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AUDIT QUALITY AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM NIGERIA

[1]Adeyemi Adepoju Oladipo, [2]Adeleye Oluwasegun Lekan, and [3]Agbaje Taofeek Alani
[1]Department of Accountancy, Osun State College of Technology Esa-Oke.
[2]Department of Business Education, Osun State College of Education, Ila-Orangun
[3]Department of General Studies, Osun State College of Technology, Esa-Oke.
Correspondent Author: yemlaonline2@gmail.com 08038074595

Abstract
The quality of audit opinion on financial statements has been a concern since the 2001 Enron accounting scandal and the financial crisis that rocked various organizations despite unqualified audit opinions given over the years. This study thus investigates the impact of audit quality on the quality of financial reporting of quoted companies in Nigeria for the period 2011-2020. Ex-post facto research design using panel data was employed and the 25 companies in the consumer goods sector quoted on the Nigerian Exchange Group (NGX) constitute the population for this study. Applying the purposive sampling technique, a sample of 21 companies was selected. Secondary data relating to the variables were gathered from sampled firms' annual reports for the period and were analyzed using descriptive statistics and multiple regression techniques. Findings revealed that audit quality has a significantly positive effect on financial reporting quality (FRQ). It is concluded that audit quality significantly improves the FRQ of listed companies in Nigeria. It was thus recommended that policymakers and regulatory authorities should ensure the enforcement of policies towards ensuring quality financial reporting through quality audits.
Keywords: ***Audit Quality, Financial Reporting, Nigerian Exchange Group, Listed Companies***

INTRODUCTION

The goal of financial reporting revolves around the provision of quality-embedded financial information about reporting entities helpful in making decisions (International Accounting Standard Board- IASB, 2018; Alwardat, 2019) as this will guide the suppliers of capital and other interest groups to make appropriate investment and other related economic and financing decisions to deepen general market efficiency (Herath, & Albarqi, 2017; IASB, 2018). However, appropriate accounting policies that underlie the preparation of financial reports are decided by the management (Farouk, 2014); which could be subjective in its recognition, measurement, and allocation of values to some items of expenditure and revenues in the financial statements. This could defeat the purpose of such disclosed information as to its adequacy, fairness, and completeness (Aifuwa, Embele & Saidu, 2018; Alwardat, 2019; Mstoi, 2020). As a regulatory and supervisory requirement, as well as a practice of great public interest to internal and external users of financial information, external audit plays a critical role in establishing quality financial reporting (International Auditing and Assurance Standards Board- IAASB, 2014; Ibrahim & Ali, 2018; Itoro & Daferighe, 2019). The external audit of financial statements thus provides an oversight function by minimizing the information gap and protecting the interests of its diverse users which is carried out by providing reasonable assurance that material misstatements do not occur in the financial statements (Aledwan, Bani-Yaseen & Alkubisi, 2015; Alwardat, 2019). Corporate failures and scandals are increasing due to the intense depletion of quality reporting thereby paving the way for investor losses and plummeting confidence in the financial system (Nickolas, 2015; Adeleke, 2016; Amahalu, Abiahu & Obi, 2017; Ajape, Omolehinwa & Adeyemi, 2018). More so, stakeholders have also queried both the process leading to production and the credibility of accounting and reporting practices of firms; especially, what audit committee quality entails for companies' performance indicators (Olaoye, Akinleye, Olaoye &

Adebayo, 2020). Among the reasons adduced for the observed impotency of the audit committee include an increased number of its members appointed by management, non-remuneration for members, short term of office of members, and inability of committee members to ask relevant questions due to lack of technical knowledge (Olaoye, Akinleye, Olaoye & Adebayo, 2020).

Noticeably, perpetrators of fraud usually leveraged on high reliance placed on audited reports by diverse stakeholders to focus on ways of covering lapses concerning known misappropriations or financial scandals. This tends to impact negatively the operational results of firms and could result in an overall lessening of companies' outcomes and FRQ (Olaoye, Akinleye, Olaoye & Adebayo, 2020). Specifically, reduced audit quality is usually prompted by dependence occasioned by large fee income to audit companies from client companies leading to economic ties between the auditors and clients' management who may pressurize auditors to accede to management's demands thus compromising their independence (Akhidime, 2019). Though recent provisions of the Nigeria Code of Corporate Governance (NCCG, 2018) empower the audit committee to closely monitor the financial reporting process of an enterprise, there has been a disparity between corporeality and what is reported following non-compliance with this provision. Accountants, companies' management, and directors have also been found to connive to window-dress companies' financial statements as a result of the yielding attitude of external auditors (Oboh & Ajibolade, 2018).

Despite the volume of research in this area, cases of FRQ problems are still prevalent which therefore necessitate a study on audit quality and FRQ in Nigeria. Also, audit quality has been more expatiated in developed countries than in developing countries like Nigeria (Soyemi, Olufemi & Adeyemi, 2020). Besides, there are conflicting results of their relationship due to differences in data, size, and even methodological approach used. Hence, this study examines the extent of audit quality impact on the FRQ of listed companies in Nigeria with a particular focus on the organizations operating within the consumer goods industry during the financial year period of 2011 to 2020. Specifically, it examines the extent to which the auditor's independence, auditor's engagement performance, audit committee quality, and audit fee affect the FRQ of Nigerian listed companies.

LITERATURE REVIEW

Conceptual Review and Hypothesis Development

Financial Reporting Quality (FRQ)

A financial report is a typical account of a business, person, or entity's financial operations that contains all essential financial information about the same presented in an orderly and understandable manner (Unuagbon & Oziegbe, 2016; Ibrahim, 2017; Nnenna & Ugwoke, 2019) which serves as a means of communication to be used for decision making by several parties (Olowokure, Tanko, & Nyor, 2016; Teguh, & Zaenal, 2020). The accounting process ends with reporting which is the third and last stage which provides high-quality financial reporting information concerning the reporting entity thereby availing diverse stakeholders the opportunity to make sound investing, controlling, and regulatory decisions (Al-Dmour, Abbod & Al-Qadi, 2018, Herath & Albarqi, 2017; Tang, Chen, & Lin, 2016). The value of financial reports depends on their quality (Enofe, Edemenya & Osunbor, 2015; Shakhatreh, Alsmadi & Alkhataybeh, 2020) as quality financial reporting is an essential property of financial reports (Alwardat, 2019). The quality of the process is adjudged by its clarity and transparency in the treatment of each transaction in the financial statement as well as strict adherence to the legislation and accounting policies of the entity (Nnenna & Ugwoke, 2019). It also depends on each of its components, such as the company's transaction disclosure, accounting procedures applied, information regarding the selection, and knowledge of the judgments made (Ajape, Omolehinwa & Adeyemi, 2018).

Quality financial reporting is full and designed not to misinform or misguide users (Aifuwa, Embele & Saidu, 2018). High-quality financial reporting is necessary as it contributes to national public finance by enhancing the company's income tax assessment and collection (Babatunde & Adeniyi, 2019). In Nigeria, the Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Nigerian Insurance Commission (NAICOM), and Pension Commission (PENCOM) are vested with

the obligation of financial reporting regulation and communication of up-to-date and credible financial information to users. Also, enacted into law in the year 2011, the Financial Reporting Council of Nigeria (FRCN), is duty-bound to ensure the improvement, dependability, and quality of financial statements towards restoration, protection, and heightening of public trust in them (Kibiya, Che-Ahmad & Amran, 2016).

Audit Quality

Primarily, auditing exists as one of the measures to lessen the information gap in accounting numbers and minimize the residual loss which results from managers' opportunism in the accounting process (Ogbodo, Akabuogu & Nzube, 2018; Usifoh, Adegbie & Salawu, 2019). Thus, a quality audit is imperative. Audit quality is a structure that comprises audit professionals, audit processes, and audit results. Researchers agree that a quality audit is achievable when the expressed auditor's opinion is reliable, backed by adequate and proper audit evidence obtained by an engagement team with requisite features. These attributes include an exhibition of suitable values, morals, and mannerisms; demonstration of adequate knowledge and experience, allocation of sufficient time to carry out the audit task; application of a comprehensive audit process and quality control methods; delivery of useful and timely reports; and appropriate collaboration with a variety of stakeholders (Oladejo, Olowookere & Yinus, 2020; Chae, Nakano & Fujitani, 2020).

There have been several attempts to conceptualize "audit quality", though since time passed and the definition has achieved universal acknowledgment and approval (IAASB, 2014; CAQ, 2016, Ajape, Alade & Agbaje, 2021). One of the most instructive definitions of audit quality is premised on the technical competence of the auditor to detect any material errors and exhibit independence to ensure correction and disclosure in the audit report (Ibrahim & Ali, 2018; Zalata, Elhazar & McLaughlin, 2020; Oladejo, Olowookere & Yinus, 2020).

The input, process, and outcomes/results of the audit process all influence audit quality (Assad & Alshurideh, 2020; Husain, 2020). Audit quality ensures that financial statements accurately reflect the company's economic conditions, attributes, and financial reporting systems (Onaolapo, Ajulo & Onifade, 2017). While higher audit quality is thought to imply greater assurance of high FRQ (DeFond & Zhang, 2014), audit quality is primarily defined by adherence to professional auditing standards, whereas investors place a greater emphasis on the characteristics of the engagement team conducting the audit (Christensen, Glover, Omer &Shelley, 2016). Because investors place such a high value on auditor characteristics, additional input-related disclosures may be beneficial to financial statement users in determining audit quality (Christensen, Glover, Omer & Shelley, 2016).

Measurements of Audit Quality

There is no consensus yardstick for measuring the concept of audit quality (IAASB, 2014; CAQ, 2016). The most widely employed surrogates for audit quality are rooted in DeFond and Zhang's (2014) model, where measures of audit quality proxies are classified as either input or output-based (Matoke & Omwenga, 2016; Smii, 2016). Output-related metrics typically involve significant restatements initiated by the auditor; going concern opinions; financial reporting attributes including the use of absolute discretionary accruals, the Dechow-Dichev (2002) measure of earnings quality or Basu's timely loss recognition measure (Basu, 1997). It also relates to the firm's propensity to meet or beat quarterly analyst earnings estimates as well as perception-based measures such as the earnings response coefficient, stock price reactions to auditor-related events, and cost of capital measures (Rajgopal, Srinivasan & Zheng, 2018). The input-based proxies which include the auditor's independence, auditor's engagement performance, audit committee quality, and audit fee were however adopted for the study due to the client's demand for audit quality based on observable inputs (Christensen, Glover, Omer & Shelley, 2016; Rajgopal, Srinivasan & Zheng, 2018).

Auditors Independence

Auditor independence is viewed as the bedrock of the audit profession as it is regarded as the basis for public trust (Akther & Xu, 2020). It is conceived to mean both "independence of mind and independence in appearance" (Ajape, Alade & Agbaje, 2021) and ensure the possibility that an external auditor would report any detected material misstatements in the financial statements caused by fraud or error (Otuya, 2019). The requirements from the IFAC code serve as a guideline for auditors to ensure conformance with statutory and professional requirements for rendering audit services (Salawu, 2017). Empirical studies (Ebo; 2016; Okezie & Uchenna, 2019; Olanisebe, Ekundayo & Adeyemo, 2020) have measured audit independence using audit fees, tenure, and firm rotation and have reported significant relationship and impact on financial reporting. This study however measured the auditor's independence using the years of service of the audit firm to the audited company (tenure). The proposition is therefore that auditor independence does not have a significant impact on the quality of financial reporting of listed companies in Nigeria.

$H_0$1 - Auditor independence does not have a significant impact on the quality of financial reporting of listed companies in Nigeria.

Auditor's Performance Engagement

Guaranteeing complaisance with established standards and procedures on every audit engagement is the focus of auditors' performance engagement. Auditing standards, according to Saha and Roy (2016), are a set of norms accepted by the profession as guidelines for measuring transactions, events, and conditions that have an impact on financial results and financial information provided to beneficiaries. International standards have been developed to harmonize auditing methods across countries and are to be utilized if local standards do not exist (Alzeban, 2015; Akinleye, Olaoye & Talabi, 2020). In Nigeria, for example, where Nigerian Auditing Standards do not exist, corporations listed on the Nigeria Exchange Group (NGX) are required to follow the International Standards on Auditing (ISA). Using this metric as one of the proxies for audit quality, Iwarere, Abdullahi, and Pavtar (2016) and Nwanyanwu (2017) studies indicated the existence of a strong, positive, and significant relationship between audit quality and reporting quality of Nigerian listed companies financial statements. In this study, auditor engagement performance is proxied by the operational years of the audited company. The longer the period, the more reliable the accounting and internal control system of the company which will produce quality audits when the audit engagement is performed. Therefore, it is hypothesized that the auditor's engagement performance does not significantly impact on FRQ of Nigerian listed companies.

$H_0$2 - Auditor's engagement performance does not significantly impact on FRQ of Nigerian listed companies.

Audit Committee Quality

The audit committee comprises a working group with members selected from the company's board of directors and put in place to connect the managers of a firm to the outside assessors (auditors) and play an important role in monitoring the company financials (Gonthier-Besacier, Hottegindre, & Fine-Falcy, 2016; Aduwo, 2019). Ideally, a Chairperson is selected from among the members of the committee. The NCCG (2018) in its Section 11.4(1), required every company to set up a committee of the board to be responsible for audit (Majiyebo, Okpanachi, Nyor, Yahaya & Mohammed, 2018; Alwardat, 2019). The committee would review the company's accounting policies, assess its internal control system and evaluate external reporting systems, compliance, and regulations (SEC Code, 2011; Putri, Azhar & Erlina, 2017) which is carried out through official correspondence between management's board, external auditors, and internal auditors (Firnanti & Karmudiandri, 2020). Consequently, the features of the audit committee include size, independence, expertise, and diligence. The committee's independence is assumed when members do not carry out executive duties (Aifuwa, Musa & Gold, 2020). The NCCG (2018) expressly highlighted financial literacy including the ability to read and understand financial reports as some of the attributes of all audit

committee members. Also, the Companies and Allied Matters Act (1999 as amended in 2020) provides that the "Audit Committee of a public limited liability company should be composed of a maximum of six members representing an equal number of directors and shareholders."
The audit committee's size is pertinent in prompt corporate financial reporting. Olaoye, Akinleye, Olaoye, and Adebayo (2020) documented the existence of a positive relationship between audit committee composition (proxied by size, financial expertise, meetings, and non-executive directors on the audit committee) and FRQ, with the conclusion that errors and financial misrepresentation in annual report occur less frequently with the existence of an audit committee. Kibiya, Che-Ahmad, and Amran (2016) focused on audit committee characteristics (share ownership and financial expertise) and FRQ of Nigerian quoted companies. The relationship was significant, suggesting that audit committee monitoring mechanisms influence the FRQ of listed non-financial firms in Nigeria. In this study, audit committee quality is proxied by size, committee independence, financial expertise, and audit committee meetings. The hypothesis is therefore that audit committee quality does not significantly impact the FRQ of listed Nigerian companies.
$H_0$3 - Audit committee quality does not significantly impact the FRQ of listed Nigerian companies.

Audit Fee
An audit fee represents the service charge for the official assignment of an audit (Ilechukwu, 2017) and represents the fees paid for annual audits and review of financial statements for the most recent fiscal year (Afesha, 2015). Section 361 of CAMA stipulates that the remuneration of auditors may be fixed by the directors. However, in other cases, the remuneration shall be fixed by the company at the annual general meeting or in such a manner as the company in its general meeting may decide (Nwakaego, Ikechukwu, & Benedict, 2019). It also provides that under no circumstance must the audit fee from an audit client constitute 25% or more of the gross practice income of an audit firm or the gross earned income of a member (Dabor & Nosa, 2014; Chinedu, Nwoha & Udeh, 2020).
Saidu and Danjuma (2018) examined the impact of audit fee on the FRQ of listed insurance companies in Nigeria and found that audit fee has a positive and significant impact on FRQ. Abdulmalik and Che-Ahmad (2016) who explored the impact of audit fees on FRQ in Nigeria reported that audit fees have a negative significant influence on discretionary accruals. In thisstudy, audit fee is measured using a natural log of the audit fees paid by the company to achieve normality of the data. The study hypothesizes that audit fee has no significant impact on the FRQ of listed Nigerian companies.
$H_0$4 - Audit fee has no significant impact on the FRQ of listed Nigerian companies.

Theoretical Framework
Agency theory
The agency theory expounds on the agents (organizations management) - principal (shareholders) relationship and was propounded by Jensen and Meckling (1976). Conflicts of interest between managers and stakeholders are created as a result of the diffusion of ownership from control in modern business. The agent, in making decisions, may naturally act contrary to the principal's direction who could in turn establish an appropriate incentive for the agent thereby incurring monitoring costs (Aliyu, Musa & Zachariah, 2015). The limited information available to the shareholders makes it difficult to determine the (un)favorableness of decisions made by the management (Estitemi & Omwenga, 2016). This could induce the shareholders to establish a monitoring process such as auditing to control the action of the management in making some decisions for the organization. Thus, the audit fee arises as a bonding cost paid by agent (s) to a third party to satisfy the principals' demand for accountability (Estitemi & Omwenga, 2016). According to Okpala (2015), auditing increases stakeholders' confidence in the financial statements as a result of the element of credibility it provides. Agency theory thus serves as a useful economic theory of accountability on the part of the management to the shareholders. Thus, a quality audit could minimize the information gap between the management and stakeholders and thus, serves as the backbone of quality financial reporting.

METHODOLOGY

The study employed an ex-post facto research design using panel data. The panel data allows a complete assessment of the financial report's quality of the consumer goods sector in Nigeria as it contains more information, more variability, and more efficiency than pure time series data or cross-sectional data (Erica, 2019). The population of this study consists of 25 companies in the consumer goods sector of the NGX (2021). Purposive sampling technique was deployed in ascertaining the sampled companies to produce characteristics or criteria that are defined for the study's purpose and 4 companies were unable to meet up-to-date requirements thereby, resulting in a sample of 21 companies. Secondary data extracted from the audited annual reports of the sampled firms whose information content has been certified by an independent firm of chartered accountants (Ajape, Agbaje & Uthman, 2016) were adjudged valid and reliable for use in the study.

Model Specification

A multivariate econometric model was specified and estimated using the Ordinary Least Square (OLS) due to its characteristics of Basic, Linear, Unbiased, and Estimator (BLUE) (Stewart, 2016). In the equation, FRQ (dependent variable) is modeled as a function of the four proxies of the independent variable (audit quality).

$$FRQ = \beta_0 + \beta_1 IND + \beta_2 PERF + \beta_3 COMM + \beta_4 FEE + \mu \qquad (1)$$

where:
FRQ = Financial Reporting Quality measured by discretionary accruals (DA)
IND = Auditors Independence (AQ1 =Component of the Independent variable)
PER= Auditors' engagement performance (AQ2 =Component of the Independent variable)
COMM = Audit committee Quality (AQ3 =Component of the Independent variable)
FEE = Audit fee (AQ4 =Component of the Independent variable)
it= i' stands for company while 't' for time ranging from 2011 to 2020
β0 = Intercept
β1, β2, β3, & β4 = Coefficients of the independent variables
Apriori Expectation: β1>0, β2>0, β3>0, β4>0

Measurement of Variables

FRQ is the dependent variable while audit quality (AQ), represented by auditor independence, engagement performance, audit committee quality, and audit fees, is the independent variable. Each of these variables is measured as described below.

Financial Reporting Quality (FRQ)

The level of discretionary accruals (DA) can be a good indicator of earnings management (EM) and an inverse proxy of FRQ (Hundal, 2016)., Thus, FRQ was measured using DA. Good FRQ and earnings quality is indicated through low levels of DA (Qawqzeh, Endut, Rashid & Dakhlallh, 2019). The commonly used Modified-Jones Model (1995) has been shown to outperform other DA models in ensuring corporate FRQ. Thus, the study estimates the following model and used its estimated residual as the proxy for FRQ following (Hundal, 2016). In the modified Jones model, total accrual (TA) is given as:

$$TA = \alpha_0 \frac{1}{A_{-1}} \alpha_1 \frac{\Delta REV - \Delta REC}{A_{-1}} + \alpha_2 \frac{PPE}{A_{-1}} + \varepsilon \qquad (2)$$

Where; *TA* = Total Accruals in year t; α_0, α_1, α_2 = Regression parameters to be estimated; *A* = Total Assets in year t_{-1} *REV* = Annual change in revenues in year t;? *REC* = Annual change in receivables in year t = Gross property, plant, and equipment in year t; = The error terms
However, according to Soyemi, Olufemi, and Adeyemi (2020), DA is derivable by deducting non-

discretionary accruals (NDA) from TA after decomposing TA into DA and non-discretionary accruals (NDA).
Therefore,

$$DA = TA \quad /A_{-1} - NDA \quad /A_{-1} \qquad (2)$$

A high level of DA, positive or negative, indicates a greater level of earnings management. The outcome of equation (2) is the Jones model of discretionary accrual which represents the FRQ in this study.

Auditors' independence (IND)

In this study, we measured the auditor's independence with audit tenure, that is, the number of years that the audit firm or partner has been auditing the company (tenure). We deviated from the usual dichotomous "0" and "1" (Bassey, Ubi, Aminu, Asi & Emmanuel 2020) to avoid spurious results which could not aid the furtherance of analysis. Therefore, if the number of years is 3 years, 1 is assigned; if 4 years, 2 is assigned; if 5 years, 3 is assigned; if 6 years and above, 4 is assigned. This measure becomes imperative as some companies are audited by an audit firm beyond the usual 3 years up to 6 years and above. Auditor independence is influenced by a long auditor tenure of 5 years or more (Yip & Elvy, 2017).

Auditors' engagement performance (PERF)

This study measured auditor's performance engagement using the length of years the company has been in operation. It is measured this way because the longer the operations of the company, the more reliable the accounting and internal control system will be, thereby eliminating levels of material weaknesses and aiding quality audit engagement which will ultimately lead to quality audit. For companies with a 1-year operation, represent with 1, for 2 years of operations, represent with 2, for 3 years represent with 3, for 4 and above years and above represent with 4.

Audit committee quality (COMM)

Consistent with prior literature (Festus, Gideon, Clement & Adesodun, 2020; Olaoye, Akinleye, Olaoye & Adebayo, 2020), we measured audit committee quality by size, committee independence, financial expertise, and audit committee meetings. For independence, if there is 1 non-executive director represented with 1, 2 non-executives represent with 2, and if there are 3 non-executives represented with 3 when there are 4 and above non-executives represent with 4. The audit committee size is the number of people on the audit committee board. If they are 2 directors represent with 1, if they are 3 directors represent with 2, if 4 directors represent with 3, if they are 5 directors and above represent with 4.

Audit committee finance and accounting expertise is the number of non-executive directors with accounting or finance qualifications. If there is at least one person, represent with 1; if there are 2 people represent with 2, if there are 3 people represent with 3 and if there are 4 people and above represent with 4.

Audit committee diligence was measured by the number of meetings held in a year. If the meeting is held 4 times in a year represents 1, if 5 times represent 2, if 6 times represent 3, if 7 times and above represents 4.

The average score from the four proxies is taken as the value of audit committee quality. In line with how other proxies were measured, the limitation of the dichotomy variables caused spurious results measured to be modified this way.

Audit fee (FEE)

In this study, the audit fee is proxied by the natural logarithm of the audit fee as disclosed in the annual report in line with Chinedu, Nwoha, and Udeh (2020). The audit fees variable is transformed into a natural log to achieve the normality of the data.

RESULTS AND DISCUSSION

Descriptive Analysis

Table 1: Descriptive Statistics of the variables

	FRQ	IND	PER	COMM	Log FEE
Mean	0.52	2.87	3.04	3.32	4.21
Median	0.48	3	3.7	3	4.16
Max.	20.01	4	4	4	5.40
Min.	0.01	1	1	1	3.18
Std. Dev.	0.277	0.215	0.3431	0.411	3.551
Skewness	0.2131	0.2113	0.6711	0.3450	0.2122
Kurtosis	0.44266	0.1901	0.4483	0.4592	0.1673
Jarque-Bera	0.79312	0.2011	0.3411	0.235	0.1721
	P=.0156	P=.0020	P=.0061	P=0.007	P= 0.0000
	172	**172**	**172**	**172**	**172**

Source: Computed by Authors (2023)

Table 1 shows that FRQ has a mean value of 0.52 which indicates that the sampled firms recorded positive DA for the period. The median of 0.48 and standard deviation of 0.277 indicated that the sampled firms are clustered around the mean resulting in insignificant variations in FRQ status hence, the normality of the data for the period under consideration. FRQ Skewness is 0.2131, Kurtosis is 0.44266 and the Jarque-Bera is 0.6131 with a p-value of 0.0121 <0.05 confirming that the data are normal and lower likelihood of outliers in the series.

Auditors' independence (IND) has a mean value of 2.87 which is above the general mean of 0.25 (based on the 1-4 scale of measurement used in this study) indicates that the average level of auditor's independence is high across all sampled firms as the audit firms have spent about 4 to 5 years with the sampled firms, which can influence high-quality audit according to the NCCG.

IND median of 3 indicates that the medium audit tenure across the sampled firms is 5 years which is higher than 4.5 years (based on the general 1-4 scale of measurement) thus indicating high independence. A maximum value of 4 indicates that the highest number of years that the audit firms have spent auditing the sampled firms is 6 years while a minimum value of 1 indicates that the audit firm has audited the sampled firms for least 3 years which is a good indicator for quality audit. A standard deviation of 0.215 indicates that the sampled firms are clustered around the mean for the period under consideration. The Skewness is 0.2113, Kurtosis is 0.2011 and the Jarque-Bera is 0.2011 with a p-value of 0.00201 < 0.05 confirm that the data are normal and lower likelihood of outliers in the series and that since the mean falls above 0.25, it implies that IND is positively related to the audit quality.

Auditors' engagement performance (PERF) has a mean value of 3.04 which reflects an average number of years of operation of the sampled firms as 3 years but falls above the mean of 2.5 years analyzed from the scale measurement which implies that the auditors must have benefited from the accounting and internal control systems that have been improved over the years to improve their performance engagement because the longer the company operations, the more reliable the accounting and internal control system to produce quality audit from the audit engagement. A median of 3.7 indicates that the middle level of operations across the sampled firms is 3 years meanwhile the scale measurement has the mid value as 2.5 and since 3 is greater than 2.5, the audit engagement performance has a high ability to produce quality audit. Maximum and minimum values of 4 and 1 indicate the number of years of operation of sampled firms ranges between 1 year and above 4 years. A standard deviation of 0.3431 indicates that there are no wide variations around the mean for the period of 2011-2020 under consideration. Skewness is 0.6711, Kurtosis is 0.4483 and the Jarque-Bera is 0.7431 with a p-value of 0.00612 < 0.05 which confirms that the data are normal as well as the unlikelihood of outliers in the series and that since the mean falls above 0.25, it implies that PERF is positively related to the audit quality.

Auditors' Committee Quality (COMM) is divided into four parts namely (size, independence, financial expertise, and diligence) with a mean value of 3.32 indicates that the average audit committee size is 4; the average audit committee independence (number of NEDs on the board) is 3; average directors with financial and accounting expertise is 3 and the average meetings held across sampled firms is 6.

The measures of COMM thus indicate the following; the standard audit committee size to assess high committee quality is 3 according to the NCCG and these firms have 4 on average, it, therefore, poses an influence for a high audit quality also the mean of 3.32 falls above the mean of 2.8 according to the scale of measurement employed in this study, this represents high committee size quality as well, for committee independence, the increased number of NEDs implies that the audit committee board is independent, the average financial expertise of 3.32 which represents 3 is higher than the mean of 2.5 which shows that there is a high quality of financial expertise and fulfills the NCCG requirement of having at least one person that has financial and accounting expertise. A median of 3 shows the middle level of the size, independence, expertise, and number of meetings is 3, a maximum value of 4 shows the highest board size is 4 i.e. 4 independent directors; 4 directors with financial expertise and 4 meetings held. A minimum Value of 1 indicates lowest board size is 1 i.e. the minimum number of independent directors is 1; a minimum of 1 director has financial expertise and there is at least one meeting while a standard deviation of 0.411 shows that there are no wide variations among the sampled firms audit committee within the period of 2011-2020. COMM Skewness is 0.3450, Kurtosis is 0.4592 and the Jarque-Bera is 0.235 with a p-value of 0.00734 < 0.05 which confirms that there is normality of the data and that since the mean falls above 0.25, audit committee quality (COMM) is positively related to the audit quality.

Auditors' fee (FEE) with a mean of 4.21 indicates that the average fee paid to auditors of the sampled firms is ₦4,210,000; a median of 4.16 indicates that the middle value paid by all the sampled firms to the auditors is ₦4,160,000 this, in turn, supports the average paid by the sampled firms, maximum value of 5.40 indicates that the highest amount paid across all firms is ₦5,400,000, minimum value of 3.18 indicates that the lowest amount paid across all the sampled firms is ₦3,180,000. The standard deviation of 3.551 shows that there were variations in the fee paid to auditors. The Skewness of FEE is 0.2122, Kurtosis is 0.1673 and the Jarque-Bera is 0.1721 with a p-value of 0.00734 < 0.05 which confirms that the data are normal and that audit fee is positively related to audit quality.

Test of Hypotheses

Analysis of the hypotheses involved combining all four hypotheses in one multiple econometric statistical analysis which yielded results as follows:

	R	R square	Adjusted R^2	Stand. Error of the Estimate
1	0.8313	0.691	0.679	0.311

Model		Sum of Squares	Df	Mean square	F	Sig.
1	Regression	40.72	3	13.57	59.3512	0.000*
	Residual	38.64	169	0.2286		
	Total	79.36	172			

Source: Computed by Authors (2023)

Table 2 shows the regression model results. Adjusted R^2 of 0.679 implies that 68% of the systematic variations in FRQ are explained by changes in IND, PERF, COMM, and FEE. This shows a good model fit as only 32% of the variation is unexplained by other factors not observed in the study. It also means that the auditor's independence, auditor's engagement performance, audit committee quality, and audit fee have a greater ability to influence FRQ than any other factors not observed in this study.

Adjusted R Square in the model of 0.679 however means that the independent variables explained only 67.9% of the dependent variable and the remaining percentage of 32.1% falls in the stochastic error term. The standard error of 0.311 indicates the standard deviation of the variations in the dependent variable FRQ not explained by the model. The F statistics (59.3512) indicates that the overall regression model is statistically significant thus the model is fit. The results thus show that audit quality has a significant effect on FRQ ($p<0.05$).

Table 3: Regression Result of Hypothesis

Independent Variables	Coefficient	Standard Error	t-statistic	*P* value
(Constant)	66.872	0.255	13.122	.000**
IND	0.523	0.091	3.0255	.0002**
PERF	0.319	0.0106	4.8091	.000**
COMM	0.589	0.131	2.928	.000**
FEE	0.477	0.277	5.111	.000**

Significant at 0.05 ** Significant at 0.01, R-Square =0. 691; Adjusted R-Squared = 0. 677 Prob t – statistic = 0.000

Source: Computed by Authors (2023)

The explicit econometric regression model for the study is thus given as follows FRQ = 66.872 + 0.523IND + 0.319PERF + 0.589COMM+ 0.477FEE

The equation further reveals that an increase in any of the measurements of the independent variable (audit quality) will lead to a significant positive effect on FRQ. Table 3 also shows the individual significance of each of the independent variables. The regression coefficients of all the independent variables IND (0.523), PERF (0.319), COMM (0.589), and FEE (4.77) have *p* – values which are significant at 0.05 suggesting a significant positive impact of IND, PERF, COMM, and FEE on FRQ. By implication, an improvement in each of these proxies of audit quality will result in 5.23 percent, 3.19 percent, 5.89 percent, and 4.8 percent improvement respectively in FRQ. It also implies that these independent variables fit into the model and thus, the null hypothesis of no significant impact is rejected ($p <0.05$).

Discussion of Findings

In this study, auditor independence was found to positively impact FRQ. This supports the findings of Aledwan (2015) and Ebo (2016). Although Olanisebe, Ekundayo, and Adeyemo (2020) had contrasting results. The auditor's engagement performance was found to have a positive significant relationship with FRQ. The higher or lower the engagement performance, the higher or lower the FRQ. This corroborates the findings of Nwanyanwu (2017). In this study, audit committee quality has a positive significant relationship with FRQ. Findings that support this notion were taken from the studies of Gonthier-Besacier, Hottegindre, and Fine-Falcy (2016) and Aduwo (2019). Meanwhile, the findings of Moses, Ofurum, and Egbe (2016) are negative.

Also, audit fee has a positive significant relationship with discretionary accruals. The higher the fee, the more the FRQ. Onaolapo, Ajulo, and Onifade (2017) and Saidu and Danjuma (2018) results support this while Abdulmalik and Che-Ahmad (2016) did not.

Thus, all four proxies of audit quality namely auditor's independence, auditor's engagement performance, audit committee quality, and audit fee exhibited a positive significant relationship with discretionary accruals. Thus it is concluded that audit quality has a positive significant impact on FRQ which is similar to the findings of Nwanyanwu (2017); Itoro and Daferighe (2019) even though, other studies such as Okezie and Uchenna (2019); Olanisebe, Ekundayo, and Adeyemo (2020) found a negative significant relationship between audit quality and FRQ. The difference in findings may be attributed to country-specific factors, the regulatory environment guiding any sector that is being studied, the level of accounting system sophistication in the country, and other firm and industry-specific factors.

SUMMARY AND CONCLUSION

The study examined the extent of the impact of audit quality (proxied by auditor's independence, auditor's engagement performance, audit committee quality, and audit fee) on FRQ which is an essential feature of financial reports. Investors' trust in the reliability of these reports regarding their truthful representation of the performance of publicly held companies will shape investors' views and guide their investment decisions. From the study, it has been seen that the auditor's independence greatly influences the quality of the financial report. Hence, any actual or perceived impairment of independence would have a serious adverse effect on how audit reports are perceived.

The auditor's engagement performance is also an important ingredient that determines the turnout of the financial statement. Therefore, the higher the engagement performance, the better the quality of the financial report which will ultimately increase the confidence of investors and all other users of the report. This study also revealed the important function of a quality audit committee which is to constrain accrual-based distortion of financial reporting credibility towards improving FRQ. Finally, the higher the audit fee, the more improved the FRQ. Given the expectation of a high audit fee, the auditor is likely to perform his duty by complying with the relevant professional ethics which will lead to improved performance. The study thus concluded that audit quality is significant in improving the FRQ of listed consumer goods companies in Nigeria.

It is thus recommended that there is a need to improve on certain policies and ensure enforcement of these policies towards ensuring quality financial reporting through quality audits.

For example, the NCCG which has provisions for audit committee independence, size, diligence, and financial expertise should be mandated by law and a penalty specified for non-compliance.

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