

DETERMINANTS OF FINANCIAL REPORTING QUALITY IN NIGERIA NON-FINANCIAL INSTITUTIONS (2010-2018)

Olaoye, C.O.¹

Akintayo, Oluwatoyin, O.A²

^{1,2}Ekiti State University, Ado-Ekiti, Nigeria

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ABSTRACT

This study focused on the investigation of determinants of quality of financial report in non-financial institutions in Nigeria. To achieve this objective a time series research design was adopted to gather data from the annual financial report of the selected institutions from the periods 2010-2018. Moreover, from the 106 non-financial institutions quoted on the stock exchange market in Nigeria only 32 institutions were purposively selected for the study on the basis of certain criteria's. In addition, both descriptive and inferential statistics tools of Panel regression analysis were used for the study. The result of the pre-estimate estimate conducted for the study revealed that the random effect estimate was better for the study. Meanwhile, the result of the study obtained indicated that there were determinants of financial reporting quality in the selected non-financial institutions. In particular, it was found that audit firm tenure, audit fees, joint audit and audit firm independence were determinants of financial reporting quality. The study concluded that audit firm characteristics might be indicators of financial reporting quality in the selected institutions.

Keywords: Financial Reporting Quality, Audit independence, Audit tenure, Audit Size, Joint Audit, Audit Firm Size

INTRODUCTION

Financial reporting is a multi-party activity in which the issuers of the financial reports provide financial and non-financial information to users, who use them with the expectation that these will help them in decision making. The potential users of financial reports vary widely and include creditors, suppliers, financial analysts, government authorities and in general, all related to the company parties. High quality

financial reporting is critical to investors and other stakeholders in making investment, credit and similar decision. Financial reporting quality relates to the

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faithfulness of the information conveyed by the financial reporting process (Martinez-Ferrero, 2014). The word faithfulness is characterized by relevance, reliability, transparency and clarity (Jonas & Blanchet, 2000). Relevant information means that the financial statements contain enough information that the different users of the financial statement find useful in decision making processes and that the information provided is timely enough as regards relevant decision.

Reliability is what assures the users that the information is reasonably free from error or bias and that it truly represents what it is intended to represent. Information in a financial report will be reliable to the extent that users can depend on it to judge the economic conditions or events that it purports to represent (Shehu, 2012). Transparency means that the figures are true reflections of the economic activities of the enterprise during the period. Financial reporting will therefore provide information to help investors, creditors, and other users to project the amounts and timing of future cash flows to the enterprise (Waweru & Riro, 2013). Company's financial statements need to be examined by independent and objective professional (i.e., public accountant) to provide reasonable assurance that the financial statements have been free from material misstatement. Users of the audit report expect that financial statements audited by a public accountant are credible to serve as the basis for decision making and are in accordance with accounting standards.

The growing need for more transparent and fairly presented financial reports emphasizes the importance of external auditing and audit quality. High-quality external auditing is a central component of well-functioning capital markets. Companies with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid capital market consequences of unreliable financial reporting (Hennes, Leone & Miller, 2012). However the quality of financial reporting is hypothesized to depend on a number of audit firms characteristics, which forms the subject matter of the study. On this basis, this paper focuses on the examination of the determinants of financial reporting quality in a non-financial institutions in Nigeria. To achieve this objective, the study is empirically subdivided into five sections. These are; background to the study, literature review, methodology, presentation and discussion of results and conclusion and recommendation.

LITERATURE REVIEW

The review of literature for this paper is divided into three parts namely, conceptual, theoretical and empirical review of literature.

Conceptual Review

Determinants of Financial Reporting Quality

There are a number of factors that determines the quality of financial reporting as used by previous studies that examined the factors that affect financial reporting quality. One of the most arguable factors is the monitoring mechanism of the company, Fama and Jensen (2008) have argued that the credibility and transparency of financial reporting of a company depends on the effectiveness of the monitoring mechanism of the company itself. This has led researchers to examine the effects of several monitoring mechanisms such as board of directors, audit committees, internal audit and external audit to the financial reporting quality. Since the board of directors receives its authority for internal control and other decisions from stockholders of corporations. The highest internal control and monitoring mechanism is the board of directors. Based on this fact, researchers have argued that board of directors has an effect on the quality of financial reporting. It was emphasized that, to perform effectively as a monitoring mechanism, the board of directors should be structured properly by considering its independency and optimum number of members.

Audit Firm Tenure

Audit firm tenure is linked with auditor's technical ability and objectivity in identify misstatements and errors and reporting about them in his report. It has been argued before that short audit tenure affect auditors" ability to identify misstatements and errors while long tenures affect auditors" objectivity and independence. Raghunandan (2002) found out that audits performed by audit firms with a short term relationship with clients had more audit failures than those performed with audit firms which had long term audit tenures. The issue of audit tenure is usually associated with its effect on auditor independence. Research conducted by Ghosh and Moon (2003 in Kusharyanti, 2003) resulted in findings that audit quality increases with the length of audit tenure

Auditor Independence

According to Dictionary of International Accounting Terms (2001) auditor independence infers a state of impartiality required of auditors who should have no personal or financial involvement with a client. Louwers (2007) expresses independence as a mental attitude and physical appearance which portrays the auditor as being uninfluenced by others in judgment and decision. This can be sustained by avoiding financial connection that makes it appear that the wealth of the auditor depends on the outcome of the audit and management connections that makes the auditor appear as if he is involved in management decisions. As a key ingredient of audit quality Gray & Manson (2000) and

Hayes (2005) described independence as a position required in order to take an unbiased viewpoint in the performance of audit tests, analysis of results and attestation in the audit report.

Audit Fees

An audit fee is the amount charged by the auditor for an audit process performed for the accounts of an enterprise (Walid, 2012). Companies are statutorily required to have their accounts audited by an external auditor without compromising the quality of audit, it is expected that they would want the fees they pay to be reasonable. On the side of the auditors, they would also expect to receive adequate fees for their services in order to maintain their services at a satisfactory level. In addition to companies and auditors, the public in general and shareholders may equally be concerned that the audit fee is not set at such a level - either too high or too low, in order not to undermine the confidence of the audit opinion (Walid, 2012)

Joint Audit

Recent literatures have encouraged joint auditors approach in encouraging objective financial reporting. Some scholars are of the view that the appointment joint auditors to a firm will enhance its financial earnings. An interesting feature of (voluntary) joint audits is that they create more variation in auditor choice and thereby potentially in the level of earnings quality than under the traditional Big 4/non-Big 4 dichotomy. Specifically, based on DeAngelo's (1981) framework, audits performed by two Big 4 audit firms produce the highest-quality financial report, while the lowest level of quality occurs when a single non-Big 4 audit firm is responsible for the audit engagement.

Audit Firm Size

The most common and well researched indicator of audit characteristics is whether an audit firm is one of the "Big 4" (DeFond and Francis, 2005; and Carcello, 2005). The motivation for such a hypothesis varies from study to study. DeAngelo (1981) suggests that since these larger audit firms are not as financially dependent on the fees from any one client, they are less likely to be subject to pressure from clients to "look the other way" in the event of discovering accounting irregularities. Moreover, it is argued that the Big 4 auditors have more to lose should a scandal arise, in that their brand names and reputations are more valuable compared to smaller audit firms

Audit Quality

Audit quality several studies provided definitions of audit quality with diverse ideas. These definitions can be classified into two approaches, namely: 1) the probability that auditors detect and report misstatements, and 2) the level compliance with auditing standards (DeFond and Zhang, 2014; Tritscher, 2013), which will be discussed next. Following the first approach, researcher defines audit quality based on the quality of financial statements (Tritscher, 2013). DeAngelo (1981) defined audit quality as 'the market-assessed joint probability that given an auditor will both discover a breach in the client's accounting system, and report the breach' Audit quality depends on both the probability

that auditors detect misstatements and on whether auditor's report such misstatements (DeAngelo, 1981; Palmrose, 2004). Low audit quality occurs when audited financial reports contain misstatements that are not detected and reported by the auditor. Thus, audit quality is associated with the quality of audited financial reports as higher audit quality provides greater assurance of high financial reporting quality (DeFond and Zhang, 2014).

Financial Reporting Quality

The main objective of financial reporting is to provide information concerning economic entity, primarily financial in nature, useful for economic decision making (IASB, 2008; Van Beest 2009). Financial reporting provides information about the management's stewardship; the entity's assets, liabilities, equity, income and expenses (including gains and losses), contributions by and distributions to owners as well as cash flows (Van Beest, 2009). This information is usually in the form of annual financial statements such as the statement of financial position; the income statement or statement of comprehensive income; statement of cash flows and statement of changes in equity as well as notes to the accounts (IASB, 2008, 2010). To enhance reliability and confidence in the minds of the users, these reports are subjected to scrutiny by external auditors. However, the spate of financial scandals in recent times has casted serious doubt on the quality of audited financial reports circulating in our corporate environment.

Measurement of Financial Reporting Quality

To assess the quality of financial reporting, various measurement models have been used in prior researches. Some of these include: (i) accrual models (Jones, 1991; Dechow, Sloan & Sweeney, 1995); (ii) value relevance model (Choi, Collins & Johnson W.B. 1997; Barth, Beaver & Landsman, 2001; Nicholas & Wahlen, 2004); (iii) specific elements in annual reports (Beretta & Bozzolan, 2004; Hirst 2004); (iv) qualitative characteristics model (Jones and Blanchet, 2000; Schipper & Vincent, 2003; Barth, Landsman & Lang, 2008; Van der Meulen, Gaeremynck, & Willekens, 2007; Van Beest 2009).

Accrual Model: This model uses the level of earnings management as a proxy for the quality of financial reporting. It measures the extent of earnings management under existing rules and legislation. The model assumes that managers use discretionary accruals, i.e. accruals over which the manager can exert some control, to manage earnings (Healy & Wahlen, 1999; Dechow 1995).

Value Relevance Model: This model examines the relationship between stock returns and earnings figures in order to measure the relevance and reliability of financial reporting information. The model measures the quality of financial reporting information by focusing on the association between accounting figures and stock-market reactions (Choi, Collins & Johnson, 1997; Barth, Beaver & Landsman, 2001; Nichols & Wahlen, 2004).

Under this model, the stock price is assumed to represent the market value of the firm, while accounting figures represent firm value based on accounting procedures.

The Qualitative Characteristics Model: This represents the most recent model for assessing the quality of financial reporting. The model examines the level of decision usefulness of financial reporting information by operationalising the qualitative characteristics of financial reports. Jonas and Blanchet (2000) pioneered the use of this model in assessing the quality of financial reporting. They develop questions that were germane to the separate qualitative characteristics of financial reporting as stipulated by the FASB (1980) and IASB (1989).

Theoretical Framework

The stakeholder theory is a natural extension of the agency theory. The theory holds that every entity involves the interactions of more than the principals and their agents. Such relationships will also involve the interaction of everyone with a stake in the affairs of the entity: the host community, creditors, bankers, government and others. This means that there is greater information demand on the entity; this therefore places greater demands on the auditor to ensure the representativeness of the financial statements (Freeman, 1984; Jones and Wicks, 1999; Donaldson and Preston, 1995; Jones, 1995). This study is anchored on the stakeholder theory. The stakeholder theory evolved from the agency theory. The agency theory sees any modern organization as an aggregation of the interactions between the principals and their agents. The principals are the shareholders who are the owners of the entity while the agents are the managers who are usually the experts with control over the day-to-day affairs of the entity. This relationship, as is observed by analysts, creates information asymmetry with the managers having information advantage. This creates the need for proper monitoring which has brought to the fore role of the auditor, who is required to provide an independent examination of the affairs of the entity so as to be able to express an opinion on the financial statements of the entity. Such expressed opinion by the auditor is basis for “faith” and “confidence” in the financial statements.

Empirical Review

This section deals with the explanation of past but relevant work to the study. Jones (1991) investigates the determinants of financial reporting quality in some selected manufacturing companies. A descriptive research design was adopted to gather primary source of data for the study. Two hundred and fifty respondents were selected for the study and the instrument used was distributed accordingly. The focused of the study was to know whether or not audit tenure, audit firm independence, audit firm size and joint audit were determinants of financial reporting quality. Both descriptive and inferential

statistics of Ordinary Least Square were adopted for the study the result of the study revealed that audit firm size, audit firm tenure, audit independence and joint audit were determinants of financial reporting quality. It was concluded that audit firm characteristics were the determinants of financial reporting quality in the selected firms. Johnson, Khurana and Reynolds (2002) carried out a study on the determinants of financial reporting quality on some selected Deposit Money Banks in the United Kingdom for the period 1998-2000. A time series research design was adopted to gather secondary data from the annual financial report of the selected banks. Descriptive statistics of mean, median, Skewness and Kurtosis were used to meaningfully describe the data collected for the study while the inferential statistics of Panel regression analysis in fixed effect estimate was used to test the relevant hypotheses formulated for the study. The result of the regression analysis revealed that audit firm tenure, audit firm size, joint audit, and audit firm independence were determinants of quality of financial reporting in the selected DMBs. It was discovered that audit fees was not a determinant of financial reporting quality.

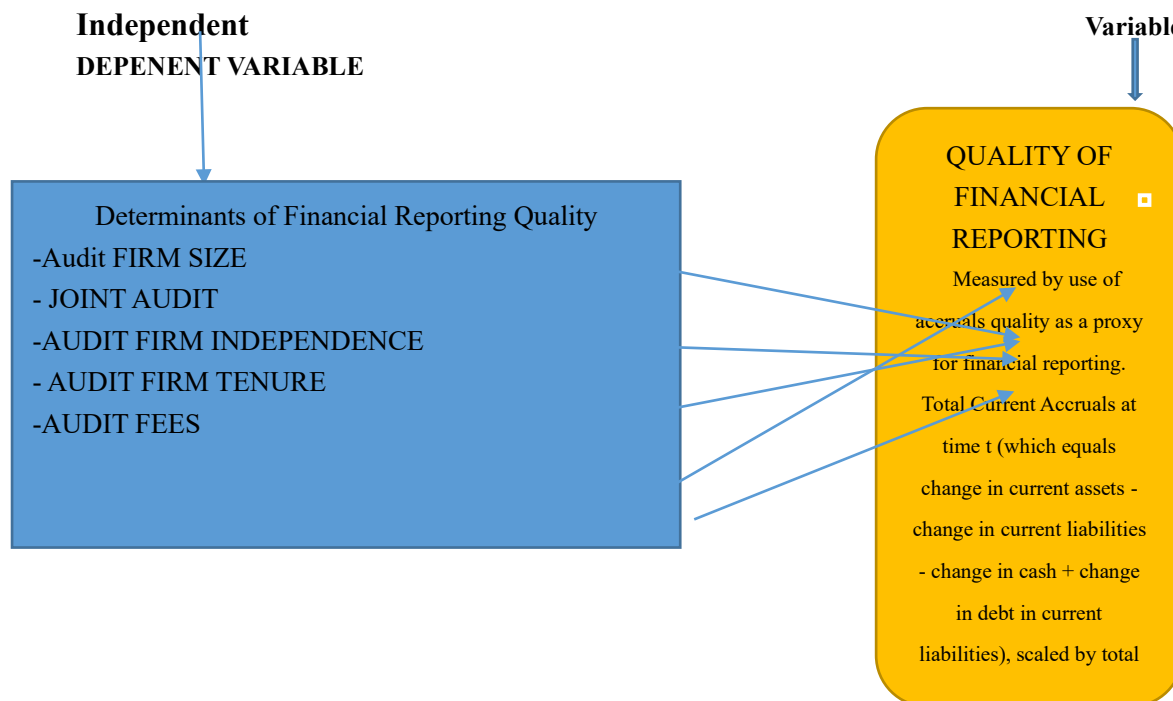
Abbott, Parker, Peters and Raghunandan (2003) carried out a study on the determinants of financial reporting quality in some selected organizations. A descriptive research design was adopted to gather data for the study through the distribution of questionnaire to respondents. One hundred and fifty (150) were accidental selected for the study and the instrument used was distributed according. Also, from the 150 copies of questionnaires distributed to the respondents only 120 copies of questionnaires were returned. Both descriptive and econometric statistics of logit regression were used to analysis the data collected for the study. The result of the regression analysis revealed that there were determinants of financial reporting quality in the selected organizations. It was found that audit firm independence, audit firm size, audit fees, and auditors tenure were determinants of financial reporting quality in the selected organizations. In the context of Nigeria, Adelaja (2009) examined the characteristics of financial reporting quality in manufacturing firms in Nigeria for the period 2007. A survey research design was adopted to gather primary data for the study through the distribution of questionnaire to respondents. Three hundred and eighty auditors and audit clerk were selected for the study and the instrument used was distributed according. More so, from the 380 copies of questionnaires distributed to the respondents only 320 were validly returned. The descriptive statistics of mean, and standard deviation were used to meaningfully describe the data collected for the study. The two-staged least square was adopted to test the hypotheses formulated for the study. The result of the study indicated that audit firm tenure, joint audit, audit firm size and audit firm independence were the characteristics of financial reporting quality and hence, they were determinants of quality of financial report.

In a recent study, Abimbola, Idowu and Adebayo (2018) investigated the determinants of financial reporting quality in Nigeria Deposit Money Banks. A time series research design was adopted to gather secondary source of data for the study for the period 2000-2017. Financial reporting quality was measured through accrual basis while joint audit, audit firm size, audit tenure, and audit firm independence were the explanatory variables of the regression model. The Panel regression analysis was used to investigate the objective of the study. The result of the study showed that audit firm size, joint audit, audit firm independence, and audit firm tenure were the determinants of financial reporting quality in the selected firms.

Conceptual Model

METHODOLOGY

The study adopted exploratory research design. Exploratory research design gives insight into a given subject and relates it to the existing knowledge (Cooper and Schindler, 2013). The design enabled the study to explore the association or relationship between financial reporting quality and investigated characteristics of audit firms. The population of this study consists of one hundred and six (106) listed Non-Financial Firms at the Nigeria Stock Exchange (NSE) as contained in the appendix II. According to the official website of the Nigerian Stock Exchange, these companies are stratified into seven segments: Oil & Gas, Consumer Services, Consumer Goods, Basic Materials, Technology, Health Care and industries. The stratified sampling technique was used to select sample from the official



Source: Author's Field work, 2021

list of the Nigeria Stock Exchange as it has already structured the companies into strata. The reason for the choice of the stratified sampling techniques is to ensure adequate or proportional representation of the different strata that make up the population. From the

industrial classifications, a purposive sampling technique was used to select 32 sampled companies, 30% of companies from each sector. The criteria for the selection of the sample are: (i) that they are listed in the Nigeria Stock Exchange as 31st December 2018. (ii) That they are fairly traded on the Nigeria Stock Exchange. (iii) That each class of the industrial classification was included in the sample size. For the purpose of this study, secondary data was used, while the sources of the data include the financial statements (statement of comprehensive income, Statement of financial position, statement of cash flows and non-financial information) of the sampled non-financial firms for the period 2014 to 2018. The use of secondary data in this study was considered appropriate because the data related to historical event which could be used to predict the future. Both descriptive and inferential statistics tools were adopted for the paper. In particular, the Panel Regression analysis in random effect estimate was used to achieve the objective of the study.

Variables Measurement and Models Specification

The definitions and measurements of the variables used in this study are presented in table below;

Table 1 Variables Definitions and Measurements

Variables	Definition/Measurements
Financial Reporting Quality	Defined as accruals and earnings quality. Measured as residuals from the modified Dechow and Dechow (2002) change in working capital accrual model.
Audit Firm Independence	Defined as a state of objectivity and absence of any managerial influence, by personal or financial involvement with a client. Measured by dichotomy ('1' provided the audit firm perform other services other than statutory audit and '0' otherwise)
Audit Tenure	Period or duration taken by the same audit firm adopted by the company.
Joint Audit	Defined as statutory audit by more than one audit firm. Measured by dichotomy ('1' provided the company is being audited by more than one audit firm and '0' otherwise).
Audit Firm Size	Defined as the largest global audit firm (Deloitte, pwc, Ernst & Young and KPMG). Measured by dichotomy ('1' provided the company is being audited by any of the big4 audit firm and '0' otherwise).

The accrual quality model of (Dechow and Dechev 2002) as modified by (McNichols 2002) and used by (Francis, LaFond, Olsson, Schipper, 2005) and (Chen 2007) based on the unexplained accruals or residuals of the model was adopted to estimate earnings quality of listed non-financial firms in Nigeria.

The model used to examine the hypotheses of the study is presented as follows:

$$FRQ_{it} = \beta_0 + \beta_1 AFEES_{it} + \beta_2 AFI_{it} + \beta_3 ATNR_{it} + \beta_4 AFS_{it} + \beta_5 JA_{it} + \mu_t$$

Where,

α = is the intercept β_1 - β_5 = are the parameters estimate or coefficients in the equation i, t = firm i , time t

FRQ_{it} = Financial Reporting Quality- Accruals/Earnings quality (natural log of absolute residuals)

$AFEES_{it}$ = Audit fees (natural log of total audit fees)

AFI_{it} = Audit firm independence

$ATNR_{it}$ = Audit Tenure

AFS = Audit Firm Size proxy as the Big four audit firm

JA_{it} = Joint auditors/firms μ = error term

A priori expectation for the regression parameters $\beta_0 = \beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_4 > 0$ and $\beta_5 > 0$

RESULT AND DISCUSSION

Table 2 Descriptive results computed for the parameters of the Study

Statistics	FRQ	AFEES	AFI	ATNR	AFS	JA
Mean	4.485125	6.052188	0.543750	2.381250	0.612500	0.493750
Median	3.285000	5.670000	1.000000	2.000000	1.000000	0.000000
maximum	26.78000	9.670000	1.000000	7.000000	1.000000	1.000000
Minimum	0.340000	4.000000	0.000000	1.000000	0.000000	0.000000
Stan. Deviation	4.006819	1.492372	0.499646	1.491578	0.488709	0.501531
Skewness	2.338901	0.829097	-0.175674	1.098015	-0.461842	0.025002
Kurtosis	10.66362	2.719212	1.030861	3.483441	1.213298	1.000625
Jarque-Bera	537.4195	18.85632	26.67302	33.70841	26.96997	26.66667
Probability	0.000000	0.000080	0.000002	0.000000	0.000001	0.000002
Sum	717.6200	968.3500	87.00000	381.0000	98.00000	79.00000
Sum Sq Deviation	717.6200	354.1207	39.69375	353.7438	37.97500	39.99375

Observation	160	160	160	160	160	160
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Source: Researcher's computation, 2021 (E-view 9)

The table 2 presented the results of the descriptive statistics computed for the variables of the study. Looking critically at the result, it might be inferred that all the explanatory variables of the study could exert a serious influence on the dependent variable (financial reporting quality). This assertion was based on the fact that the p-values of the Jarque-Bera statistics computed for the variables were less than the critical value of 5% and hence, it was saved to infer that audit firm tenure, audit firm size, joint audit and audit independence were determinants of quality of financial reporting in the selected non-financial institutions.

Diagnostics Tests

In using Panel regression either fixed or random or both, it was necessary to adjudge the nature of data used for the analysis. In doing this, the data must first be freed from the present of unit root. This indicated that they must be stationary either at a constant level or at different level before proceeding to obtain the actual panel results. This section, of the study focused on the assessment of the nature of data used for the study using both the panel unit root of Philip Perron (PP) and Johansen co-integration tests.

Unit Root Test

In order to be able to estimate the Panel Regression the variables of the study must be free from unit root problem. This indicated that they must be stationary. Therefore, the result of the Philip- Perron test used to free the variables of the study from unit root was presented in table 3

Table 3 Unit Root Result

Variables	Level		1st Difference PP-Stat		Order of Integration
	PP-Stat	P-value	P-value		
FRQ	-4.93780	0.0000	-	-	I(0)
AFEES	0.96431	0.8326	-5.02702	0.0000	I(1)
AFI	-0.64314	0.2601	-3.36678	0.0004	I(1)
ATNR	-1.67780	0.0645	-9.78341	0.0000	I(1)
AFS	-0.00767	0.4969	-8.59162	0.0000	I(1)
JA	-0.06753	0.4567	-9.98857	0.0000	I(1)

Source: Researcher's Computation, 2021

Table 3 presented the results of the unit root test computed for the variables of the study. Looking at the result from the table, it might be asserted that all the variables of the study were free from the unit root problem at their first difference except financial reporting

quality that was freed from the unit root at level. The implication of this was that audit fees, audit tenure, audit firm independence, audit firm size and joint audit were stationary at their first difference. This implied that they were free from the problem of unit root at integration of order one ($I(1)$). This inferred was based on the fact that the p-values of the Philip- Perron computed for the variable at their first difference was less than the critical value of 5%. Moreover, it was found that financial reporting quality was stationary at level, $I(0)$. On this basis of this result, it was reasonable to assert that the variables of audit firm characteristics such as audit tenure, audit fees, audit size, joint audit and audit independence could exert a considerable influence on financial reporting quality not in the short run but in the long run period of the selected listed firms

Co-integration Test Result

There was need to assert the significance of the level of long run relationship among the panel variables once it had been confirmed that these variables were free from unit root problem. This sub section dealt with testing for the existence of long run relationship among the variables of the study as presented in table 4.4.

Table 4 Panel Co-integration Result

Kao Residual Cointegration Test

Series: FRQ AFEES AFI ATNR AFS JA

Date: 12/01/21 Time: 11:43

Sample: 2014 2018

Included observations: 160

Null Hypothesis: No cointegration

Trend assumption: No deterministic trend

User-specified lag length: 1

Newey-West automatic bandwidth selection and Bartlett kernel

			t-Statistic	Prob.
ADF			80.00043 5	0.0000 0
Residual variance			14.47577	
HAC variance			11.42837	

Source: Researcher's computation, 2021

Table 4 presented the result of the Kao Residual co-integration obtained for the tested variables. From the table, it was discovered that there was a co-integration equation among the variables of the study. This inferred was premised on the fact that the p-value of ADF –statistics computed of 0.00000 was less than the critical value of 5%. This resultantly revealed that all the variables of the study were related with financial reporting quality in the long run. The implication of this was that audit firm characteristics had a substantial influenced on financial reporting quality in the long run. Therefore, audit fees, audit tenure, audit firm size, audit firm independence and joint audit had exerted a considerable influence on financial reporting quality in the long run.

Choice of Panel Regression Estimate

In Panel Regression analysis the determination of which estimate to employ is very crucial to the study. This is because Panel regression analysis involves many processes that need to be sequentially followed. Thus, this section conduct the Husman Test in order to determine whether fixed effect or random effect test would be best suited for the study.

Table 5: Hausman Test Result

Correlated Random Effects - Hausman Test

Equation: Panel Random Effect				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		89.004013	5	0.0001
Cross-section fixed		3.675473	5	0.6743

Source: Researcher's Computation, 2021 (E-view, 9)

The result in table 5 presented the Hausman test computed for finding the degree of cross-section random effects. Looking at the result in the table, it was found that the p-value of the chi-square statistics computed for testing the cross-section random effect of 0.0001 was less than the critical value of 5% with significance Chi-Square statistics of 89.00. This indicated that there was an existence of cross section random effects among the parameters of the study. This further showed that the random effect test was a good estimator for verifying the suitability of the audit firm characteristics on financial reporting quality of the selected listed firms in Nigeria. Meanwhile, the p-value of the Chi-Square statistics computed for cross section fixed effect of 0.6743 was greater than the critical

value of 5%. This revealed that the fixed effect test could not be used to achieve the objectives of the study. This resultantly showed that whether audit fees, audit firm independence, audit tenure, or joint audit was used to test financial reporting quality, they would produce the same substantial effect on the dependent variable of the study which was the financial reporting quality.

Table 6 Panel Results (Random Effect Estimate)

Dependent variable= Financial Reporting Quality (FRQ)

Variable	Coefficient	Standard Error	T-calculated	P-value
C	-0.969092	1.278176	-0.758184	0.4495
AFEES	0.983082	0.267393	3.676539	0.0003
AFI	4.655083	0.595770	7.813557	0.0000
ATNR	0.962669	0.231964	4.150079	0.0000
AFS	0.893931	0.752464	1.188005	0.2367
JA	3.140286	0.750503	4.184240	0.0000
	OTHER	TEST	STATISTICS	
R-squared	0.893423		Mean dependent var	4.485125
Adjusted R-squared	0.881260		S.D. dependent var	4.006819
S.E. of regression	7.098767		Akaike info criterion	5.466528
Sum squared resid	214.895		Schwarz criterion	5.581847
Log likelihood	-31.34216		Hannan-Quinn criter.	5.513355
F-statistic	77.428828		Durbin-Watson stat	1.708009
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2021 (E-view 9)

Table 6 presented the results of the panel pooled estimate computed to achieve the objectives of the study. Looking at the result from the table, it was found that the p-value of the t-statistics calculated for audit fees of 0.0003 was less than the critical value of 5%. This showed that the null hypothesis which stated that audit fees was not significance on the financial reporting quality was rejected. It was saved to assert that audit fees was significance on the financial reporting quality of the selected listed firms. The quality of the financial reporting might be related to the ability of a firm to be able to fulfill its

obligation to its auditor. Failure of an organization to pay the auditor the statutory audit fees might discourage the auditor to do his work as expected of him. Auditors were human beings that lived on rewards from their efforts. Therefore, depriving the audit firm the required audit fees might cause the audit firm to terminate the audit contract unexpectedly and this could affect the financial statement quality. Therefore, it was not true that the quality of the financial reporting was not influenced by the audit fees, the regression coefficient obtained for this test variable of 0.98 was positive with significant t-statistics value of 3.68 and hence, it was reasonable to infer that a 1% increase in audit fees might lead to 0.98% improvement in the financial reporting quality. The sign of this variable was in conformity with a priori expectation for the variable and hence, audit fees was a determinant of financial reporting quality in the selected institution.

Moreover, the result in the table indicated that the p-value of the t-statistics computed for audit firm independence of 0.0000 was less than the critical value of 5%. This showed that the null hypothesis which stated that audit firm independence was not significant on financial reporting quality was rejected. It was reasonable to state that audit firm independence was significant on the financial reporting quality. The independence of audit firms was an important ingredient in determining the quality of the financial reporting. Once an audit firm stayed clear of the business and affairs of its client firms by maintaining a high standard of ethical and professional conduct, definitely its independence was ensured and this resultantly translated to better quality of financial reporting. The independence of audit firm ensured that auditors were objective in their appraisal and investigation of the financial report prepared by the director of a firm. The objectivity of the auditors helped these auditors to make informed opinion to depict accurately the financial position of an organization at any given period of time. The regression coefficient obtained for this test item of 4.66 with significant t-statistics value of 7.81 confirmed the existence of a positive relationship between audit firm independence and financial reporting quality. Therefore, a unit increase in the audit firm independence might lead to 4.66% improvement in the financial reporting quality.

The sign of this variable was in tandem with a priori expectation for the parameter and hence, audit firm independence could be a determinant of financial reporting quality in the selected listed firm. The sign of this variable was in tandem with a priori expectation.

Furthermore, it was found that the p-value of t-statistics computed for audit tenure of 0.0000 was less than the critical value of 5%. This showed that audit tenure was significant on financial reporting quality. The tenure of auditor might make or mar the quality of the financial reporting. The higher the audit tenure, the higher the possibility of auditor independence being eroded in a company. This was because if the audit tenure was too long the unscrupulous auditors might develop vested interest in the company thereby impaired the audit firm independence and consequently affected the quality of

the financial reporting. Audit tenure according to Funmilayo and Uchenna (2017) should not be too long in order not to affect the objectivity of the audit firm. The regression coefficient obtained for this test item was 0.96 with significance t-statistics value of 4.16. This indicated that there was a significance positive relationship between audit tenure and the quality of financial reporting. Therefore, a 1% increase in the quality of financial reporting was a pointer to the fact that the tenure of the audit firm had reduced by 0.96%. The sign of this variable was in conformity with a priori expectation for the variable and hence, audit tenure could exert a considerable influence on financial reporting quality in the listed firms. This variable might be a determinant of financial reporting quality.

It was discovered that audit firm size was not significance on the financial reporting quality of the selected firm. This inferred was premised on the fact that the p-value of the t-statistics computed for the test item of 0.2367 was greater than the critical value of 5%. This implied that audit firm size was not related to financial reporting quality. The size of the audit firm might not determine the quality of the financial reporting. More so, whether an audit firm was large or part of the big four audit or small had nothing to do with the quality of financial reporting. The ability of an audit firm to show enough competency, and had sufficient staff that were professional qualified and had the right auditing experience went a long way to determine the financial reporting quality of a firm. An audit firm would be able to make informed opinion concerning the audited financial statement if it had appropriate auditors that knew their jobs in place and vice-versa. The regression coefficient computed for this test was 0.89 and positive with an insignificant t-statistics value of 1.19. This showed that there was a positive relationship between audit firm size and financial reporting quality of the listed firms. Therefore, a 1% increase in audit firm size might lead to 0.89% improvement in the financial reporting quality. The sign of this variable was in tandem with a priori expectation and hence audit firm size might not be a determinant of financial reporting quality.

Resultantly, it was discovered that the p-value of the t-statistics computed for joint audit of 0.0000 was less than the critical value of 5%. This implied that joint audit was significance on the quality of the financial reporting. The coming together of two or more audit firms to audit the account of a firm could enhance the quality of the financial reporting. This was because the audit firm sufficient experiences and professional competency would be deployed during the course of the audit assignment thereby enhancing the financial reporting quality. With the right professional exposure deployed by these audit firms a better opinion that showed accurately appropriate financial state of a firm would be ensued. Joint audit ensued that the audit assignment was completed as at when due. In joint auditing, the opinion of one audit firm might not be absolute until the other audit firm had affirmed this opinion. It was called joint audit in the sense that both audit firms engaged must jointly expressed their opinion concerning the audited

financial report. The regression coefficient computed for this test variable of 3.14 was positive with significance t-statistics value of 4.18. This indicated that there was a significance positive relationship between joint audit and financial reporting quality and hence, a 1% increase in joint audit might lead to 3.14% improvement in financial reporting quality. The sign of this variable was in conformity with a priori expectation for the variable. Thus, joint audit could be a determinant of financial reporting quality.

The p-value of the F-statistics computed for this test of 0.00000 was less than the critical value of 5%. This implied that the joint null hypothesis which stated that audit firm characteristics were not determinants of financial reporting quality was rejected. It was saved to assert that audit firm characteristics were determinants of financial reporting quality. The coefficient of determination (R²) Computed for this test of 0.8934 showed that approximately 87.34% of financial reporting quality was due to audit firm characteristics. The results of the Schwarz information criterion, Akaike Information criterion, and Hannan-Quinn criterion revealed that audit firm characteristics of audit fees, audit firm independence, audit tenure and joint audit exerted positive influenced on the financial reporting quality of the selected firms. Durbin-Watson statistics computed for this test of 1.708009 showed no auto correlation among the variables of the study. Therefore, audit form characteristics were good predictor variables for financial reporting quality.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study had revealed that audit firm characteristics were determinants of financial reporting quality. Therefore, on the basis of the finding of the study, it might be concluded that audit firm tenure, audit firm independence, joint audit and audit fees were determinants of financial reporting quality in the selected non-financial institutions. It was observed that audit firm size was not one of the determinants of financial reporting quality.

Recommendation

The following recommendations are made for the study.

- There is need for firms in Nigeria particularly their shareholders to ensure that audit fees are paid promptly. This is necessary in order to avoid a situation whereby auditors enter into unholy alliance with unscrupulous management for financial gain that may have serious repercussion on the financial reporting quality.

- The independence of the audit firm must continually maintain in order to enhance the quality of the audit firm opinion concerning the prepared financial statement by the management. This the audit firm can achieve by ensuring that they do not interfere with the business of their client because doing so may lead to loss of independence.
- Audit tenure must not be too long. This is necessary in order to avoid unnecessary interfering of the audit firm with the business of its client. The shareholders of these firms must ensure that audit tenure was relatively short in order to protect the independence of the auditor.
- The study recommend that the management of the listed non-financial firm in Nigeria should encourage joint audit so as to aid the ability of audit firms to meaningfully carryout in depth analysis of the prepared financial statement of an entity before arriving at any informed opinion.
- The study also recommends that since audit firm size does not sufficiently significant on financial reporting quality of listed non-financial firms then is not necessary.

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