

AUDIT QUALITY AND FINANCIAL REPORTING QUALITY AMONG QUOTED NON-FINANCIAL FIRMS IN NIGERIA

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Abstract

This study investigated the effect of audit quality on financial reporting quality in Nigeria. The audit quality was proxied with audit firm size, audit fee, audit tenure and audit committee financial expertise on financial reporting quality in Nigeria. This study adopted a stratified sampling technique to select 50 non-financial firms, which cut across 10 sectors from 2015 to 2022. The dependent variable (FRQ) was measured using accruals quality, while the explanatory variables were measured using; audit firm size, audit fee, audit tenure and audit committee financial expertise. The panel data set were analyzed using pooled, fixed and random effects estimator, while Hausman test and L.M test were used to select the best estimates. The results of this study revealed that audit firm size has a non-significant negative effect on financial reporting quality. The findings of this study also indicated that audit fee has a significant negative effect on financial reporting while audit firm tenure has a non-significant positive effect on financial reporting quality. Audit committee financial expertise also has a significant negative effect on financial reporting quality. The study also revealed that audit quality has a significant negative effect on financial reporting quality. Based on the findings of this study, the study recommended that elements of audit quality should be improved upon as this might improve the quality of financial reporting. Additionally, audit firms should give more attention to accruals quality as this constitutes the major element that signifies the quality of financial reports.

Keyword: Audit quality, Accruals, Audit fees, Financial Reporting Quality (FRQ)

INTRODUCTION

Investor confidence is crucial for the effective functioning of global financial markets and plays a vital role in promoting economic stability and growth on a global scale. It is imperative for investors to have assurance in the credibility and reliability of financial information, which forms the basis for their investment decisions. The primary aim of financial reporting is to provide accurate and valuable information concerning economic entities, aiding effective decision-making in economic matters (Umaru, 2014). Financial reporting of high quality is critical to investor and other stakeholder in making decisions in relation to investment, credit undertaking and of similar nature (International accounting standard board (IASB), 2008). It is worth noting that studies on financial reporting quality measured it on the quality of accruals. However, financial reports of firms are crucial for informing various stakeholders, including investors, shareholders, creditors, management, analysts, regulators, and other interested parties, facilitating informed economic decisions (Umaru, 2014; Mesbah, & Ramadan, 2022). The celebrated accounting scandals and the collapse of some corporate entities such as Eron, Worldcom, Xerox, Aldelphia, Parmalat, Tyco, etc. put users of financial report on doubt about the quality of financial report. Most of these organization named above collapse on the grounds of earnings manipulation, artificial transaction. Shehu (2012) argue that quality financial reporting could be achieved by disclosing fully all relevant and reliable information with greater level of transparency. He further posited that this information should be widely available periodically showing the entity's performance which is free from error and material misstatement, this indicate a quality financial reports. The quality of a financial report can be influenced by the quality of the audit work been carried out. High quality audit might provide necessary evidence to support the fact and figure contained in the financial reports. The level of transparency and disclosure in the financial statement explains the process and rigor of the audit works. Audit quality significantly contributes to maintaining an efficient market environment. Evidence from literature revealed that the audit process usually triggers the interest of investors and other stakeholders (Afesha, 2015; Selimefendigil, 2023). Audit quality involves three main elements, the input, process and the output. As regards the input, it comprises of the audit elements such as engagement partner, audit staff, audit committee, experience and expertise, etc. The processes are seen as the combination of all input put to gather sufficient and appropriate evidence on all assertion contained in the financial statement. Lastly, the output is the end result which exhibits the quality of audit work and free from any material misstatement.

The Financial Reporting Council Nigeria (FRCN) 2015, audit quality could be a function of qualified audit report. As such, the auditor has gathered appropriate and sufficient audit evidence to issue a qualified opinion. Conversely, there have been argument that quality audit work might not necessarily be a quality report, has unqualified audit report signifies quality control audit. However, there are prevailing arguments as to what actually turns audit quality. According to Financial Reporting Council (2000), audit firm, audit partner and audit staff drives audit quality. However, extant studies on audit quality measures audit quality using audit firm size, audit committee independence, audit committee financial expertise, audit tenure and audit fee (Francis 1984, De Angelo 1981, Deis and Geroux 1992; Okolie 2014; Masmoudi 2021; Mesbah, & Ramadan 2022).

Notably, the parties to audit quality are the auditors, audit committee, management, Investors and other stakeholders (FRC 2008). Abbot, Dangherty, Parker and peter (2015) focus on two audit characteristics, competence and independence. Generally speaking, competence describes an auditor's capacity to carry out duties conscientiously and in compliance with professional standard. Competence could also be seen as the ability of an individual to perform a job or task properly, being a set of defined knowledge, skill and behavior. Independence in auditing refers to the ability to carry out responsibilities without bias or undue influence. This concept is often equated with objectivity, safeguarding against conflicts of interest or external pressures on professional judgment. Prawitt, Smith, and

Wood's (2009) pioneering archival study established a relationship between audit quality and financial reporting quality, using a composite metric encompassing various factors like experience, certification, and firm size. Abbot et al. (2015) identified opportunities within activities such as the audit of financial statements, the auditing of subsidiary financial statements, compliance auditing, and specialized consulting endeavors. While a competent auditor is more likely to uncover financial misstatements, their reporting of such findings hinges on maintaining independence and objectivity. Ensuring the credibility of financial information is vital for economic development. Hence, auditors must maintain independence and objectivity in discharging their duties (Adelaja, 2009; Awuye, 2022), as external audit reports on corporate financial statements are crucial for providing assurance and safeguarding shareholders' interests (Gallegos, 2004). More importantly, quality audit restores investors' confidence and ensure adherence to the stipulated standard and guideline in accordance with world practices. The actual contribution of this study to the body of literature is the provision of new data regarding the relationship between the quality of financial reporting from developing nations and audit quality.

However, the financial reporting literature dwells more on the compliance with relevant standard, accruals quality, and qualitative characteristics of financial statement as the elements that determine the financial reporting quality (Dechow-Dichew, 2002; Kothati *et al.* 2005; McNichols et al. 2008; Beest *et al.* 2009). Less effort and attention are on the audit quality as a determinant of financial reporting quality. Other studies also argue for corporate governance as a determinant of financial reporting while some focuses on accounting ethics as the determinants of financial reporting (Bello, 2016; Hasan et al., 2020). Audit quality has been seen as the ability of the audit report and process to be free from any material misstatement. Hence the financial statement so audited reflects the appropriateness of all transactions and records with utmost transparency in reporting and disclosure. Audit quality could be drive by many factors. Literature reveals that audit firm size such as the big four can largely influence the financial reporting quality positively. Similarly, the big four auditors have acquired recognize skills and expertise that can make them deliver a quality audit. This big four dichotomies have been seen in literature to explain audit quality significantly. For instants, Becker, Defond, Subramanian (1998), and Francis, Maydew, and Sparks (1999) found that Big Four audit firms demonstrate higher accrual quality, indicated by lower absolute values of discretionary accruals, resulting in reduced earnings management by their clients. More so, audit fee is another factor that affect audit quality. The auditor remuneration with relevant reference to the client. Firm size serve as an intrinsic value on the auditing firm and the audit procedure. After the case of star technologies, in 1989, the audit faces the challenges of the major income coming from a particular client or few clients as this will compromise their independence. This was also found in the case of general technologies, Enron, WorldCom etc. However, research suggests that the audit fee should be regulated. As such, the auditor and client should be independent of determining the audit fee. Extant studies argue that continuous audit rotation will provide audit independence and contribute positively to the audit quality. The auditor tenure should be continuously rotated or not has been a contentious debate in literature lately. Conversely, some other studies reveal that the longer the audit tenure, the higher the audit quality. The Financial Reporting Council of Nigeria (FRCN) release the new corporate governance code, 2016 and precede that auditor tenure should be a maximum of ten years after which the auditor can be re-appointed after seven years. This calls for more studies to look into the audit tenure and the quality of audit. Notably, stock market reacts to auditors switching/rotation. Studies has shown that market react to announcements in an event window such as audit switch, dividend announcement etc. Another factor discussed in literature that effect the audit quality is the audit committee. The audit committee has significant impact on the audit quality. Audit committee characteristics such as audit committee size, frequency of meeting, number of non-executive directors, and audit committee member with financial expertise (Kibiya et al 2016). These factors are said to have significant effect on the audit quality. The audit committee financial expertise account to drive

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the audit quality significantly. From the foregoing, this study aims to examine the effect of audit quality on financial reporting quality.

Ten economic sectors were covered by this study: conglomerates, consumer goods, healthcare, ICT, industrial goods, oil and gas, services, natural resources, construction/real estate and agriculture. Extant studies, especially in Nigeria, only concentrate on manufacturing and the financial sector. This brings about the novelty of this study and the robustness in literature and practice. The limitations of this study can be seen from the viewpoint that it only concentrate on financial reporting quality. There are other indices like growth, Firm value; more so behavioral aspect of audit quality can also be covered in subsequent studies. Other studies can also concentrate on the developed and other developing economy.

The paper is structured as follows: Section 2 contains the literature review, Section 3 discusses the methodology, Section 4 presents the results and discussions, and the final section covers the conclusion and policy implications.

Literature Review

Audit quality, a complex and inherently unobservable concept, has been defined by researchers such as DeAngelo (1981) as the joint probability of an auditor detecting and reporting a significant material misstatement. It is intrinsically connected to financial reporting, indicating the auditor's capacity to anticipate and disclose material misstatements resulting from fraud and errors during the auditing process. Scholars like Watkins, Hillison, and Morecroft (2004) provide a comprehensive overview of audit quality definitions in existing literature, encompassing accuracy in reported information (Davidson and Neu, 1993), the likelihood of issuing an unqualified report for a material error (Lee et al., 1999), and the market-assessed probability of auditors detecting and disclosing material errors in financial statements (DeAngelo, 1981).

The Financial Reporting Council (FRC, 2008) highlights factors affecting audit quality, encompassing the audit firm's culture, the skills and qualities of personnel involve in the audit process, the audit process, the usefulness of audit reporting, and external factors that the auditor cannot control or influence. Generally Accepted Accounting Principles (GAAP) emphasizes the significance of competence, independence, and due professional care as essential elements in evaluating the performance of external auditors (Ghafran, 2013; Mardessi, 2022). The core components of audit quality involve the audit firm, audit teams, and the exercise of professional judgment (Wooten, 2003).

The measurement of audit quality presents a challenge due to its complex nature. Various researchers use proxies, recognizing the multidimensional and inherently unobservable nature of auditor quality (Balsam et al., 2003). In 2013, the Public Company Accounting Oversight Board (PCAOB) launched an audit quality indicator project with the aim of developing measures to track audit quality over time. The PCAOB defines audit quality as satisfying the demand of investors' needs for objective and reliable audits, focusing on outcomes, inputs, and processes. The Center for Audit Quality (CAQ) and the International Auditing and Assurance Standards Board (IAASB) emphasize what is expected of the audit committee, the compliance with regulations and standards, and the audit firm's quality control system in defining audit quality (PCAOB 2013, CAQ, IAASB 2013).

Corporate disclosure encompasses various forms, including regulated financial reports and voluntary communication. Financial reporting is essential for management to convey the company's performance to external stakeholders. Its quality is critical for efficient capital markets, given that resource allocation decisions hinge on financial information (Healy and Palepu, 2001). Although scholars have not reached a unanimous definition of financial

reporting quality (Cohen, Krishnamoorthy, and Wright, 2004; McDaniel, Martin, and Maines, 2002), it is worth noting that the conceptual framework for financial reporting gives the dimensions underlying quality. This framework asserts that financial statements disclose information regarding the entity's economic resources, claims, and transactional impacts (FASB, 2010). The primary objective is to offer useful financial information to investors, lenders, and creditors, with relevance as well as faithful representation as fundamental characteristics (FASB, 2010).

Academic studies employ numerous measures to proxy financial reporting quality, focusing on completeness, confirmatory value, predictive value, earnings persistence, earnings smoothness, neutrality, and freedom from error dimensions (Botosan, 1997; Botosan and Plumlee, 2002; Dechow and Dichew, 2002; Dechow et al., 2010; Bratten, Causholli, and Khan, 2016; Ogbodo, Okenwa and Nzube 2018; Adegbe and Salawu 2019; Daferighe and Emem 2020; Masmoudi 2021; Mesbah, and Ramadan 2022; Selimefendigil 2023).

Theoretically, theory of inspired confidence, originating from the Limperg Institute in the Netherlands in 1985, posits that auditors, acting as confidential agents, derive their societal role from the necessity of expert and independent examination, coupled with the need for corresponding judgment backed by these examinations. Consequently, accountants and auditors must recognize the public's enduring expectation of minimal audit failures, necessitating proper planning and execution of audits to mitigate the risk of undetected material misstatements (Limperg Institute, 1985). This theory opines that auditors' duties stem from the public's confidence in the audit process's success and the assurance conveyed by the accountant's opinion. Carmichael (2004) emphasizes the critical social role of audits, highlighting the loss of confidence in audits when societal trust in their effectiveness wanes, thus stressing the importance of maintaining reasonable quality assurance to avoid career-altering audit failures. Audits provide assurance to various stakeholders and bolster confidence in capital markets, alongside financial reporting, corporate governance, and regulations.

Agency Theory posits that the relationship between principals and agents involves oscillating interests, which principals can mitigate through motivating agents and incurring monitoring costs (Jensen and Meckling, 1976; Fama and Jensen, 1983; Hill and Jones, 1992). Principals incentivize agents to act in their interests and monitor their activities (Bonazzi and Islam, 2006). Measures like independent audit committees aim to curb agents' self-interest. Governance structures, including board subcommittees characterized by independence, expertise, and experience, are vital for reducing information asymmetry and agents' selfish interests (Wiseman et al., 2012). Modern corporations, with dispersed ownership, appoint agents to manage operations, leading to potential conflicts of interest between owners and managers (Jensen & Meckling, 1976; Eisenhardt, 1989). This separation of ownership of the firm and control indicates the importance of agency theory in understanding organizational dynamics. In relation to this study, agency theory helps explain how conflicts of interest between these parties may impact the accuracy and reliability of financial information, and also aid the understanding of how incentives influence auditor behavior and reporting decisions which is crucial for maintaining integrity and transparency.

Empirically, in the study of Selimefendigil (2023), investigation was made into the influence of audit quality on financial reporting quality. The study employ data from 262 non-financial companies listed on Borsa Istanbul between 2012 and 2021. Earnings management activities were use as proxy to measure financial reporting quality, employing the modified Jones Model. The audit quality criterion is based on whether companies are audited by one of the big four audit firms (E&Y, Deloitte, KPMG, and PwC). The panel data analysis reveals that companies audited by major audit firms, namely the big four, constrain earnings management activities. Additionally, the analysis indicates a positive relationship between profitability and

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earnings management activities. However, no significant correlation exists between earnings management practices and debt level, status of liquidity and firm size.

Mesbah and Ramadan (2022) examine the influence of audit quality on financial reporting quality, using audit firm fees, tenure, and size as proxies for audit quality, and earnings management and accounting conservatism as proxies for financial reporting quality. The study analyzes secondary data from the financial statement and accounts of 152 non-financial companies listed on the Egyptian stock exchange from 2016 to 2020. The findings indicate a positive relationship between audit firm fees and size with financial reporting quality, whereas audit firm tenure shows a negative relationship with financial reporting quality. These results imply that financial reports audited by Big 4 firms are more reliable than those audited by non-Big 4 firms. Consequently, standard setters should focus on enhancing the audit quality of non-Big 4 firms and limit audit firm tenure to a maximum of three years to maintain high financial reporting quality.

Masmoudi (2021) investigates the influence of audit committee characteristics on the quality of financial reporting, with a focus on the moderating role of audit quality in the Netherlands. The research assesses the impact of factors such as the independence of committee members, their financial expertise, meeting frequency, and the size of the committee on financial reporting quality, measured by real earnings management. Additionally, the study examines how audit quality, especially the involvement of a Big 4 firm, moderates the relationship between these audit committee characteristics and financial reporting quality. Using ordinary least squares (OLS) regression, the analysis covers data from 90 publicly listed Dutch companies between 2010 and 2019. Findings indicate a statistically significant relationship between audit committee characteristics and real earnings management, though the frequency of audit committee meetings does not significantly affect abnormal operating cash flow or discretionary expenses. The study also provides evidence of audit quality's positive moderating effect on the relationship between audit committee characteristics and real earnings management. These results have implications for professional accounting bodies and policymakers, highlighting the critical role of earnings management in ensuring reliable financial information and protecting shareholder wealth. The study advocates for the enhancement of audit committee characteristics to bolster audit quality, particularly in light of the 2016 Dutch Corporate Governance Code enforcement.

Sulbahri, Putri, and Susanti (2021) investigate the effects of audit quality, audit committee effectiveness, and the role of external audits on the financial reporting quality of real estate companies listed on the Indonesia Stock Exchange (BEI). The study focuses on property and real estate firms on the BEI from 2014 to 2017, utilizing annual financial reports from 27 companies selected through purposive sampling based on specific criteria set by the authors. The research employs classical assumption tests, multiple linear regression analysis, and hypothesis testing for data examination. The findings reveal that the combined influence of audit quality, audit committees, and external audits significantly enhances financial reporting quality. However, when assessed individually, audit quality and audit committees do not significantly impact financial reporting quality, whereas external audits independently have a significant positive effect.

Daferighe and Emem (2020) assessed audit firm attributes and financial reporting quality of quoted manufacturing firms in Nigeria. Ex post facto look into configuration was embraced in the investigation. Information were acquired from the distributed yearly reports and records, notes to the fiscal summaries of the sixteen firms that speak to the example of the investigation. Different relapse examination was utilized in breaking down the information and testing the expressed theories. The consequences of the discoveries demonstrated that inspector expenses have huge effect on the budgetary revealing nature of cited fabricating firms in Nigeria. Usifoh, Adegbeie and Salawu (2019) conducted an examination of audit quality and accrual quality within Nigerian quoted manufacturing firms, employing an ex-post facto

research design. The study's population consisted of 53 manufacturing firms listed on the Nigerian Stock Exchange as of December 31, 2017, with a purposive sample of 30 firms selected for analysis over a ten-year period from 2008 to 2017. Methodologically, the study employ regression analysis. Results indicated a significant positive impact of audit firm size and audit committee expertise on accrual quality, with size exerting a notable negative influence. However, audit tenure and sector-based specialization showed insignificant negative effects on accrual quality, while audit firm independence and age displayed insignificant positive effects. The relationship between the number of engaged audit firms and accrual quality remained uncertain, as regression analysis failed to decisively confirm or refute it.

Ogbodo, Okenwa, and Nzube (2018) undertook an empirical investigation to assess the effect of audit quality on the financial performance metrics of a select group of banks in Nigeria. The study specifically centered on a representative sample consisting of sixteen deposit money banks that are publicly listed on the Nigerian Stock Exchange. Data encompassing the years from 2008 to 2017 were collected from the financial statements of these banks and subsequently analyzed through regression techniques employing SPSS Version 20 software. The findings from the analysis yielded several significant insights: firstly, the size of the institution demonstrated a statistically relevant impact on the return on assets of the Nigerian banks under review. Secondly, the independence of the audit committee was determined to exert a considerable influence on the return on equity of these financial institutions. Lastly, the research emphasized that the audit committee's size had a notable influence on the profit margin of the Nigerian banks assessed. Samuel, Mudzmir, and Mohamad (2017) conducted a study to investigate the impact of audit tenure on the financial reporting quality of listed companies in Nigeria. The research methodology is grounded in agency theory, which elucidates the dynamics of relationships where principals enlist agents to perform services on their behalf. The study's findings indicate a divergence in evidence regarding the association between audit firm tenure and financial reporting quality. Moreover, the research highlights that shorter audit tenures are associated with higher financial reporting quality, whereas longer tenures are linked to lower financial reporting quality.

Abbott, Daugherty, Parker, and Peters (2015) investigated an interactive framework concerning the efficacy of the Internal Audit Function (IAF) in overseeing financial reporting. Utilizing a sample size of 189, the study employed a survey questionnaire directed at Chief Internal Auditors (CIAs) within non-bank entities in the United States. Statistical regression methods were applied to analyze the data collected during the period spanning 2010 to 2011. The findings indicate that the impact of a two-year tenure (independence) on financial reporting quality is contingent upon the independence (competence) of the internal auditor. Furthermore, the results underscore the pivotal role of both competence and independence as prerequisites for effective monitoring of financial reporting by the IAF.

METHODOLOGY

3.1 Data

The research employs an *ex post facto* approach and utilizes panel data as it combines time series and cross-sectional data from non-financial firms listed in Nigeria. The study encompasses all one hundred and fifty-three (153) non-financial firms listed on the Nigerian Exchange Group (NGX) as at January, 2024. A final sample of fifty (50) non-financial firms spanning ten (10) sectors is selected for analysis over an eight-year period from 2015 to 2022. Descriptive analysis, encompassing measures such as mean, median, minimum, maximum,

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and standard deviation, is conducted. Additionally, the study employs Pooled Ordinary Least Square (OLS) Regression analysis to examine the data.

3.2 Model Specification

The investigation adopts an enhanced model proposed by McNichols (2002) and Srinidhi and Gul (2007) to build upon the framework established by Dechow and Dichev (2002). The augmented model posits that increased discretionary accrual values signify heightened earnings manipulation, consequently indicating diminished financial reporting quality. Hence, the methodology employed involves estimating discretionary accruals (DACC) according to the specified model structure:

$$TCA_t = \beta_1 + \beta_2 OCF_{t-1} + \beta_3 OCF_t + \beta_4 OCF_{t+1} + \beta_5 \Delta Rev_t + \beta_6 PPE_t + e_t$$

The variables are defined as follows:

$$TCA = \Delta CA - \Delta Cash - (\Delta CL - \Delta STDebt)$$

ΔCA = Change in current assets

$\Delta Cash$ = Change in cash balance

ΔCL = Change in current liabilities

$\Delta STDebt$ = Change in short term debt included in current liabilities

OCF = Operating cash flow from the cash flow statement

ΔRev = Change in revenues

PPE = Gross property, plant and equipment

$$ACC = f(AFS, AUF, AUT, ACFE, OCF, SIZE, CASHVOL) \dots\dots\dots 1$$

$$ACC_{it} = \alpha_0 + \beta_1 AFS_{it} + \beta_2 AUF_{it} + \beta_3 ACFE_{it} + \beta_4 OCF_{it} + \beta_5 SIZE_{it} + \beta_6 CASHVOL_{it} + \mu_{it} \dots\dots\dots 2$$

Where;

ACC = Accruals quality

AFS = Audit firm size

AUF = Audit fee

AUT = Audit tenure

$ACFE$ = Audit committee financial expertise

$SIZE$ = Firm size

OCF = Operating cashflow

$CASHVOL$ = Cashflow volatility

Variable Description, Measurement and Justification

Variable	Description	Measurement	Justification
Dependent variable			
FRQ	Accruals quality	It is measured has the residuals from the accruals model	Dechow and Dichev (2002), McNichols (2002)
Independent Variables			
AFS	Audit firm size	Audit firm size was measured as a dichotomous "1" if company is audited	. De Angelo (1981), Deis and Giroux (1992), Okolie (2014), Francis,

continued

		by a Big 4, "0" otherwise	Maydew, and Sparks (1999).
AUF	Audit fee	This is the natural log of auditors' remuneration.	DeAgelo (1981), Yasina and Nelson (2012), Watkins, Hillison and Moreccroft (2004), Li, Stokes, Taylor and Wong (2009), Kanagaretnam, Krishnan, Lobo, and Mathieu (2011),
AUT	Audit firm tenure	This is measured by numbers of years/time an auditor conducts the financial statements examination of a company.	Hartadi (2009), Kaklar, Kangarlouei and Motavassel (2012), Hakim and Omri (2010).
ACFE	Audit committee financial expertise	Measured by the proportion of audit committee members with financial expertise.	Andrew, Srinivasan & Steven (2003), Gabriela (2016), Allam, Adel & Sameh (2013).
Control Variables			
SIZE	Firm size	This is used to control for firm size which is measured using log of total assets.	Gabriela (2016), Andrew, Srinivasan & Steven (2003), Verdi (2009), Biddle, Hilary and Verdi (2009).
OCF	Operating cashflow	This is used to control for operating cashflow. It is the net cashflow from operating activities.	Wang et al (2015).
CASHVOL	Cashflow volatility	This is standard deviation of cashflow from operating activities in the past, present and future i.e year t_4 to year t_1 .	Chen et al (2014), Wang et al (2015).

RESULTS AND DISCUSSIONS

Table 1: Descriptive Statistics

	AQ	AFS	AF	AUT	ACFE	OCF	CFV	SIZE
Mean	-6.36E-17	0.665000	4.108738	0.667500	2.252500	0.116390	0.088248	7.298991
Median	0.059961	1.000000	4.176091	1.000000	2.000000	0.107642	0.067463	7.305752
Maximum	2.226534	1.000000	5.014100	1.000000	4.000000	0.793514	0.419767	9.050950
Minimum	-22.25582	0.000000	3.000000	0.000000	0.000000	-0.336990	0.000968	5.894102
Std. Dev.	1.154008	0.472582	0.409215	0.471699	0.815725	0.135036	0.069134	0.633861
Observations	400	400	400	400	400	400	400	400

Source: Authors Compilation (2024)

Table 1 shows the mean, median, standard deviation, skewness and kurtosis of the variables considered in this present study. On the average, financial reporting quality measured with accruals quality has a low value of -0.000. This signifies that the reporting quality among the sampled firms is relatively poor. AQ also has a median value 0.06 with a minimum value of -22.25 and maximum value of 2.23 while the standard deviation is 1.15. On the explanatory variables, audit firm size has a mean value of 0.67 and a standard deviation of 0.47. Audit fee has a mean value of 4.11 with a median value of 4.18 while the standard deviation is 0.41. Similar to AFS, Audit tenure has a mean value of 0.67 and a standard deviation of 0.47. ACFE has a mean value of 0.25 and a standard deviation of 0.82. On the control variables, OCF and CFV has a mean value of 0.12 and 0.09 respectively while the median value is 0.10 and 0.67 respectively with a standard deviation of 0.13 and 0.07 respectively. Firm size has a mean value of 7.29 and a median value of 7.31 with a standard deviation of 0.64.

Table 2: Correlation Matrix

	FRQ	AFS	AF	AUT	ACFE	OCF	CFV	SIZE
FRQ	1.00							
AFS	-0.01	1.00						
AF	0.10	0.34	1.00					
AUT	-0.01	0.93	0.33	1.00				
ACFE	0.02	-0.18	-0.05	-0.18	1.00			
OCF	0.00	0.06	0.01	0.08	-0.06	1.00		
CFV	-0.01	-0.04	-0.08	-0.01	-0.13	0.10	1.00	
SIZE	0.08	0.35	0.59	0.33	-0.08	0.04	0.07	1.00

Source: Authors Compilation (2024)

Table 2 presented correlation matrix, AQ has a negative relationship with AFS, AUT and CFV, while it has a positive relationship with AF, ACFE, OCF and SIZE. Similarly, AFS has a negative association with ACFE and CFV while it has a positive relationship with other variables. Audit fee (AF) has a negative relationship with ACFE and CFV but positive relationship with AQ, AFS, AUT, OCF and size. AUT also has a negative relationship with ACFE and CFV while ACFE has a negative effect with CFV, SIZE and OCF. On the other hand, OCF depicted a positive association with CFV and SIZE while CFV has a positive relationship with SIZE. It was observed that AFS and AUT are highly correlated with a coefficient of 0.93. This signifies the present of multicollinearity among the variable. Hence, both (i.e. AFS and AUT) cannot function as independent variable in the same model. Hence, audit tenure was dropped in the final model.

Table 3: Regression Analysis

Dependent Variable: Financial reporting quality

Variable	Pooled	Fixed	Random
C	-1.6321 (-2.1312)**	-16.8496 (-9.9671)*	-1.6321 (-2.7498)*
AFS	-0.1381 (-1.0228)	-0.1693 (-0.6462)	-0.1381 (-1.3197)
AF	0.2295 (1.2743)	-2.1076 (-6.7245)*	0.2295 (1.6442)
ACFE	0.0194 (0.2666)	-0.4327 (-1.9720)**	0.0194 (0.3440)
OCF	0.0257 (0.0594)	1.2593 (2.8540)*	0.0257 (0.0766)
CFV	-0.2123 (-0.2459)	-0.2650 (-0.2973)	-0.2123 (-0.3172)
SIZE	0.1031 (0.8838)	3.6271 (15.3885)*	0.1031 (1.1403)
R-squared	0.0135	0.4830	0.0135
Adjusted R-squared	-0.0015	0.3983	-0.0015
F-statistic	0.8973	5.7059	0.8973
Prob. Value	0.4967	0.0000	0.4967
Hausman	0.0000		
Breuch pagan	0.1994		

Note: *significant at 1%, **significant at 5%, ***significant at 10%. The figures in parentheses are the standard error.

DISCUSSION OF FINDINGS

The findings of this research revealed that audit firm size have a negative insignificant effect on financial reporting. This is similar to the findings of Thi Lien et al (2023); Okonkwo et al (2022); Qawqzeh et al (2020); Umaru, (2014); Okolie, (2014); Kaklar et al (2012); that found that the big four audit firm has no significant effect on the quality of financial reporting. The finding also contradicts the finding of Yeng et al (2024); Mesbah and Ramadan (2022); Jintawattangul et al (2016); Affes and Smii (2016); Inaam et al (2012); Lennox, (2002). Consistent with this argument, Qawqzeh et al (2020) found that audit firm size has no significant effect on financial reporting quality. Hence, the findings of this study revealed that audit firm size in the Nigeria non-financial firms, does not significantly improve the quality of the financial report. Arguably, this implies that firms in the Nigeria non-financial sector audited by big four audit firms do not result in an improved reporting quality over the ones audited by

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the non-big four audit firms. It was also revealed from the study that audit fee has negative significant effects on financial reporting quality (measured as accruals quality). Consistent with this study, Thi Lien et al (2023); Qawqzeh et al (2020); Okolie (2014); Miettinen (2008) concluded that audit fee has negative significant effect on financial reporting quality. Thi Lien et al (2023) also revealed that there is a negative significant relationship between audit fees and financial reporting quality. In general, the study is agreeing with the predictions of Jensen & Mecling, (1976) that due to agency problem, irrespective of the amount expended on monitoring cost and bonding cost that does not guaranty financial reporting quality because there will always be a residual loss. This finding contradicts the findings of Umaru (2014), which revealed that audit fee has a positive significant effect on the quality of financial report. On the other hand, this study revealed that audit firm tenure, has a positive insignificant effect on financial reporting quality. This is consistent with the findings of (Salehi et al 2022; Okonkwo et al 2022; Jintawattanagul et al 2016; Kaklar et al 2012) revealed in their study that audit tenure, has a positive significant effect on the quality of financial report. The study further states that there is no significant relationship found between audit tenure and financial reporting quality. However, this position contradicts the findings of Yeng et al (2024); Mesbah and Ramadan (2022); Kim and Yi (2009), the study revealed that audit firm tenure has a positive significant effect on financial reporting quality. More so, Adeniyi and Mieseigha (2013) revealed that there is negative relationship between auditor tenure and audit quality. Omar (2003) found that the earnings quality becomes higher with longer audit firm tenure. This study also revealed that audit committee financial expertise has a negative significant effect on financial reporting quality. This aligns with the conclusions presented in studies by Masmoudi (2021), Dabor and Dabor (2015), and Abbott (2014), indicating that having audit committees with financial knowledge can decrease the occurrence of financial restatements and deter managers from engaging in financial report manipulation. This study contradicts the finding of (Thi Lien et al 2023; Wiralestan and Tanzil 2015; Kusnadi et al 2015, Kibiya et al 2016; Madawaki; and Annan, 2013) which revealed that audit committee financial expertise has a positive significant effect on financial reporting quality. Moreso, the finding of (Felo et al 2003, Jintawattangul et al 2016; and Miettinen 2008) revealed that audit committee financial expertise has a positive insignificant effect on financial reporting quality. Furthermore, this study revealed audit quality has negative effect on financial reporting quality. Hence, following the correlation result, it was revealed that audit firm size has negative relationship with financial reporting quality while audit fee and audit committee financial expertise have positive relationship with financial reporting quality. However, due to the industrial differences as revealed by the fixed effect models, the signs changed as thus, audit firm size, audit fee and audit committee financial expertise shows a negative effect on financial reporting quality. Arguably, the audit quality practice from firm to firm may differ supported with the high level of standard deviations from AFS, AF, AUT and ACFE. On the other hand, it can argue that the auditor focuses on compliance with relevant legal and regulatory framework as well as all factor inputs that can improve the quality of audit rather than ensuring the accruals qualities. Management prepares the financial reports and due to asymmetric information and the agency problem, they might practice high discretionary accruals which will lower the financial reporting quality. Hence, from the findings of this study. It was revealed that the auditors put less attention on the accruals mechanisms and this leads to the negative effect of audit quality on financial reporting quality. Following the argument of Jensen & Meckling (1976) on agency problem which as a result on uneven information which make the shareholders to suffer residual loss in absent of quality financial reporting. Hence, the auditor been the officer between the management and the shareholder might contribute to the residual loss as revealed in the study where the audit quality has negative effect on financial reporting quality.

CONCLUSION AND RECOMMENDATIONS

This study concluded that, audit firm size has a negative effect on financial reporting quality. The findings of this study also revealed that audit fees have a negative effect on financial reporting while audit firm tenure has a positive effect on financial reporting quality. Audit committee financial expertise also has a negative effect on financial reporting quality. This study also revealed that audit quality has negative effect on financial reporting quality. This study revealed that audit fee has negative effect on financial reporting quality. Hence, shareholders should appropriately channel and reduce the audit fee so as to reduce the cost of agency problem from the perspective of residual loss. Similarly, audit committee financial expertise has a negative effect on financial reporting quality. The study recommends as follows:

Firms should endeavor to make their auditor serve for a longer tenure but not in excess of the stipulated duration of ten years as stated in the 2016 corporate governance code.

Finally, this study recommends enhancing audit quality elements to potentially elevate financial reporting quality. Specifically, the study advocates increased focus by audit firms on accruals quality, considering it a pivotal element indicative of financial report quality.

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