (EPS) has a significant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. This implies that an increase in earning per share will increase the market price of shares (MPS) of quoted financial firms in Nigeria by 0.433. The finding is in line with the a-priori expectation of the researcher because earning per share positively enhances the market price of shares of quoted financial firms in Nigeria. The finding is also in line with the signaling theory that emphasized that firms use various signals, such as audited financial statements, to convey information about their quality and prospects to external stakeholders which influences investor perceptions and market share prices. The earning per share has a significant positive effect on market price of shares of quoted financial firms in Nigeria for the period under review. This finding is in line with the findings of Adedoyin *et al.* (2019), Ali *et al.* (2017) and Dian and Slamet (2020). However, the finding disagrees with the finding of Akubo *et al.* (2022).

Auditor Independence Moderating Returned on Capital Employed and Market Share Prices

The study indicates that returned on capital employed with the interaction of auditor independence has a positive significant statistical effect in explaining the market share prices of quoted financial firms in Nigeria. The result of returned on capital employed without moderation is insignificantly positive and the indirect relationship of returned on capital employed as moderated by auditor independence has a significant positive effect on the market share prices of quoted financial firms in Nigeria. This, therefore, implies that auditor independence significantly moderates the relationship between returned on capital employed and market share prices of quoted financial firms in Nigeria by 0.690. This finding conforms to the a-priori expectation of the researcher and also in line with the signaling theory that emphasized that firms use various signals, such as audited financial statements, to convey information about their quality and prospects to external stakeholders which influences investor perceptions and market share prices.

Auditor Independence Moderating Earning Per Share and Market Share Prices

The study indicates that earning per share with the interaction of auditor independence has a positive insignificant statistical effect in explaining the market share prices of quoted financial firms in Nigeria. The result of earning per share without moderation is significantly positive and the indirect relationship of earning per share as moderated by auditor independence has an insignificant positive effect on the market share prices of quoted financial firms in Nigeria. This, therefore, implies that auditor independence does not significantly moderates the relationship between earning per share and market share prices of quoted financial firms in Nigeria by 0.009. This finding conforms to the a-priori expectation of the researcher and also in line with the signaling theory that emphasized that firms use various signals, such as audited financial statements, to convey information about their quality and prospects to external stakeholders which influences investor perceptions and market share prices.

CONCLUSION AND RECOMMENDATIONS

There is a positive relationship between Return on Capital Employed (ROCE) and the market share prices (MSP) of quoted financial firms in Nigeria. This higher efficiency in using capital to generate profits, as indicated by an increased ROCE, tends to lead to higher market share prices for financial firms in Nigeria. Consequently, investors and stakeholders considered ROCE as a key financial metric when evaluating the potential market performance of financial firms in Nigeria.

Earning Per Share (EPS) influences the market share prices (MSP) of quoted financial firms in Nigeria. This relationship suggests that an increase in EPS, which reflects higher profitability per share, leads to an increase in the market price of shares of financial firms. Therefore, investors and stakeholders considered EPS as a critical financial indicator when assessing the potential market performance and valuation of financial firms in Nigeria.

The degree of independence maintained by auditors plays a crucial role in influencing the strength and direction of the relationship between a firm's operational efficiency (as indicated by ROCE) and its market valuation. In essence, when auditors operate with high independence, the integrity and reliability of the financial statements are perceived to be higher. This enhanced credibility likely boosts investor confidence, leading to a stronger positive correlation between ROCE and market share prices. Therefore, maintaining a high level of auditor independence is essential for ensuring that the market prices of quoted financial firms in Nigeria accurately reflect their operational efficiency and overall financial health.

The degree of independence maintained by auditors does not have a substantial impact on the correlation between a firm's earnings performance of EPS and its market valuation. Therefore, while auditor independence remains important for overall

financial reporting integrity, its effect on the relationship between EPS and market share prices of quoted financial firms in Nigeria appears limited.

Based on the above conclusion, the following recommendations are proffered:

- (i) Financial firms in Nigeria should focus on strategies to improve their ROCE by optimizing asset utilization and managing capital more efficiently. This can be achieved through better investment decisions, cost management, and operational efficiencies.
- (ii) Financial firms should develop and implement strategies to increase revenue, such as expanding product and service offerings, entering new markets, and enhancing customer acquisition and retention.
- (iii) Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) should enforce strict guidelines and regulations to ensure auditor independence. This includes rules on auditor rotation, prohibition of certain non-audit services, and stringent conflict-of-interest policies.
- (iv) Financial firms in Nigeria should not necessarily consider the auditor independence before taking decisions on the earning per share as it does not influence the relationships between earning per share and market share prices of their firms in Nigeria.

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