

Effect of Audit Quality on Financial Reporting Quality of Listed Non-Financial Companies in Nigeria

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Abstract- This study examined the effect of audit firm characteristics of auditor independence, auditor type, audit firm tenure and audit firm size on the financial reporting quality of listed insurance companies in Nigeria. Data were generated from the annual reports and accounts of thirteen sampled insurance companies during the period 2012 to 2022. Descriptive statistics, Pearson correlation and multiple regression were utilized to analyze the study data. It was found that both auditor independence and audit firm size have a positive and significant effect on financial reporting quality of listed insurance companies in Nigeria. Auditor type has a negative and significant effect on financial reporting quality of listed insurance companies in Nigeria. While audit firm tenure has a positive and insignificant effect on financial reporting quality. The study, therefore, recommends that the shareholders should emphasize on engaging the service of the Big-4 auditors because of the experience, resources, and international presence which make them more likely to be independent, objective, and therefore, perform quality audit that supports high financial reporting quality.

Keywords- Audit. Quality Financial Reporting Effect Non-Financial Companies

I. INTRODUCTION

The sudden collapse of firms shortly after the publication of juice profits has generated a series of questions from the stakeholders. The most worrisome part of the narrative is that many collapsed companies were audited by external auditors and were given a clean report. This anomaly has necessitated tightening regulations, standards, and modification of corporate governance mechanisms (Umobong & Ibanichuka, 2017). Therefore, existing studies have argued that investors ascribe more values to higher financial reporting quality than firms with lower financial reporting qualities; thus, they are willing to pay more for shares of firms with higher financial reporting quality (Elliott, Fanning, & Peecher, 2020). Audit

quality is fundamental to a firm's performance as an objective audit based on stakeholders' confidence in the integrity and credibility of financial reports (Ado, Rashid, Mustapha, & Ademola, 2020). Financial reports become relevant, transparent and dependable when prepared in compliance with accounting standards and the opinions are formed on them in compliance with audit principles. Companies' annual reports are not expected to mislead stakeholders but rather provide information that is recent and supported by footnotes to assist its clarifications (Hasan, Kassim, & Hamid, 2020).

Financial statement is expected to achieve its key objective of producing quality information concerning the economic events of entities to the end users. It is obvious that financial report serves as means of providing reliable and relevant financial information to existing and potential investors and other stakeholders in making their respective decisions. Failure in providing a credible financial reporting could be attributed to corporate management lapses, other factors such as quality of accounting standards, accounting regulation and audit firms that engage in audit of financial statements of companies (Samaila, 2019). In particular, the external auditor's role is critical to promote the quality of financial statement prepared by the companies to strengthen the confidence of the stakeholders by minimizing information asymmetry and protecting their interest.

Audit quality is fundamental to a firm's performance as an objective audit based on stakeholders' confidence in the integrity and credibility of financial reports (Ado, Rashid, Mustapha, & Ademola, 2020). Financial reports become relevant, transparent and reliable when prepared in compliance with accounting standards and the opinions are formed on them in accordance with audit principles obtainable with

operational vicinity and a globe at large. Companies' annual reports are not expected to mislead stakeholders but rather provide information that is relevant and supported by facts for more understanding, clarifications and to assist in taking financial decision, Hasan, Kassim & Hamid (2020). Audit quality reduces earnings management, misrepresentation of financial statement and significantly moderates the relationship between the audit committee and financial reporting (Hasan *et al.*, 2020).

Therefore, the foregoing facts further necessitate the need to investigate the likely effect of the accounting quality on the financial reporting quality of listed non-financial companies in Nigeria. Hence, studying the effect of audit quality on financial reporting quality of listed non-financial companies in Nigeria is expected to be of great importance because it will contribute more to the Nigerian economy.

II. STATEMENT OF THE PROBLEM

The primary responsibility for audit quality rests with auditors, but each stakeholder plays a vital role in supporting high-quality financial reporting. Some corporate entities failed despite being audited and favorable opinion formed on them, such as Tyco and World com collapsed in 2002, Enron collapsed in 2003, Adelphia collapsed in 2005, Cadbury Nig. Plc failed in 2006, Thomas cook in 2019 and so on, obviously brings to the fore the lack of quality in financial reporting and failure of audit firms to indicate that in their opinion page. Global Crossing and Rank Xerox are other companies in the USA with a similar problem; Parmalat in Italy and Allied Nationwide finance in New Zealand among others across the globe (Adeyemi, Okpala, & Dabor, 2012) and Deferighe & Gerge, 2017).

Companies in Nigeria are not left out as in the above paragraph in corporate accounting fraud as Cosmetic accounting is a serious problem to the Nigerian economy. This has cost investors colossal loss (Otunsanya & Uadiale, 2014). A prominent example of a giant firm that failed after its robust profit was Cadbury Nigeria Plc, audited by a prominent auditor Akintola Williams Delloite (Okaro, Okafor, & Ofoegbu, 2013). The accounting scandals and lack of

audit quality in Nigeria have put distrust in the financial report (Adeyemi & Akinniyi, 2011). Moreover, the global increase in accounting fraud in the early 21st century indicates weaknesses in financial reporting quality (Herath & Albarqi, 2017). In response to various financial scandals, several regulations have been implemented to enact comprehensive business financial practices that will improve the transparency and disclosure in financial reporting (Alwardat, 2019).

The degree to which financial statement users can rely on an audit opinion depends on the quality of the audit performed. Despite the importance of audit quality to the capital market's stability, its definition, composition, measurement, and effect on the quality of financial reporting have resulted in several confounding findings (Christensen, Glover, Omer, & Marjorie, 2016). However, this growing concern could be attributed to a number of factors, including, the increased demand for good corporate governance mechanisms as a result of several accounting scandals that have affected well-established firms around the world and the stakeholders' quest for high quality audit functions in order to ensure that audited reports provide the needed level of assurance to investors who were reportedly disillusioned in the audit process following the fall of American International Group, (AIG).

Moreover, the troublesome in the financial world brought up a lot of doubt on the work of auditors in promoting financial reporting quality which invariably promote corporate governance. It is shown that the audit firm could play a role in audit quality and by extension to financial reporting quality. Based on these, there are several studies like James and Izien (2019), Enofe, Mgbane, Efayena and Edegware (2018), Alereeni (2017), Francis, ifeoma and Efor (2022), Bukola, Agbaje and Mohammed, (2022), Whhab and Khlaif (2022), Ali, Mosein and Hamed (2019), Amran and Bala (2018) and Loghin (2017) on relationship between audit firm characteristics and audit quality which is based only on audit activities without considering the influence of audit quality on financial reporting quality in Nigeria. Even though financial reporting is a means through which owners gauges the financial health status of their organization

in order to know whether their organization is a going-concern.

Addressing these problems is essential for improving the quality of financial reporting among listed non-financial companies in Nigeria. Strengthening auditor independence, enhancing regulatory oversight, and ensuring the competence and ethical conduct of auditors are critical steps in mitigating these issues. Effective measures to address these problems will contribute to more reliable and transparent financial reporting, thereby enhancing investor confidence and promoting market efficiency.

III. OBJECTIVES OF THE STUDY

The main objective of the study is to assess the effect of audit quality on financial reporting quality of listed non-financial companies in Nigeria. The specific objectives of the study include:

- i. To determine the effect of audit independence on the financial reporting quality of listed non-financial companies in Nigeria
- ii. To assess the effect of auditor type on the financial reporting quality of non-financial companies in Nigeria
- iii. To examine the effect of audit tenure on the financial reporting quality of insurance non-financial companies in Nigeria
- iv. To investigate the effect of audit firm size on financial reporting quality of non-financial companies in Nigeria.
- v. To determine the effect of joint audit on financial reporting quality of non-financial companies in Nigeria.

Research Questions

The study provide answer to the following research questions:

- i. What is the effect of audit independence on the financial reporting quality of listed non-financial companies in Nigeria?
- ii. What is the effect of auditor type on the financial reporting quality of listed non-financial companies in Nigeria?
- iii. What is the effect of audit tenure on the financial reporting quality of listed non-financial companies in Nigeria?

- iv. What is the effect of audit firm size on the financial reporting quality of listed non-financial companies in Nigeria?
- v. What is the effect of joint audit on financial reporting quality of non-financial companies in Nigeria?

Research Hypotheses

In line with the objectives of the study, the following null hypotheses was tested in the study:

- i. H_{01} : Audit independence has no significant effect on financial reporting quality of non-financial companies in Nigeria.
- ii. H_{02} : Auditor type has no significant effect on financial reporting quality of non-financial companies in Nigeria.
- iii. H_{03} : Audit tenure has no significant effect on financial reporting quality of non-financial companies in Nigeria.
- iv. H_{04} : Audit firm size has no significant effect on financial reporting quality of non-financial companies in Nigeria.
- v. H_{06} : Joint audit has no significant effect on financial reporting quality of non-financial companies in Nigeria.

Scope of the Study

This study focuses on the effect of audit quality on financial reporting quality of non-financial companies in Nigeria. The audit quality includes the determinants such as audit independence, auditor type, audit tenure, audit firm size, and joint audit, while the elements of financial reporting quality include relevance, understandability, faithful representation, comparability and timeliness of the financial statement.

The study covers all the listed non-financial companies in Nigeria for the period of Ten years (2012 - 2022). The selection of non-financial companies is justified based on the fact that, the companies were not used as often as financial companies or an individual company in an industry and also, the companies experienced a series of recapitalization which was said to have improved the its respective performance, increased the confidence of users in the financial statement produced and also have increased the number of companies listed on the Alternate Security Market (ASM) of the Nigeria Stock Exchange (NSE).

The choice for the period 2012-2022 is because of the merger, acquisition and restructuring that mostly affected non-financial companies within the period. For example, Olam International acquired Dangote Flour Mills Plc in November, 2019, Prudent Energy acquired Forth Oil in 2019, Canal+ acquired online streaming company in July, 2019, Ohara Pharmaceutical acquired 21.75% stake in Fidson Healthcare in July, 2019 and Rainoil Plc acquired Eterna Plc in 2021, Olatorera (2019). In addition, Easy Appetite acquired Metro Africa Xpress in 2016, Atlas cement Co. Ltd acquired Lafarge Plc in 2014. Also, CAP Plc merged with Portland Paint Plc in 2021, Nigeria Flour Mills merged with Honeywell Flour in 2021, Premium times (2021).

IV. LITERATURE REVIEW

The chapter focuses on the effect of audit quality on financial reporting quality of listed non-financial companies in Nigeria. This chapter specifically dwell on conceptual framework of the study, empirical review and theoretical framework. The objective of this chapter is to provide an insight into the course of study to serve as a basis for the current study.

Conceptual Clarification

The conceptual clarification is generally to portray clear picture that aids in understanding the postulations of audit quality and financial reporting quality as they relate to each other.

The Concept of Financial Reporting Quality

According to International Accounting standard Board (IASB), financial reporting quality determines base on consideration of fundamental qualitative characteristics and enhances qualitative characteristics (IASB, 2015). The board explains fundamental qualitative characteristics as the relevance and faithful representation of the financial statements' information. It defines enhancing qualitative characteristics as comparability, verifiability, timeliness, and understandability of financial statements. Moreover, financial reporting quality refers to financial and non-financial information useful for decision-making (Herath & Albarqi, 2017).

Financial reporting quality is the authenticity and genuineness of financial reports and it is achieved

when prepared in cooperation of all necessary requirements, both fundamental and non-fundamental to clearly and explicitly communicates between the management of the companies as the preparers and the investors and creditors as primary users, and other secondary users such as the government authorities and the general public (Olowukure, Tanko & Nyor, 2018). The Financial Accounting Standard Board (FASB, 1999) and International Accounting Standard Board (IASB, 2015), state the primary objective of financial reporting is the provision of high quality information concerning economic entities, primarily financial in nature, which is useful for economic decision making. Therefore, financial reporting is an important means for management to communicate, among other things, the company's performance to external stakeholders.

Measurement of Financial Reporting Quality

There are basically two major measures of financial reporting quality (Tuta, 2014; Adamu, 2017). These are quantitative characteristics of financial reporting quality (accrual) and qualitative characteristics of financial reporting quality (relevance, understandability, comparability, faithful representation and timeliness).

Concept of Audit Quality

Audit quality is generally defined by its effectiveness in detecting and correcting material misstatements in financial statements. According to DeAngelo (1981), audit quality is a function of the auditor's ability to detect and report misstatements and the incentive to do so. This conceptualization underscores the importance of auditor competence, independence, and adherence to auditing standards in ensuring high-quality audits. Although the quality of audit is a subject of auditor's opinion on the truth and fairness of the information contained in the audited financial report, such opinions are predicated on compliance with underlying accounting principles and standards which are not necessarily exhaustive of the factors that determines quality in practical terms (Francis, 2011). However, DeAngelo (1981) views audit quality as one that considers experience and competence of auditor in the use of judgment with integrity, skepticism and objectivity adequate enough to attract public reliance and safeguard the investors' capital through avoidance of material misstatement. While both views of audit

quality expressed above are by no means contradictory, they serve a complimentary role of ensuring an expression of truth and fairness imbued in the application of necessary expertise and care. As such, audit becomes quality as it informs the joint possibility of reporting discovered accounting system breached of a firm thus improving the quality of financial reporting (Ali, S. K.; Mohaisen H. A. & Hameed, A. A., 2019).

Audit Quality and Financial Reporting Quality

Audit quality is the auditor's ability to detect errors in financial statements and report them to users of financial statements (Manurung et al., 2018). Mardessi (2021); Mukhtaruddin et al. (2018); and Oktorina and Wedari (2015) also stated that the quality of an auditor is measured based on the accuracy of the information reported by the auditor. Accurate information is information that can accurately indicate the value of the company. Kim (2020) suggested that audit quality refers to the probability that a certified public accountant will not issue an unqualified audit report on financial statements that contain material misstatements.

According to Amar (2014), audit quality is the ability of external auditors to detect errors and various forms of deviation (Safitri & Bahri, 2021). According to Mardjono and Chen (2020), only a qualified auditor can guarantee that the report information produced is reliable, because basically the audit results of each auditor have different qualities. Public accounting firm can be divided into two, namely public accounting firm affiliated with big four public accounting firm and non-big four public accounting firm. This is in line with research conducted by Mukhtaruddin et al. (2018), Auditors from large Public Accounting Firm, having affiliations with international public accounting firm will have better quality, because the auditors have been trained in a structured and intensive manner with training and have international recognition (Djoko & Yanti, 2019). Based on previous research on audit quality on financial reporting quality, including from Oktorina and Wedari (2015) overall audit quality has a significant influence on financial reporting quality. This research is in line with the research of Kalbuana and Aryadi (2020) which says that audit quality has a significant effect on the quality of financial reporting.

Auditor Independence and Financial Reporting Quality

Amahalu and Obi (2020) noted that independence is of the mind and characterized by integrity and objectivity of the auditor, hence auditor independence is fundamental to the reliability of the report. They went further to state that the audited report should be of a reputable quality, however, the audit quality is highly dependent on the relationship that exists between the client and the auditor. Judging from this perspective, the quality of the audit report measures the credible opinion of the auditor and the degree of confidence users of financial information place on the information provided by the auditor. This study is inspired by this backdrop to investigate the auditor's independence and quality of financial reports in the public sectors of Nigeria.

Auditor Type and Financial Reporting Quality

Auditor type is a conventional measure for audit firm characteristics, audit type in form of Big four to non-Big four audit firm. Audit quality is expected to increase with auditor type because large audit firms are expected to have superior resources to conduct an audit and they are expected to be better able to remain independent from the client than smaller audit firms (DeAngelo 1981 and Shockley 1981). A related stream of research argues that large audit firms have greater incentives to provide high-quality audits before better financial reporting quality because they have more to lose from an audit failure in terms of their pre-established reputations (i.e. brand name) than smaller audit firms (Francis, 2004). Large audit firms are expected to perform more powerful tests because of its high experience and technical personnel. It has been suggested that the contents of annual reports are not only audited but also influenced by auditors. Thus, companies represented by the big international auditors are likely to provide more detail in their annual reports than companies that are not (Wallace, Naser & Mora, 1994). The larger and better known the auditor, the greater influence they may be able to exercise (Firth, 1979). The larger audit firms are more likely to be associated with more precise information than the smaller audit firms, all things being equal (Beatty, 1989; Titman & Trueman, 1986).

Audit Tenure and Financial Reporting Quality

Auditor tenure is described as the auditors' duration in office, or the number of consecutive years that the firm audits the client, Johnson, Khurana and Reynold (2012). Auditor tenure could be seen from two perspectives: the tenure of individuals engaged in the audit, particularly the engagement partner, and the tenure of the audit firm. Empirical evidence regarding the effect of auditor tenure on audit delay supports both arguments, with studies finding that audit delay both increases and decreases as audit firm tenure increases, (AlRajabi & Warrad 2017). Some studies on audit partner tenure find a positive association between audit partner tenure and audit delay measured, Chi, Huang, liao and Xie (2019). Hence, the imposed mandatory partner rotation, which limits auditor partner tenure, can result in decreased audit quality or increased audit delay. On the other hand, other studies find a negative association between audit quality and long audit partner tenure Chi, Huang, liao and Xie (2019).. Hence, the effects of audit partner rotation on audit quality are still inconclusive. Babatolu, Aigienohuwa and Uniamikogbo (2016) and (Ghosh & Moon,2005). Similarly, found that there exists a negative relationship between audit firm tenure and audit report delay as the correlation between audit delay and leverage was strong, negative and statistically significant. The correlation between audit delay and company size was also strong, positive and statistically significant.

Audit Firm Size and Financial Reporting Quality

Audit firm size is another determinant of audit quality that has effects on the quality of financial reporting. Audit firm size is highly associated with a greater level of disclosure. Audit firm's authority is designated to push clients to disclose more information in their annual reports (Watts and Zimmerman, 1986; Francis, 2004). Audit firm size is often measured in the literature using total assets.

Loveday (2017) suggested in their study that larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. Also, big audit firms are able to resist pressure from management than smaller audit firms. Muhammad and Karbhari (2006) in agreement with Lys and Watts (1994), opined that big

audit firms are better able to resist management pressure in conflict situations than smaller audit firms. Contrary to these views, Emby and Davidson (1998) opined that the size of the participant audit firm, relative to the size of the client did not exert any influence on the judgment of the auditor.

Audit Specialization and Financial Reporting Quality

Auditor industry specialization has been observed from different perspectives with mixed results. Fleming et al. (2014) examined its effect on audit fees amid section 404 of Sarbanes Oxley Act, SOX and found evidence that it mitigated significant increase in audit fees that occurred during the first year of SOX implementation while at the same time discovered that such mitigation with auditor industry specialization during the implementation did not persist in the second year of the compliance. In contrast, Scott and Gist (2013) found a positive association between audit fee and industry specialization even though their study was conducted in response to forced auditor change after Arthur Anderson. In spite of the counteractive outcomes of both studies on audit industry specialization, outcome variables in both – audit fee precludes their outcomes from explaining the direct effect of audit industry specialization on audit quality.

Joint Audit and Financial Reporting Quality

Lobo, Paugam, Zhang and Casta (2017) defined joint audit as a method where two independent audit firms work together to issue one audit opinion to a firm. According to Ajaegbu (2018), it is an audit of a firm or corporate business by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit". It is believed that joint audits would increase the probability of detecting errors, boost audit quality and reduce audit delay. European Commission (2014), it is also believed that joint audits would enhance auditor independence as it would be difficult for the client to jointly develop economic bonding with two different audit firms. Others like Okaro, Okafor and Ofoegbu (2018), postulated that this would reduce the market concentration of audits by strengthening the non-Big4 market position of audit firms as well as mitigating prejudices that affect them.

Francis et al. (2009) studied the relationship between mandatory joint audit and the quality of audit in France, and they found increasing demand on

employing high quality auditors and increasing quality of financial reporting. This is in contrast to firms that didn't employ high quality auditors.

V. EMPIRICAL REVIEW

Sorushyar, A. (2022) examined auditor's characteristics and financial reporting quality for the period 2011-2020 for 145 companies listed in the Tehran Stock exchange. The research hypotheses were analyzed using a multivariate regression model and panel data. The study showed that auditor industry specialization increases financial reporting quality and auditor tenure has a positive association with financial reporting. This study concentrated on Two (2) proxies of audit quality to explore the relationship between the variables. However, both findings proved a positive correlation which is contrary to other results.

Yahaya and Awen (2021) investigated auditor's type and quality of audit resources companies in Nigeria. The study covered Ten years period, 2010-2019 and data were collected from 16 sampled resources companies in Nigeria. The study employed correlational research design and analyzed using multiple regressions. Similarly, the study revealed that auditor's independence significantly affects the quality of financial reporting. This means audit independence as one of the determinants of audit quality plays a roll on quality of financial reporting.

Okunola, (2021) investigated the effect of the independence of auditors on the quality of financial reports of Lagos State parastatals. The data was gotten by with the aid of a questionnaire. Binary logistic regression was used to analyse the data. The outcome of the analysis indicates that a quality financial report is achieved when the independence of auditor is guaranteed. An inconclusive result was obtained when the use of audit rotation and reliance on internal audition was used. The recommendation was based on the findings and it states that parastatals must do everything within their reach to ensure that auditor's independence is promoted in order to reduce the occurrence of audit failures and promote the credibility of financial report.

Daferighe and George (2020) studied audit firm attributes and financial reporting quality in Nigeria for

the period of 2011-2015. The study used multiple regression analysis to test the data and establish the effect between the variables. The study showed that there audit fees have a significant influence on financial reporting quality of quoted manufacturing companies in Nigeria. In contrary, audit firm size and audit delay have insignificant impact on the financial reporting quality of quoted manufacturing companies in Nigeria. This study used three (3) attributes of audit quality for the period of Five (5) years in manufacturing companies in Nigeria. However, the current study will use the most recent period of Ten (10) years, six attributes and non-financial companies across industries.

Obida and Owolabi (2019) explored the impact of ethical issues on audit quality, finding that ethical breaches, such as collusion between auditors and management, significantly undermined audit quality and financial reporting reliability. The study underscored the importance of upholding ethical standards to ensure transparent and accurate financial reporting. Adeyemi and Fagbemi (2017) also highlighted the role of professional standards in ensuring audit quality. Their study showed that adherence to established professional standards and ethical guidelines was crucial for maintaining audit quality and ensuring that financial reports accurately reflected a company's financial position. The research emphasized the need for auditors to follow rigorous professional standards to uphold the integrity of financial reporting.

So also, other variables (determinants of audit quality) such as independence of audit, joint audit, audit firm size, audit specialization and auditor type have been studied with mixed results from different perspective. The current study will empirically test these variables to either agree or disagree with prior studies and similarly suggest on future studies by researchers.

VI. THEORETICAL FRAMEWORK

In order to examine the effect of audit quality on financial reporting quality, some relevant theories was considered to back up the study. These include: agency theory, lending credibility theory and stakeholder's theory.

Agency Theory

The agency theory was propounded by Alchian and Demseo (1972) and later developed by Jensen and Meckling (1976). The theory drives its root from the relationship between the shareholders who are considered the principal and managers (agent) within the corporate setting. The theory holds that the company hires managers to administer the company on their behalf. Thus, managers are obliged to pursue the interest of shareholders above their personal and any other interest. Conversely, managers are self-interested inclined therefore may not necessarily make decision in the best interest of the shareholders (Padilla, 2004). The conflict of interest is known as agency problem, it is an inherent conflict of interest between agent and principal.

The agency relationship will normally exist where there is a contract in which one party called the agent acts and perform delegated duties on behalf of another party called the principal. Whenever conflict of interest arises between the principal and the agent, the agent may not act in the best interest of the principal therefore, in order to avoid such, a third party is usually called upon to mediate. This third party is the external auditor (Barzegar & Salehi, 2008). In this theory, shareholders who are the owners or principals of the company, hires the agents who is the auditor to perform work of auditing of financial statements. Auditing is a crucial monitoring mechanism on reporting and management activities. Therefore, audit firm with high characteristics can lead to high audited financial statement as expected.

The Lending Credibility Theory

Credibility theory is often attributed to the work of Thomas Bayes in the 18th century. The goal of credibility is to make more accurate forecasts of future events (which are uncertain) by incorporating new information as it arises to update and revise those forecasts. In a similar vein, the theory explained the public perception that the primary function of auditing is the addition of credibility to the financial statement and the reduction of information asymmetry. Audited financial statements are used by management to enhance the stakeholder's faith in management stewardship. If stakeholders such as stockholders, government or creditors have to make their judgment based on the information they receive they must have

faith that this is fair representation of the economic value of their companies. As stated that lending credibility theory's primary function is the addition of credibility to the financial statements. In this view, the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statements users' confidence in the figures presented by the management (Weber, Willenborg & Zhang, 2008).

Therefore, audit work is expected to increase the quality of financial information of which stakeholders would relied upon. However, only an audit firm with the right attribute can truly give credibility to financial statement information.

The Stakeholders Theory

The stakeholder's theory was pioneered by freeman in 1984. Freeman (1984) defined stakeholders as any group or individual who can affect or is affected by the achievement of the organizations objectives. Unlike the agency theory, where managers are working for the shareholders, stakeholders theory suggest that managers in organization have a network of relationship to serve which include suppliers, employees, host community, legislatures, financial analyst, press etc. Freeman (1984) argued that the firm is a social person and therefore, is responsible and accountable not only to the shareholders but also to all other stakeholders. With the stakeholders' theory, therefore, given that there are different groups which the management need to ensure their interest, if there is no effective monitoring mechanism such as the audit, management bias will place some at a disadvantage. Effective audit firm will ensure free and fair financial reporting that affords each stakeholder opportunity to realize their interest without undermining that of others.

Based on the variables of the study which are audit quality and financial reporting quality, among the theories discussed, the one that is best explains the study is the lending credibility theory because the theory stipulates that the primary function of audit is to add credibility to the financial statements. The credibility landed by audit of the financial statements is a function of the audit firm possessing the right attributes.

VII. RESEARCH METHODOLOGY

This study adopted an ex-post facto research design where historical data on audit quality and financial reporting quality was used in analyzing the effect of audit quality on financial reporting quality of listed non-financial companies in Nigeria. The data used was extracted from the published annual reports and accounts of the sampled non-financial companies. The population of this study covered all the twenty-eight non-financial companies quoted on the Alternate Security Market (ASM) of the Nigerian Stock Exchange (NSE) as at 31st December, 2022. The choice of non-financial companies is because of the role played as a non-financial intermediary in an economy by way of spreading services other than financial, thereby facilitating investment opportunities. The list of all the non-financial companies that constitute the population of the study. The population of the study with the nature of business and the year of listing were Fifty-Seven non-financial companies quoted on the NSE as at 30th September. This study uses a sample of Forty-six (46) non-financial companies across various industries out of the Fifty-Six listed non-financial companies which constitute the population of the study.

In order to assess the accrual quality of the financial reporting quality of the non-financial companies in Nigeria using a modified Dechow and Dichew model 2002. The model as used by Tuta (2014) was modified to suit the study. Thus;

$$WCA_i = \alpha + \beta_1 CFO_{i-1} + \beta_2 CFO_i + \beta_3 CFO_{i+1} + \Delta CL + \Delta cash + E_t \text{ ---- (i)}$$

Where:

$\Delta cash$ = Changes in cash or cash equivalent.

ΔCL = Change in current liabilities

Model Specification

The financial reporting quality of non-financial companies were estimated as a function of accrual quality (AQ) and qualitative characteristics of relevance (R), faithful representation (FR), understandability (U), comparability (C) and timeliness (T). While audit firm characteristics by auditor independence (AI), auditor type (AT), audit firm tenure (AFT), audit firm size (AFS) and Joint team audit (JTA)

This can be deduced as;

$$FRQ1 = f(R, FR, U, C, T) \text{ ----- (i)}$$

$$FRQ2 = f(AQ) \text{ ----- (ii)}$$

$$AQ = f(AI, AT, AFT, AFS, JA) \text{ ----- (iii)}$$

The econometric model will be stated as:

$$FRQ1_{it} = \beta_0_{it} + \beta_1 AI_{it} + \beta_2 AT_{it} + \beta_3 AFT_{it} + \beta_4 AFS_{it} + \beta_5 JA_{it} + e_{it} \text{ ----- (iv)}$$

$$FRQ2 = f(AQ) \text{ ----- (v)}$$

Introducing the control variables,

$$FRQ1_{it} = \beta_0_{it} + \beta_1 AI_{it} + \beta_2 AT_{it} + \beta_3 AFT_{it} + \beta_4 AFS_{it} + \beta_5 JTA_{it} + \beta_6 ACI_{it} + e_{it} \text{ ----- (vi)}$$

Where: FRQ1 = Financial reporting quality (qualitative)

AI = Auditor Independence

AT = Auditor Type

AFT = Audit Firm Tenure

AFS = Audit Firm Size

JTA = Joint Team Audit

ACI = Audit Committee Independence

ACFE = Audit Committee Financial

Expertise

R = Relevance

FR = Faithful representation

U = Understandability

C = Comparability

T = Timeliness

β_0 = Regression intercept;

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8$ = Parameters to be estimated;

e = Error term

it = company i in year t

VIII. PRESENTATION AND ANALYSIS OF DATA

Descriptive statistics

This analysis is aimed at describing the nature of the collected data relating to Financial Reporting Quality and Audit Quality which will help in assessing the trends, distribution and dispersion of data using mean, standard deviation and skewness as presented in Table 1

Descriptive Statistics

Variables	Mean	Standard Deviation	Skewness	Kurtosis
FRQ	14.339	2.203	-0.04	-0.28
AI	2.1340	0.3483	0.44	0.12
AT	0.6770	0.4680	-0.76	-1.43
JTA	0.03265	0.17786	5.27	25.90
AFS	9.6747	1.3487	0.03	0.27
AFT	0.7680	0.4224	-1.27	-0.38
ACI	0.51769	0.18946	1.38	2.32

Source: Extraction from Minitab output (Appendix 3) Table shows that the collected data are normally distributed across all the variables as indicated by mean of 14.339, 2.1340, 0.6770, 0.03265, 9.6747, 0.7680 and 0.51769 for FRQ, AI, AT, JTA, AFS, AFT and ACI respectively. The standard deviation of 2.203, 0.3483, 0.4680, 0.17786, 1.3487, 0.4224 and 0.18946 for FRQ, AI, AT, JTA, AFS, AFT and ACI respectively shows that there is a moderate dispersion between the collected data and the data are concentrated at the centre. The concentration of data at the centre is also visible in the -0 and +0 skewness value which indicates that the data is neither skewed much to the right nor much to the left. This trend of data is replicated in almost all the variables selected for the study and it could be concluded that the collected data are normally distributed across the variable as could be further confirmed by the normality test graph in appendix D.

Correlation Matrix

The correlation test focuses on ascertaining the association between the dependent variable (Financial Reporting Quality) the independent variables (Auditors' time, Joint audit team, Audit firm size and Audit firm tenure) and the control variable of (Audit committee independence) of the study is presented in table 4.2. The established association will help in determining the suitability of the data in providing the relevant and reliable result.

Variables	FRQ	AI	AT	JTA	AFS	AFT	ACI
FRQ	1.000						

AI	0.372 0.016	1.000					
AT	0.425 0.000	0.095 0.018					
JTA	0.153 0.000	0.214 0.062	0.027 0.248	1.000			
AFS	0.761 0.000	0.038 0.007	0.091 0.487	0.081 0.432	1.000		
AFT	0.115 0.006	0.097 0.032	0.034 0.231	0.014 0.744	0.017 0.735	1.000	
ACI	0.122 0.004	0.047 0.024	0.015 0.905	0.012 0.858	0.001 0.715	-0.019 0.772	1.000

**, * significant at 1% and 5% level of significance respectively.

The correlation result presented in table shows that there is positive, strong and significant relationship between the dependent variable (FRQ) and independent variables (AI, AT, JTA, AFT, AFS and ACI) indicates that variable are properly selected since changes in the dependent variable will lead to a reasonable change in the independent variables. The independent result for the explanatory variables shows audit independence has positive and significant correlation with financial reporting quality as established from the correlation output in table 4.2. Auditors' type has positive and significant correlation with FRQ as shown by a correlation coefficient of 0.425. This implies that whenever the AT moves the FRQ move in the same direction as the auditors' type change the financial reporting quality also change. On the same vein changes in joint team audit by the audit firms resulted in significant change if the quality of financial reporting of the firms under study. This could be confirmed by the positive coefficient of 0.153 which implies that a slight engaging in joint audit could result to relative shift in the financial reporting quality of the sampled firms.

The correlation results also indicated that the size of audit firm correlates positively with FRQ as supported by the coefficient 0.761. This implies that audit firm

size and financial reporting quality moves in the same direction as audit firm size changes the quality of financial reports in the listed non-financial companies experience proportionate changes too. The result in table 4.2 in relation to audit firm tenure relate positively with the quality of the financial reports of the sampled companies. The correlation coefficient of 0.115 shows a proportional direction move among the variable of AFT and FRQ. Likewise, the control variable of audit committee independence has positive and significant relationship with the dependent variable FRQ as shown by the correlation coefficient of 0.122 in table conclusively all the independent variables relate positively with the dependent variable which suggest that all the variables move in the same direction as increase in independent variables will lead to significant increase in dependent variable.

The correlation of the independent variables among themselves could be seen to be insignificant since all the coefficients significant value are greater than 0.05 which indicates that there is no high correlation within the variables which could lead to multicollinearity. The individual results shows that auditors' type, Joint Audit Team, Audit firm size, Audit firm tenure and audit committee independence relate positively with audit independence as confirmed by the correlation coefficient of 0.095, 0.027, 0.091, 0.034 and 0.015 respectively. The positive directional move of the variables is an indication that an when auditors' type changes the other independent change in same direction though all the changes are insignificant.

It can also be deduced from the correlation output in table 4.2 that joint audit team, audit firm size and audit committee independence relate positively with auditors' type as shown by the correlation coefficient of 0.214, 0.081 and 0.012 for audit firm size and committee independence respectively. This indicates that the two explanatory variable AFS and ACI moves in the same direction with JTA. On the other hand, audit firm tenure relates negatively with joint team audit as shown by the correlation coefficient of -0. This implies that JTA relates positively with most of the variable except AFT which show a reverse relationship.

Regression for AQ and FRQ; VIF and Durbin-Watson result

Predictor	Standardized Coefficients	t-value	Sig.	VIF
Constant (FRQ)	1.8592	3.66	0.000*	
AI	1.43275	25.13	0.0030*	1.268
AT	-0.2079	-2.30	0.023*	1.557
JTA	0.1560	3.46	0.000*	1.045
AFS	1.26190	22.59	0.000*	1.565
AFT	0.1715	2.15	0.018*	1.077
ACI	0.5673	1.73	0.185	1.080
Adjusted R-Square	0.579			
Durbin-Watson	1.986			
F-value	0.000			

, significant at 1 and 5% level of significance
 Source: Minitab Computation (2023) (appendix 5)

Table presents the multiple regression result of audit quality on financial reporting quality of listed non-financial companies in Nigeria. The result of the analysis shows an adjusted R-square of 0.579 which indicates that the combination of the independent variables (AT, JTA, AFT, AFS and ACI) have jointly explained over 57 percent of the variation in the dependent variables measured by financial reporting quality of the sampled companies. This implies that the model is fit and variable are properly selected and the findings from the study would be relied upon. The result with respect to Durbin-Watson which is aimed at testing the autocorrelation between the variables shows that there is no autocorrelation in the considered observations since as the result value is 1.986 which falls within the range of 1.5 to 2.5 as documented by (Karadimitriou, Marshall, & Knox, 2018). Increasingly, the VIF output as presented in table 4.3 also indicates that there is no presence of multicollinearity among the study variables since all

the VIF value are less than 5 which implies that there is moderate correlation among the independent variables and such correlation could not affect the reliability of the data and the result (Appendix 4).

On the other hand, joint team audit (JTA) has positive and significant influence on financial reporting quality of listed nonfinancial companies for the period under study. This is supported by the regression coefficient of 0.1560 and a p-value of 0.000. This result shows that whenever there is increase in joint audit by audit firms it will result to reasonable increase in the quality of financial reports on the companies under study. This is because it is widely believed that “joint audits would increase the probability of detecting errors, boost audit quality and reduce audit delay” as such it will enhance auditor independence which make it difficult for the client to jointly develop economic bonding with two different audit firms” as argued in (Okaro, Okafor & Ofoegbu 2020). On the same vein, joint audit leads to safe rotation by retaining the one who has more knowledge and understanding about the client firm as it guarantees more independence and competence (Carcello & Nagy, 2004; Carey & Simnett, 2006; Deng, et al., 2014; Lobo, et al., 2017). Likewise joint audit is capable of overcoming the economic threat of auditor independence and this will boost the financial reporting quality (Mazars, 2010; Zerni et al., 2010; Lesage, et al., 2017). Other studies such as Thinggaard and Kiertzner, 2008; Deng et al., 2014; Audoussert-Coulier, 2015; Andre’ et al., 2016; Kermiche and Piot, 2018) refuses the idea that joint audit can increase the quality of financial statements. Consequently, audit firm size (AFS) has positive and significant impact on the reporting quality on the study sample during the period under review as shown by the regression coefficient of 1.26190 and a p-value of 0.000. The result implies that when size of audit firm changes from either small audit firm to big audit firm the financial reporting quality of such companies audited by the firms improve significantly. From both the correlation and regression results, the audit firm size appeared to be positively impacted Financial Reporting Quality. The result in relation to audit firm size as often measured in the literature using total assets align with long established conclusion of Lys and Watts (1994), Francis and Krishnan (1999), Lennox (1999) and Olabisi, Kajola, Abioro, and Oworu (2020) that larger audit firms have better

financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. They also have the capacity to resist pressure from management than smaller audit firms as concluded by Muhammad and Karbhari (2006). Contrary to these views of Emby and Davidson (1998) opined that the size of the participant audit firm, relative to the size of the client did not exert any influence on the judgment of the auditor.

The result also indicates that audit firm tenure (AFT) has influenced financial reporting quality of the sampled companies positively and significantly. This implies that the duration of the audit firm auditing the sampled companies has caused an increase in the quality of the reported financial statements as deduced from the regression coefficient of 0.1715 and the p-value of 0.018. This result indicates frequent change of company’s external auditor could reduce the quality of the reported financial statement by those companies. Prior studies have provided mixed results on the influence of auditor tenure and financial reporting quality. However, this study found that tenure of audit firm is a good determine of the output from the reported financial statement. This is result is in alliance with the learning curve theory which postulate the more repeated the task is better the output. The result further suggests that the more consistent the audit firm audit same companies/organizations financial the higher the chance of having an improved quality of the financial reports. The finding is in alliance with the long-established fact by (Simon & Francis, 1988) that long-term audit tenures increase quality audit work due to auditor specific knowledge gained over time but it is in contrast with the opinion of others that auditor’s long-term association with the auditor poses a threat to auditor independence thus leading to lower level of audit quality (SOX, 2002; IFAC, 2005)

The control variable of audit committee independence used in the study has contributed positively but insignificantly to the quality of the financial reports of the companies under review. This implied that the independence of the audit committee in the companies under review has less contribution to the quality of the financial reports therein. This could be as the audit committee are internal members of the companies with

less influence on the direction or improving the nature of the financial statement being produced.

IX. CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study is aimed at investigating Audit Quality impact on Financial Reporting quality of the sampled listed non-financial companies in Nigeria. The result presented in chapter four indicates that all the four formulated null hypothesis is rejected as all the explanatory variable has a significant impact of the dependent variable. The summary of the study findings was presented as follows:

- i. Auditor independence (AI) has positive and significant impact on Financial Reporting Quality of the sampled nonfinancial companies in Nigeria for the study period as independence of auditors determines their due diligence and careful review of the financial statement of the companies under their engagement. Independence of auditors is an attitude which qualifies an auditor to express opinion on matters of financial reporting without bias or undue pressure as such it constitutes an important ingredient in assessing quality of financial reports.
- ii. Auditors' type (AT) has negative and significant influence on financial reporting quality of the sampled companies. This could be as it is possible that bigger firms pay less attention to diligence because of high patronage while smaller firms will put in their best in order to build good reputation.
- iii. Joint team audit (JTA) has positive and significant influence on financial reporting quality of listed nonfinancial companies for the period under study as widely believed that "joint audits would increase the probability of detecting errors, boost audit quality and reduce audit delay" as such it will enhance auditor independence which make it difficult for the client to jointly develop economic bonding with two different audit firms"
- iv. Audit firm size (AFS) has positive and significant impact on the reporting quality on the study sample during the period under review which suggest that large audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. They

also have the capacity to resist pressure from management than smaller audit firms.

- v. Audit firm tenure (AFT) has impacted financial reporting quality of the sampled companies positively and significantly. This indicates frequent change of company's external auditor could reduce the quality of the reported financial statement by those companies.
- vi. Audit committee independence (ACI) in the companies under review has less contribution to the quality of the financial reports therein. This could be as the audit committee are internal members of the companies with less influence on the direction or improving the nature of the financial statement being produced.

Conclusion

This study lies at the heart of the issue of reliability of financial statements. Reliability is the cornerstone of credibility, which in turns determines investor confidence. The focus of this study is Audit Quality and Financial Reporting Quality of the listed nonfinancial companies in Nigeria. The study is motivated by the paucity of research on subject matter in the nonfinancial companies as against the odds of focusing single sector especially the financial companies.

This study provides empirical evidence to support a positive impact of audit independence, audit firm size, joint team audit, audit firm tenure on financial reporting quality of the sampled companies for the period under review. On the other hand, the positive empirical evidence of auditors' type impact on financial reporting quality of the selected nonfinancial companies in Nigeria for the period used in the study was provided.

Recommendations

The findings which emanated from the analyzed data paved way for the following practical and policy recommendations that will go along way in addressing key problems relating to financial reporting quality as being determined by audit quality.

- i.
- ii. Independence of external auditors should be monitored and enhancing mechanism by relevant agencies should put in place. On the same vein strong economic bonding of auditor and their client

should be discouraged through formulating an audit fee model with compliance enforcement strategy.

- iii. Regulators and Management of organizations especially nonfinancial companies should work toward strengthen small audit firm and also ensure switching from one big audit firm to another is discouraged as it will bring sanity into the Nigerian audit market.
- iv. Joint audit team should be encouraged by regulators especially Financial Reporting Council of Nigeria which will encourage cross ventilation of experience and due diligence in performing audit services. This will foster comprehensive and rigorous review of financial statements of companies and this will lead to high quality of financial reports.
- v. Change in auditors should be observed and monitored by relevant agencies and management of companies especially audit committee should discourage the unending audit tenure in their respective companies. The study indicates that a long audit tenure does not translate to increased financial reporting quality and this will reduce avoid over familiarity of auditors with client as it will cause non comprehensive review financial statement.
- vi. The size of audit firms should be put into consideration while appointing auditors to audit financial reports of the nonfinancial companies in Nigeria. Since the size in term asset provide them with better capacity and reputation consciousness to issue efficient audit statement which will lead to better financial reporting quality

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