AUDITOR INDEPENDENCE AND FINANCIAL REPORTING QUALITY

(A CASE STUDY OF SOME QUOTED COMPANIES IN THE NIGERIA STOCK EXCHANGE MARKET)

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A PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND) IN ACCOUNTANCY, SCHOOL OF BUSINESS STUDIES, AUCHI POLYTECHNIC, AUCHI, EDO STATE.

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CERTIFICATION

We, the undersigned hereby certify that this project title "Auditor Independence and Financial Reporting Quality, was carried out by **ABU MARYJANE**, with Matriculation Number: **SBS/6011841011** under our supervision in the Department of Accountancy, Auchi Polytechnic, Auchi, Edo State.

We therefore certify that the project is adequate both in scope and quality for the partial fulfillment of the requirements for the award of Higher National Diploma (HND) in Accountancy.

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DEDICATION

This project is dedicated to Almighty God for making this work successful

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Abstract

This study examines auditor independence and financial reporting quality in Nigeria. The specific objectives of this study were to determine the relationship between audit tenure, auditor independence, audit firm size and quality of financial reporting. To achieve this objective, secondary data were sourced from a sample of eighty (80) quoted companies for a period of eight (8) years (2011-2018). The data were estimated using the Ordinary Least Square (OLS) regression technique with the aid of E-Views 8.0 software. At the end of the analysis, the empirical findings revealed among other things that there is a significant relationship between auditor independence and quality of financial reporting. The study also reveals that there is no significant relationship between audit firm size, audit tenure and quality of financial reporting. The study recommends, among others that the corporate organization in Nigeria should pay proper attention to auditor independence as it's a major determinant of quality of financial reporting among quoted companies in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Auditor independence has been termed the cornerstone of the auditing profession, since it is the foundation for the public's trust in the attest function (Caswell & Allen, 2001). Auditor independence helps to ensure quality audits and contributes to financial statement users' reliance on the financial reporting process. McGrath, Siegel, Dunfee, Glazer and Jaenicke (2001) argue that when independent auditors render unbiased audit decisions, the broader goal of auditor independence, namely "to support user reliance on the financial reporting process and to enhance capital market efficiency," is accomplished. However, several major instances of misstated earnings have been reported over the last several years. These misstatements have led many to question the effectiveness of various aspects of the audit function, especially auditor independence.

Audit entails executing processes to acquire proof concerning disclosures and amounts in the corporate report in order to estimate the correctness of accounting estimates prepared by corporate board/management (Klynveld Peat Marwick Goerdeler, 2008). Therefore, audit quality is a fundamental component in boosting the reliability/integrity of corporate reports to users of audit report/financial statement. The corporate scandals of Enron and WorldCom, have throw a suspicions over conventional accounting practices. As a result, there is apprehension that audits firms are getting close to companies and therefore, their independence are being affected. The latter brought to the fold the reason to replace (change) auditors after some period. Public Companies Accounting Reforms and Investors Protection Act, 2002 set up a U.S. Public Company Accounting Oversight Board (PCAOB) with the authority in the United States of America and so many more, to enforce the obligation for a review of the second partner also to make sure the reviewing partner and principal partner be obliged to change the audit every five years.

Accordingly, studies (Fairchild, 2008; Coate, Florence & Kral, 2002) observe that audits inculcate quality to financial report by giving an independent certification of financial reports presented by corporate management, hence minimizing investors information risk. Financial reporting quality is to some extent replicated in the confidence of users in corporate financial reports audited (Watkins, Hillison, & Morecroft, 2004). As Levitt (2000) put it, the awareness of audit plays a vital function in keeping systematic confidence in the credibility of corporate reporting. As the perceived audit quality goes higher, financial statement enjoys credibility. This accordingly enhances user's satisfaction in the financial report. The disquiets as regards audit quality have acquire increased ascendancy particularly as an outcome of the stunning financial reporting scandals in foremost corporations, such as WorldCom, Enron other firms. However, some scholars argue that longer tenure improves quality of financial reporting through learning, while others argue that longer tenure decreases quality of financial reporting because of independence concerns.

The independence of auditor is also regarded as key to their credibility as external verifiers of external financial statements. The requirement for external auditors to be independent of their clients when undertaking an audit is enshrined in the International Federation of Accountant's (IFAC) Code of Ethics and in the

European Union's Eighth Directive. In the IFAC code, this requirement is translated into various situations where observance of certain rules should ensure independence. Auditors Independence has been described as “avoidance of situations which would tend to impair objectivity or permit personal bias to influence delicate judgement”.

Auditor independence, in particular, implies “absence of influence or control in the matter of the auditor’s conduct, action and opinion”. It simply refers to the auditor’s ability to express his conclusions honestly and impartially. In accounting practice of today, the independence of the auditor is one of the most important issues because it increases the effectiveness of the audit by ensuring that the auditor plans and carries out the audit objectively. Okolie (2007) maintains that high quality audits enhance the reliability of the financial reporting process and facilitate optimal allocation of capital by investors and other users of the financial statements.

1.2 Statement of the Problem

The studies are however based largely on US and European data, thus reflecting the advance economies environment. Few of the studies such as Semiu and Kehinde (2011), Semiu and Johnson (2012) used data from emerging economies such as Nigeria. Little is known about the connection linking auditor independence and financial reporting quality in developing markets such as in Nigeria.

A number of other studies Dopuch, King and Schwartiz, (2001);Arrunada and Paz-Ares, (1997; Brody and Moscove, 1998; Healey and Kim, (2003); and Myers (2003) have made effort to find out possible explanatory variables for the position of financial reporting quality. Among these prior studies, auditor tenure has turned out to be the center of debate to a great extent. Should an organization change its auditors regularly, or must the auditor be permitted to enjoy a long-term contract with the auditee?

Prior empirically studies on auditor tenure and quality of financial reporting are at divergence. A substantial figure of these studies American Institute of Certified Public Accountant (AICPA), (1992); Carcello and Nagy, (2004); Healey and Kim, (2003)believe that changing of auditor on a regular basis leads to improving audit quality, because auditors overfriendliness with a the auditee have the tendency of downgrading the new ideas auditors possess when he was appointment in the initial years. The Public Companies Accounting Reforms and Investors Protection Act, 2002 supported this idea hence it call for the rotation of the lead auditor at least five years to enable the appointment be sighted “with fresh and skeptical eyes.” The reason in the end is that longer auditor-client relationship is likely to have negative effect of auditor independence. On the other hand, precious studies (Jenkins and Velury, 2008; Defond and Francis, 2005; Gosh and Moon, 2005) also disagree that longer auditor tenure enhance the quality of financial reporting because auditors might require time to acquire proficiency in the trade they audit and obtain client-specific understanding in the end. This means that financial reporting quality decrease throughout the initial years of the auditor tenure, and financial reporting quality get boosted with length of auditor-client relationship owing to the decrease in information asymmetry between auditor and the auditee (Azizkhan, Monroe & Shailer, 2007).

However, controversy trails the issue of mandatory rotation of auditors as a panacea for the independence of the auditor. While some stakeholders see the merit in mandatory rotation of auditors others ridicule the whole idea. The problem is what is the perception of every important stakeholders in this matters? This question is relevant because the success of any policy measure on such issue will depend to a large extent on its stakeholders" buy in. auditors, accountants and accounting academics are very important stakeholders in this matter. This study will therefore fill the gap between the perceptions of various stakeholders on longer audit independence as means of improving financial reporting quality. Thus, this study tends to find solution to the following problems.

1.3 Objective of the Study

This study centered on auditor independence and financial reporting. Specifically, the objectives are:

1. To determine the link between audit tenure and quality of financial reporting.
2. To ascertain the extent to which auditor independence influence of financial reporting.
3. To examine the extent to which audit firm size influence quality of financial reporting.

1.4 Research Questions

Therefore based on the above discussions the following research questions were answered in this study.

i. What is the link between audit tenure and quality of financial reporting?

ii. To what extent has auditor independence influence financial reporting?

iii. To what extent do audit firm size influence quality of financial reporting.

1.5 Statement of Research Hypotheses

The following hypotheses shall be tested

H_0: Audit Tenure does not exhibit significant relationship with quality of financial reporting.

H_1: Audit Tenure exhibit significant relationship with quality of financial reporting.

H_0: Audit Independence does not exhibit significant relationship with quality of financial reporting.

H_1: Audit Independence exhibit significant relationship with quality of financial reporting.

H_0: Audit firm size does not exhibit significant relationship with quality of financial reporting.

H_1: Audit firm size exhibit significant relationship with quality of financial reporting.

1.6 Significance of the study

The present study identified various factors that most influence the auditor's independence among companies in presenting most reliable financial statements. Auditors are faced with various challenges as they try to ensure ethical and accurate presentation of the financial reports for the companies for which they work for. The fact that the auditor is employed or contracted by the Institutions for which they are auditing it means they are at the mercy of the employer and the way they present the information is very crucial. This study sought to shed light on various factors and how they can be applied in making the auditing process as appropriate as possible. The outcome of the study was significantly advance the frontier of knowledge and adds to the existing academic literature on auditors‟ independence.

1.7 Scope of the Study

This study evaluates the impact of auditor’s independence and financial reporting in Nigeria. However, the study is limited to all companies listed on the floor of Nigerian Stock Exchange (NSE) Market as at 31st December, 2018. The study therefore, covers a period of eight years (8) years (2011-2018). The choice of this period is informed by the fact that it is the period immediately after the company consolidation and reforms, that is, when the company witnessed intensive regulations and strict supervision including the review of code of best practices on corporate governance.

1.8 Limitations of the Study

In the course of conducting this research work it is expected that the following will constitute impediments to the effective conduct of the study

Access to Data: inability to access relevant information is a foreseen challenge to the success of this research. The tax authourity may not reveal data or a true information which they which they may choose to keep for themselves.

High cost of running a large area: Also the financial implication of covering the entire nation could be a predicament to the success of this research.

Despite all this limitations mentioned above and hindrances, the research study no doubt will turn out to be successful.

1.9 Definition of Terms

Auditor Independence: Auditor independence refers to the independence of the internal auditor or the external auditor from parties that may have a financial interest in the business being audited.

Audit Tenure: refers to the number of years audit firms or engagement partners have spent on the audit of a particular client

Non-audit services: which constitute the source of non-audit income, is be described as any other service rendered to an audit client different from the examination of accounts and expressing a professional opinion thereof. These services are also referred to as consultancy services

Audit Evidence. Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

Audit Risk. The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Auditor: The term used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm.

Detection Risk: The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Auditor Independence

Audit Independence is defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. Independence refers to the quality of being free from influence, persuasion or bias, the absence of which will greatly impair the value of the audit service and the audit report. An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (Okolie, 2014).

The Independent Standards Board (ISB) established a framework for Auditor Independence due to the lack of inconsistent rules and regulations. The framework contains various principles and concepts to help assist the board with writing the standards. This framework defines auditor independence as freedom from the factors that compromise, or can reasonably be expected to compromise, an auditor's ability to make unbiased audit decisions (McGrath, 2001). Standards are based on a model that involves three key steps: identify threats to the auditor's independence and analyze their significance, evaluate the effectiveness of potential safeguards and determine an acceptable level of independence risk. According to researchers, the definition of independence does not require the auditor to be completely free of all the factors that affect the ability to make an unbiased audit decision, but only free from those that rise to the level of compromising that ability (McGrath, 2001). The overall goal with independence is to ensure financial reports are reliable and improve capital markets efficiency.

The role of appearance continues to remain a controversial topic in auditor independence. Challenges are faced when individuals uncover the meaning of "appearance" as well as selecting the right perceptions. Previous writings establish an auditor to consider whether an investor can determine how an audit will be affected based on the relationship between the auditor and the client. Researchers found difficulties when determining how to assess appearance because there was a "probable" lack of consensus about the circumstances likely to affect auditor's independence" (McGrath, 2001). Although the debate over "appearance" fail to cease, there are three ways it can be incorporated in the standards if the auditors goal is to enhance credibility and reliability for financial statements. The methods include creating independence standards based of requested views from different parties, obtain information from a hypothetical group and develop standards based on the board's judgment.

2.1.1.1. The Importance of Auditor Independence

Independence is an essential attribute for audits because it determines how credible and reliable financial statements will be to investors. Independence has been the focus of almost constant controversy, debate and analysis (Law, 2008). After corporate failures and scandals, regulators began to question how independent and competent auditors were during engagements. According to Fearnley, Beattie and Brandt (2005), "the restatement of the Enron accounts and the collapse of Anderson…shows the devastating effect of loss of confidence in the integrity of an audit firm." The media remains critical of the auditing profession. Actual and perceived independence are the two types of auditor independence. The perceptions of the auditor independence will determine the future of the auditing profession (Fearnley et al, 2005).

2.1.1.2. Factors that Affect Auditor Independence

There are many factors that affect auditor's independence; however, in this study, factors such as the audit firm size, the firm's tenure, the level of competition in the market, the size of the audit fee, the audit committee and provisions for non-audit services will be discussed.

1. The Level of Competition in the Market

Competitive markets make it more difficult for firms to remain independent solely because clients can choose from a handful of other auditors to conduct their service. Other incentives or opportunities are available as the number of audit clients rises. Studies have shown that audit firms remain less independent when competition is high. According to Shockley (1981), if an audit firm allows competition to affect the nature of its audit dangerously close to non-independence." However, some argue, auditors are more independent once they realize the competition level so they do not jeopardize their clientele (Chepkorir, 2013). The Cohen Commission expressed their concern about too much competition in the accounting profession. "It is not the lack of competition that, however, but possible excessive competition that appears to present a problem to the public accounting profession today". In response to the increase in pressures from competition, audit firms began to change their behavior by reducing audit fees in real terms and "there were prima facie cases of low balling, where incoming auditors were believed to have secured their appointment by offering significant fee reductions”. Houghton and Jubb (2003) offer a solution to create a “market-observable audit independence quality control process” as a result of market competition. In the proposed models they focused on having regular reviews on independence and ensuring that individuals selected on the Independence Control Board for firms who have audit engagements that are traded publicly are knowledgeable and free from receiving any benefits from decisions made from the Board (Houghton and Jubb, 2003)

2. Audit Firm Size

The audit firm size is another factor that impacts auditor independence. What distinguishes a large audit firm from a small audit firm? There are many differences between the two firms which include the amount of responsibility, the number and reputation of the clients and the caliber of employees. Larger audit firms are more likely to provide a better-quality audit due to better research facilities, technology, financial resources, and skilled labor because they can conduct audits from bigger firms. Pressures from management will affect smaller firms while larger firms are able to resist since they have different variations for client exposure. Since larger firms receive more publicity from the media, smaller firms are less noticeable by shareholders, “implying less information and weaker monitoring” (Fernando, Abdel-Meguid, and Elder, 2010). A study was conducted where researchers studied the impact of auditor firm size. It was comprised of larger firms such as the Big 4 and national and local firms. Everything was measured using the “collateral bond” by DeAngelo (Saat, Karbhari, Xiao, Ashikin and Heravi 2013). The results of the study showed that, although the relationship between audit firm size and independence is unclear and insignificant, audit's firm size can moderate the relationship of moral reasoning and independence (Saat et al. 2013,). In addition, there was a difference in the way large and small firms chose to document their disclosures in financial statements. For instance, national firms would leave comments for any adjustments that were made on the disclosure while local firms preferred a footnote.

3. Audit Tenure

An audit firm's tenure can be defined as the length of time an auditor performs services for a client. Risk associated with the loss of independence are increased once client relationships are maintained for a long period of time. On the other hand, other individuals believe having a lasting and faithful relationship will augment independence. For example, "long tenure is beneficial as auditors gain expertise in the field that they audit and may reduce the auditor's ability to detect irregularities or material misstatements" (UKEssays). The SEC released a regulation stating that partners should not remain with a client for no more than five years. Shockley (1981) explained how "complacency, lack of innovation, less rigorous audit procedures and a learned confidence in the client may arise after long association with the client." A recommendation to rotate auditors was advised by the Metclaf subcommittee to avoid this issue (Shockley, 1981). Academic research has proven that there are more unsuccessful audits in the beginning of auditor-client relationships in addition to lower earnings with audits who have shorter time frames. Apparently, investors reward long auditor-client relationships with lower cost of debt (Mansi, Maxwell and Miller, 2004).

4. Size of Audit Fee and Non-Audit Services

Many concerns are centered around auditors providing Non-Audit Services (NAS) because they are likely to risk their independence in return for more NAS earnings. It is assumed that auditors may try to sacrifice their independence in exchange for retaining the audit clients from which they might accrue large NASs revenues (Law 2008; DeFond, Raghunandan, and Subramanyam, 2002). Examples of non-auditing services include appraisal services, actuarial services, bookkeeping, internal audit services, various modes of management consulting, financial information design services, taxation services and legal advice (Austin and Herath, 2014). Studies have shown that NASs has impacted auditor independence negatively. Rules have been established by the Sarbanes-Oxley Act to limit the services auditors can provide for client. In addition, the SEC required firms that were traded publicly to reveal the amount of fees paid to auditors in their annual proxy statements as they were investigating the relationship between non-audit services and auditor independence (SEC, 2000). On the contrary, a few researchers discussed how utilizing NASs can help increase knowledge about the client.

Audit Fee can be defined as the amount charged to a client to conduct specific services by the accountant. The fee may vary by size or based off the type of service provided but there have been many questions from researchers whether it affects audit quality. “The amount of audit fee can vary depending on the assignment risk, the service complexity, the level of expertise required, the cost structure of Public Accountant Firm and other professional considerations” (Rahmina and Agoes, 2014). “Large diversified with extensive receivables and inventories, pay higher fees”

(Turpen, 1995). Studies have shown that larger firms tend to charge higher fees because of the idea that they may provide better quality for audits. Audit quality is challenging to measure and explain due to the lack of concept detail. According to Rahmina and Agoes (2014), there are nine elements firms should implement to meet quality control expectations. They include: independence, assignment of personnel, consultation, supervision, employment, professional development, promotion, acceptance and sustainable clients and inspection.

2.1.2 Concept of Financial Reporting Quality

Nzekwu (2007) believe that, financial reporting provide important quantitative account of individual firms that hold up to a large variety of contractual associations and boost the information atmosphere to a large extent while its value also influence companies' cash flows and also impacting the rate of capital on which the cash flows are reduced. Dealings and procedures being accounted for might contain both financial and non-financial consequence i.e. might have both financial and nonfinancial information. The literature review would only think about the financial viewpoint of financial reporting. Such ultimate reports are determined to make available information to satisfy the wishes of external users who are not capable to demand, or contract for, the preparation of extraordinary information to satisfy their precise information needs.

Dabor and Adeyemi (2009), buttress that, when there is a division of possession from the management of an organization, as in the limited liability company, there is a propensity for directors of these business enterprises to involve in deceitful/falsified financial disclosure to protect their interest at the detriment of users of corporate financial reporting. According to them, it is only an effective board that would be concerned about the credibility of corporate financial reporting. An effective board is one that seeks to maximize shareholder's wealth through the means of enterprise and accountability.

Salehi and Nassirzadeh (2012) contend that the usefulness of corporate financial reporting relies on timeliness, which is said to be a part of credible disclosure. For this reason, they argue that "timely disclosure is fundamental to good investor relation." According to them, timely accounting information ought to be presented as early as possible to the public to make do with for the investment evaluation (decisions), which may influence and avert hindrance (lag) in decisions making. Publishing corporate report not early enough may possibly cost information idleness and high degree of doubt and lots of confidence in relation with decisions and therefore reduce the rate of utilization.

Osuala, Ugwumba and Osuji (2012) observed that, most times, corporate financial reporting is capable of affecting other establishment. For instance, a foremost company in a specific business publishing corporate financial reporting can affect a business generally. Bad numbers by a foremost industry may at times lead to a negative viewpoint on other corporation. This could reduce the stock prices on other corporation in a similar business or sector of the market. According to them, Statement of Accounting Standards (SAS) 2 provides that corporate financial reporting is made up of: the Notes to the Accounts, Balance Sheet, Statement of Sources and Application of Funds, Profit and Loss Account or Income Statement, Historical Financial Summary and Value Added Statements. These elements of corporate accounting information provide information in relation to the resources, obligation and accomplishment of the company in a clear, simple and understandable manner

Oladipupo and Izedomi (2013) posit that corporate financial reporting is a means through which the corporate executive accomplishes their stewardship accountability to the shareholders. Financial reporting practice requires presentation, publication, auditing, and compilation of audited yearly information and financial records to the stakeholders/shareholders at the yearly general meeting.

Modugu, Eragbhe and Ikhatua (2012) maintain that, financial reporting users need timely and accurate information for knowledgeable decision making. Timeliness which according to Modugu, et al (2012) requires that financial information ought to be made accessible to accounting information users as quickly as possible, as acknowledged by the financial analysts, investors and managers, professional body, regulatory authorities, and the academics as the most essential characteristics of audit report which is a compulsory provision to be satisfied if audit report are to be valuable.

Hashim and Rahman (2011) opine that, a lot of expert and regulatory bodies have taken different measures to recognize the factors that discourage companies in holding up to the presentation of corporate disclosure. Corporate governance mechanism that is audit committee must perform significantly in a company to make sure that the purpose of reporting early enough is realized.

2.1.2.1 Quality of Financial Reporting

Quality of financial reporting have been widely discussed but the level of understanding is insignificant; and in spite of the diversity of the concept, agreement on how to define it is still very little, let alone measure, quality of financial reporting. Perception of quality of financial reporting can rely to a large extent on whose one is looking up to. Regulators, auditors, stakeholders and other users in the financial reporting procedure might possess extremely another observation as what inform quality of financial reporting, which influences the kind of pointers that can be utilized to measure quality of financial reporting.

DeAngelo (1981) define quality of financial reporting as the market-appraised combined possibility which an auditor find out irregularity in the audit report, and disclose it. Users of audit reports might have faith on high quality of financial reporting indicate nonappearance of information mis-declaration. An audit firm carrying out the audit might describe high quality of financial reporting as adequately finishing the entire tasks needed by the firm's audit methodology.

Enofe, Mgbame, Aderin and Ehi-Oshio (2013) find that there is a positive connection exits between board independence, audit firm size and ownership structure and quality of financial reporting; on the other hand, only board independence showed a significant relationship with quality of financial reporting, while audit tenure demonstrated a negative and insignificant association with quality of financial reporting. The study recommends the sustenance and possible improvements on the non-executive board composition of organizations.

Adeyemi and Fagbemi (2010) give facts on corporate governance, quality of financial reporting, and firm correlated characteristic from a developing nation like Nigeria. From their findings the empirical results reveals that possession by non-executive director own the likelihood of intensifying audit quality. The study also revealed that business leverage and size of the company acted significantly in the quality of financial reporting.

Adeyemi, Okpala and Dabor (2012) in investigating the factors affecting quality of financial reporting in Nigeria, using primary data which were completed by 430 respondents comprising a number of stakeholders in the area of auditing and financial reporting. They also utilized secondary data generated from annual report and accounting forty quoted firms on Stock Exchange of Nigeria. Their result exposed that multiple directorship affect audit quality largely. Also they establish that provision of non-audit service may possibly possess an important effect on audit quality. On the other hand, the investigation did not see audit firm rotation as a significant factor that can enhance the quality of financial reporting in Nigeria.

Elsewhere Sawan and Alsaqqa (2013), investigate the connection between audit firm size and financial reporting quality, the study show that Big four audit firms are powerful than non-Big four colleagues in every part of their status subjects accessible before them, and that audit firm size is have a positive relationship with quality of financial reporting.

Matarneh (2011), consider the relationship between the objectivity, competence, and the quality of internal audit and performance of internal auditor. In addition, presents proof whether the internal auditor's effectiveness, qualification and objectivity have an effect on the internal audit report.

Suyono (2012), analyze determinant factors affecting the quality of financial reporting, namely: independence, experience, and accountability. This paper tests the hypothesis that independence, experience and accountability affect financial reporting quality. The findings of this research support that independence and accountability affect quality of financial reporting and reject that experience affects quality of financial reporting. The results show that: 1) independence, experience and accountability affected financial reporting quality simultaneously; 2) independence and accountability affected quality of financial reporting partially, meanwhile experience did not affect quality of financial reporting partially; 3) accountability was the dominant factor affecting quality of financial reporting.

2.1.2.2Audit Firm Tenure

Due to the recent business scandals, the tenure of auditors has been widely discussed and investigated. The view focused on whether the auditor client should change its auditor frequently or if auditor must be permitted to establish a long-term association the firm being audited. Those supported the idea of long-audit tenure emphasize that, long term association might permit auditor to obtain knowledge on the functions of the auditee and consequently allow auditor to be extra competent and also improve the capacity of the auditor to uncover misdeed. However, the advocacies of frequent substitution of auditor view long-audit tenure could influence familiarity among the auditor and his client and could consequently result to demise of independent of auditor which may therefore influence unfortunate quality of financial reporting because the auditor could ignore some correct assiduousness and misdemeanors of executive or staff (Ikharo, 2015).

Quality audit report is an essential ingredient to improve the credibility of financial statements to those interested groups. However, this might not tell if the auditor is not independence. With the exclusion of independence, the practice of auditing may be contended to the extent that the auditor would offer unfairness view to their clients. The most important factor that would harmfully affect auditor independence in providing their judgment is auditor-client close relationship, to be precise long audit tenure.

Abu Bakar and Ahmad (2009) opine that, an audit firm tenure also known as the duration of period auditor has been discharging his duty of audit requirements to a particular firm, have been widely talk about as maintaining the stand on the danger of misplacing auditor’s independence. A good number of authors, who argue the association relating audit tenure and independence of an auditor holdup the assertion that a long relationship among company and audit firm might show the way to that familiar recognition of audit firm including the concern of its auditee’s executive that sincere self-governing act by the audit firm turn out to be difficult.

2.1.3 Auditor Independence and Financial Reporting Quality

Auditor independence produces the highest value of reliability of financial report. Given the existence of technical training and proficiency and engagement performance, auditor independence is a prime audit quality in financial reporting. According to the Consultative Council of Accountancy Bodies (CCAB), independence is an attitude of mind characterized by integrity and an objective approach to professional work. It is an attribute which qualifies an auditor to express opinion on matters of financial reporting without bias or undue pressure. As a result, possession of independent status constitutes an important ingredient in assessing quality of financial reports.

The reasoning by Yamani (2011) was of the opinion that auditor's independence and auditing quality can be viewed as important factors in auditor selection and thus indicate the confidence level in financial reports, confirms this assertion. In addition, Wright and Wright (20112) in assenting to the essentiality of independence in financial reporting suggested that auditor independence is at the centre of the integrity of the audit process. Professional accounting bodies consider independence attribute as a key factor in measuring the performance of their members. For instance, the AICPA to secure quality control in the practice of its members, issued a statement on quality control standards which specifies five elements of quality control, amongst which is independence. The main purpose of maintaining independent quality is to ensure that, personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional services with integrity and maintain objectivity in discharging professional responsibilities.

2.1.4 Auditor Committee and Financial Reporting Quality

The original concept of Audit Committees was as a means of ensuring the independence and effectiveness of the external auditor. As a result of corporate governance problems, their responsibilities have expanded to include working with the internal auditors and management to ensure proper conduct of corporate affairs, enhance corporate accountability and strengthen the financial reporting processes and practices of an entity (Ayinde, 2002). Hence the Audit Committee boosts an investor confidence in the operations of an entity with governance practice. Audit Committee members are expected to have knowledge and experience of business risk, oversight performance, financial situations and accounting policies that will help in monitoring the activities of an entity (Enofe, Aronnwam & Abadua, 2013). Therefore, Audit Committees are valuable and rare resources of any entity and entities with higher resources and capabilities in the Audit Committee tend to gain reputation in the long run. Indeed, the existence of an Audit Committee in a body would provide a critical oversight of the entity's financial reporting and auditing processes (Walker, 2004).

Financial reporting is the provision of financial information about an entity to external users that is valuable to them in making economic decisions and for assessing the effectiveness of the entity's management. Disclosure and transparency in the financial statements are vital factors of high-quality reporting ((Enofe, Aronnwam&Abadua, 2013).Financial statements are the result of accounting transactions or economic dealings aimed at providing qualitative and quantitative financial information to appraise and forecast the performance of the entity to permit informed judgment and decision making (Ilaboya, 2005).The process of ensuring reliable financial reporting is one of the essential functions of the Audit Committee. While the Audit Committee is not involved in the daily operations of an entity, there is pressure from the oversight position for the Audit Committee to get more involved in ensuring the integrity of the financial reporting process. Efficient Audit Committee processes for overseeing financial reporting. These studies, in general, have justified the expectation from the Audit Committees for review of all financial statements for approval by the Board of

Directors before public circulation to ensure their objectiveness, accuracy, and timeliness. Other expectations include a consideration of all existing accounting policies, and their effect on the financial statements, any changes in accounting policies including the likely impact of any contemplated changes, appraisal of the major management estimates, and evaluate the adequacy of financial statement disclosures.

2.3.3 External Auditor and Financial Reporting Quality

The external audit assesses the validity and reliability of publicly reported financial information. Because management is responsible for preparing financial reports, shareholders expect an objective third party to provide assurance that the information is accurate. Despite public expectations, it is not the explicit objective of the audit to identify fraud. Instead, the objective is to express an opinion on whether statements comply with accounting standards. Auditors express an “unqualified opinion” if it finds no reason for concern. Financial reporting quality is fundamental to the decision making process of users especially the investor group who relied basically on financial statement audited by an external auditor.

2.3.4 Auditors’ Role and Financial Reporting

Audit quality produces qualitative financial reports which in turn prevent financial crises (Kaklar, Kangarlouei & Motavassel, 2013). Audit quality from the perspective of providing assurance that the financial statements will contain no material misstatements. By extrapolation, the reliability of financial statements is reflected in audit quality practices adopted in their preparation. The documents that perceptions of audit quality are vital as they determine the credibility of audit reports.

In addition, audit quality when considered in conjunction with auditor independence; impact the confidence level which users of financial statements have in financial reports (Al Khaddash, Nawas & Ramadan, 2013). Choi and Jeter (2012) illustrated a reduced stock market response to earnings reports when qualified opinions are issued and found that, if auditor quality is endangered, audit reports provide a lower level of assurance to users of financial statements. In other words, qualified audit reports as a consequence of poor audit quality, lead to reduction in the demand for shares of an organisation in the stock exchange.

2.2. Theoretical Framework

2.2.1 Agency Theory

According to agency theory auditing services are required to reduce agency problems arising from conflict of interests between shareholders and managers or debt-holders and managers. Studies focusing on agency issues predict that as agency problems become more severe management will demand higher audit quality in an effort to assure financial information credibility to shareholders, debt-holders or other investors. Early studies used auditor reputation (size or brand name) as a measure of audit quality and documented that companies facing agency problems hire auditors with better reputation.

According to Miettinen (2010), agency literature suggests that certain company specific characteristics increase management incentives to act against shareholders' or debt-holders' interests. Agency problems can increase management propensity to produce substandard financial information in order to cover actions that have not been in the best interest of the shareholders or debt-holders. According him, the agency problem of *leverage* postulates that managers (acting on behalf of shareholders) have incentives to transfer wealth from debt-holders by taking various actions such as paying dividends to shareholders at the expense of profitable projects or restructuring of debt. Some of these actions can result in a decline in firm value because they involve suboptimal investment policies. Moreover, the literature suggests that firms with high leverage are more likely to face bankruptcy and such firms are more likely to engage in earnings management since they are closer to debt covenant violations. Secondly, agency literature recognizes that low *management ownership* gives rise to an asymmetric information problem meaning that very often the manager is better informed about the activities and payoffs of the firm than the owner. Separation of ownership from management creates monitoring difficulties giving the potential for management to take non-value-maximizing actions. Thus, low management ownership creates an increased demand for accounting-based contractual constraints which are used to discourage managers from non-value-maximizing actions. Management may be motivated to mitigate these constraints by strategically choosing accounting policies and determining accounting accruals. Accordingly it has been found that management ownership is positively associated with earnings explanatory power for returns and negatively related to the magnitude of discretionary accruals. Thirdly, the agency problem of *the free cash flow* postulates that in the presence of high free cash flow management has opportunities to make expenditures that have negative Net Present Values (NPVs) rather than pay dividends to shareholders or purchase stock. The free cash flow agency problem can be implicated by firm’s poor financial performance and consequently poor stock market valuations. The free cash flow agency problem is also implicated by a relation between company's free cash flow and accrual activities. Managers in firms with high free cash flow may have incentives to smooth earnings in order to shirk the full impact of wasteful expenditures on earnings. Prior research has documented negative relation between free cash flow and the magnitude of discretionary accruals. These results can be explained by following rationale: income-decreasing accruals occur if managers wish to shift profits to future years when the full impact of expenditures hits earnings.

2.2.2 Stakeholder Theory

A framework for the analysis of the relationship between audit firm characteristics and quality of financial reporting is the stakeholder theory. The stakeholder theory, originally defined by Freeman (1984) 'is a theory of organizational management and business ethics that addresses morals and values in managing an organization'. In this theory, the concept "stakeholders" refers to managers, shareholders or other users of financial reports which are influenced, either directly or indirectly by the actions of the auditor. A fundamental characteristic of stakeholder theory is therefore to attempt to identify individuals and groups that states, organizations and companies are accountable to. This has also been part of the theory's challenge (Anheier, 2005).

According to Australian Accounting Standard Board (AASB) (2011), variations in stakeholders' perspective of quality of financial reporting suggest that no single element should be assured as having the dominant influence on quality of financial reporting explained in this study as "audit tenure", "auditor independence, audit firm size and auditor expertise". This means that a broader and deeper understanding of the complexities of the issue needs to be addressed through investigating the impact of these variables more holistically in line with the response Divergent Stakeholders theory (Freeman, 1984). This requires that different stakeholders should carefully analyzed their actions so as to determine the effects of their actions and their impact on the perspectives of quality of financial reporting reason been that audits provide assurance to shareholders, managers, investors, creditors and other stakeholders, thus, providing confidence on the financial reporting.

2.2.3 Relevant Theories on Financial Reporting

2.2.3.1 ***The Entity Theory:*** The business firm is considered to have a separate existence, to the extent of having a personality of its own. The entity theory based on the equation that Assets are equal to Equity plus liabilities suggests that the valuation of the rights of the creditors can be determined independently of other valuations if the firm is solvent, while the rights of the stockholders are measured by the valuation of assets originally invested plus the valuation of reinvested earnings and subsequent revaluations. the rights of the stockholders to receive dividends and share in net assets upon liquidation are, however, rights as equity holders, rather than as owners of specific assets. The liabilities are specific obligations of the firm, and the assets represent the rights of the firm to receive specific goods and services or other benefits (Hendriksen, 1982).

2.2.3.2 ***The Enterprise Theory:*** Is a broader concept than the entity theory, but less well defined on its scope and application. According to the enterprise theory, accounting may be thought of as a social theory of accounting, that is, the firm is considered to be a social institution operated for the benefit of many interested groups. From an accounting point of view this would mean that the responsibilities of proper reporting would not only extend to stockholders and creditor, but also to many other groups and the general public. This concept of the firm is, according to Hendrikson (1982), most applicable to the large modern corporation that has been obliged to consider the effect of its actions on various groups and on society as a whole.

2.2.3.3 ***The Proprietary Theory:*** In the proprietary theory the proprietor or owner is at the center of interest. In the balance sheet format this is stated as follows: 'Assets minus liabilities are equal to proprietorship's. The assets are assumed to be owned by the proprietor, and liabilities are the proprietor's obligations. Revenues are increases in proprietorship and expenses are decreases. The net income accrues directly to the owners; that is, it represents an increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners. It is a wealth concept (Hendriksen, 1982).

2.2.3.4 ***The Residual Equity Theory:*** In the residual equity theory, changes in asset valuation, changes in income and in retained earnings, and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equations become as follows: Assets minus specific equities are equal to Residual equity'. The equity of the common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders. According to Hendriksen (1982), the residual equity of view is a concept somewhere between the proprietary theory and the entity theory. The objective of the residual equity approach is to provide better information to common stockholders for making investment decisions. In a going-concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future dividends are dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders, and requirements for reinvestment. Since financial statement are not generally, prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future dividends to common stockholders including liquidation dividends (Hendriksen, 1982).

2.2.3.5 ***Contingency Theory:*** Contingency theory has become prominent in both organization theory and management accounting. It has also been suggested that the contingency approach is implicit in accounting policy making. The contingency framework is extended to corporate reporting and it is argued that this may provide a means of explaining and predicting such systems. The contingent variables are conceptualizes as falling into four classes which consist of: (1) societal variables; (2) the environment of the enterprise; (3) organizational attributes; and (4) user characteristics and others sources of information. These are shown to be associated with particular attributes of corporate reporting system.

From the above concepts, we could immediately see that the enterprise theory charged the Accountant (Auditor) the responsibility of proper external reporting as the firm is considered to be a social institution operated for the benefit of many interested groups. The residual equity theory required that proper audited financial report is need by investors or potential investors for making investment decisions i.e. the information provided should be useful in predicting possible future dividends to common stockholders including liquidation dividends. Finally, the contingency theory has noticed some variable that may affect the quality of audited statement which the regulatory bodies, policy makers, and public at large have to take cognizance in auditing job. Issues like societal variables (legal frame work and audit perception), organizational attributes (extent of management control), and the environment of the enterprises (national differences).

2.3 Empirical Review on Auditors Independence and Financial Reporting

2.3.1 Audit Firm Tenure and Quality of Financial Reporting

Previous investigations have exposed that audit firm tenure exhibit an important relationship with financial reporting quality. This relationship appears to be negative or positive. For example, Watts and Zimmerman (1983) discovered that as audit tenure get longer, the extra reliance on the auditee. Auditor's independence and objectivity could be damaged and therefore, reducing financial reporting quality. Copley and Doucet (1993) believe that the lengthy the duration of appointment, so the danger of reducing quality of financial reporting elevate. This ascertains was backed by the verdicts of Ebrahim, 2001, Dopuch, King and Schwarts 2001; Arrunada and Paz-Ares, 1998; Walker, Lewis and Casterella (2001) also examined the connection among the duration of the audit appointment and audit collapses and establishes that auditor replacement might not unavoidably increase the quality of financial reporting. Carcello and Nagy (2004) investigate the relationship between auditor rotation and quality of financial reporting from the viewpoint of deceitful disclosure.

Abedalgader, Ibrahim and Baker (2010) utilized discretionary accruals to measure financial reporting quality alongside firm size and auditor’s tenure, the study found that there is a negative relationship linking quality of financial reporting and auditor’s tenure. Adeniyi and Mieseigha (2013) considered the association among financial reporting quality and audit partners tenure. Their analysis shows that auditor tenure exhibits a negative correlation with quality of financial reporting. Summer (1998) found in his study that audit tenure promote quality of financial reporting; and bring to a close that tenure replacement may boast an unfriendly effects on quality of financial disclosure for companies disclosing in short term instead of long term appointments as the motivation for creating a status for sincerity.

Johnson, Khurama and Reynolds (2002) measured quality of financial reporting using audit tenure as an auditor that has been engaged with a firm he is auditing for a long during of period would be familiar with the auditee’s accounting process and internal control significantly, also may be made easy for auditors toward combating income administration/management attitude and additional misdeed in auditee’s financial disclosure method. Ghosh and Moon (2003) discovered that shareholders as well as information mediators see auditor’s tenure as enhancing financial reporting. Nashwa (2004) examined the connection among long duration of auditor and its client associations and established that danger (risk) amplify first part of auditor and its client association and weaken overtime. Barbadillo and Aguilar (2000) examined the link connecting auditor tenure and financial reporting credibility and recommended that auditors be inclined so that he will be reliant in his early years of appointment.

For example, Vanstraelen (2000) discovered that a negative relationship exists between auditor tenure and view and yet again give support for a compulsory rotation of audit firm.

Ebimobowei and Oyadonghan, (2011) deduced that a strategy supporting compulsory regular change of auditors may possibly encourage positive relationship with the credibility of financial statement because it might let for new move toward re-establishing public assurance in the field of auditing. As Adeyemi and Okpala (2011) simply say that auditor’s duration of engagement is capable of posing damage to auditor’s autonomy. To them, longer auditor and his client affiliation possibly will show the way to a coalition of auditors’ benefit along with its auditee that build genuinely autonomous actions of the auditor a prospect.

Onwuchekwa, Erah and Izedonmi (2012) examined the association relating compulsory audit replacement and quality of financial reporting. The study discovered a negative relationship among compulsory audit replacement and financial reporting quality. They emphasized on other ways of improving quality of financial reporting; which among other things are through intensification the audit committee board and supporting combined audit to prevent control of audit judgment.

2.2.4 Auditor Independence and Quality of Financial Reporting

Izedonmi (2000) posit that auditor's autonomy (independence) mean aptitude the auditor to carry out the duties assigned to him according to agreement in line with his opinion, without whichever form of unwarranted pressure plus devoid of prejudiced". Independence is a mind opinion described as objectivity as well as integrity. Auditor must just be self-governing and he must in addition be seen as self-governance. He is anticipated to shun unwarranted pressure. He ought to be self-governing when carrying out his duties, in planning his operation also in disclosing his judgment in accordance with the audit report. On the other hand, an auditor must be an enemy of any pressure, manipulation or intrusion in the conduct, planning and discharging of his duties and he should be purposeful in disclosing his view without be afraid of the directors, executives, staff, shareholders or any other stakeholder for that matter.

Independence is an aspect considered to be extremely significant in audit discipline. An auditor is expected to practice self-governance of all and sundry that has got in touch by means of complimenting his client business. An auditor is not considered to be objective except he is self-governance of everybody. The independence of auditor should be clear of uncertainty. He is supposed to be considered independent by all.

Integrity is a fundamental feature of any professional as well as auditor. Iyoha (2005) see integrity as "the aspect of one's character rooted in his conviction which serves to deter him from taking advantage of his position or strength to gain at the expense of his organization, customer, client or subordinate".

2.2.5 Audit Firm Size and Quality of Financial Reporting

Yuniarti (2011) examine the dynamics of quality audit by suggesting that audit firm size as well as audit fees possess significant relationship with audit quality. Her findings proved that there is no significant relationship between firm size and audit quality, while she found that there is a significant relationship between audit fees and audit quality.

Dehkordi and Makarem (2011) investigate the relationship between audit firm size and auditor type on quality of financial reporting. Their empirical findings confirm that the size of audit firms have no significant relationship with audit quality.

Al-Ajmi (2009) document the opinions among financial and credit forecaster by taking into account the relationships among audit committee efficiency, audit firm size and audit quality. His findings revealed that forecaster believe auditors' judgment helpful.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design adopted and utilized for the purpose of this study is the cross-sectional survey. This study embraced this method for the reason that our sample size is relatively small. It involves examining the present state of a group or unit at a specific point in time.

3.2 Population of the Study

The population considers for this study is made up of the entire one hundred and seventy (170) quoted on the Nigeria Stock Exchange.

3.3 Sample Size

In selecting the sample size for this study, the random sampling techniques were employed. The sample size was determined base on the available data and financial statement of selected companies. For this reason, eighty (80) listed companies on the floor of the Nigeria Stock Exchange were drawn for a seven (7) years period (2011 – 2016), hence constitute the sample size of the study.

3.4 Sampling Techniques

The sample technique adopted in this research is the random sampling techniques. A number of the sample was randomly selected based on the assumption that the sample so selected has the same parameters contained in the population to yield research data that can be generalized into a larger population.

3.5 Source of Data Collection

Secondary data were used for this study. The data were sourced from the Factbook of the Nigerian Stock Exchange (NSE) and included the traded companies from the period 2011 to 2016. All companies were required to deliver their financial statements for each year to the NSE. Hence, the data set contains detailed information about each firm.

3.6 Method of Data Analysis

The research instrument used in the Ordinary Least Squares (OLS) estimation method, the coefficients obtained from the estimation along with other statistical properties are employed in judging the association among variables selected for this study.

3.7 Model Specification

In the light of the above theoretical frame work deduced in to order to adequately capture, the following model is specified.

The functional form of the model is stated as follows:

QFINPR = f(AUDTEN, AUDINP, AUDSIZE)……………………………….(1)

Mathematically, the model if stated as follows:

$QFINPR = \beta_0 + \beta_1 AUDTEN + \beta_2 AUDINP + \beta_3 AUDSIZE + e_t$ ………………………………(2)

Where:

QFINPR = Quality of Financial Reporting

AUDTEN = Audit Tenure

AUDINP = Auditor Independence

AUDSIZE = Audit Firm Size

3.8 Measurement of Variables

S/N	Variables	Abbreviation	Definition	Measurement
1.	QFINPR	Quality of Financial Reporting	Dependent Variables	This was taken as discretionary accrual cashflow from operating activities – net profit.
2.	Audit Tenure	AUDTEN	Independent Variable	This is measured by assigning 1, if the number of years auditor spent with a sample company is greater than 3 years, otherwise, we assign 0.
3.	Auditor Independence	AUDINP	Independent Variable	This is proxy by audit fee (i.e. amount paid to audit firm).
4.	Audit Firm Size	AUDSIZE	Independent Variable	This was measured as 1 if the company audit firm is one of the big 4, 0 otherwise

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND HYPOTHESES TESTING

4.1 Data Presentation

In this section, the empirical background is provided upon which the evaluation of the model is based. The model specified in the previous chapter is estimated and characteristically analyzed. The variable for this study include Quality of Financial Reporting (QFINPR) as the dependent variable, the independent variables – Audit Tenure (AUDTEN), Auditor Independence (AUDINP), and Audit Firm Size (AUDSIZE). The following is the descriptive statistics from sampled companies. The presentation of the results is as follows; firstly, the descriptive statistics result is presented. Secondly, the correlation result and analysis is also presented. Next, the ordinary least squares regression result is presented and analyzed.

The results of the estimated data are presented below, firstly with the descriptive statistics.

Table 4.1: Descriptive Statistics

Variables	**Mean**	**Std. Dev.**	**Observation**
QFINPR	5.707104	1.168531	560
AUDTEN	0.926786	0.260721	560
AUDINP	18378.99	54824.00	560
AUDSIZE	0.685714	0.464646	560

Source: Author Computation, 2019.

Table 4.1 above highlights descriptive statistics of variables. Quality of Financial Reporting (QFINPR) which is the dependent variable has a means of5.707104 and a standard deviation value of 1.168531. Audit Tenure (AUDTEN) has a mean value of0.926786 and a standard deviation of 0.260721. Auditor Independence

(AUDINP) has a mean value of 18378.99 and a standard deviation of 54824.00. Audit Firm Size (AUDSIZE) exhibit a mean value of 0.685714 and it standard deviation stood at 0.464646. The last column represents the number of samples in our observation.

Table 4.2: Correlations Analysis

	QFINPR	AUDTEN	AUDINP	AUDSIZE
QFINPR	1.000000			
AUDTEN	0.089042	1.000000		
AUDINP	0.143087	-0.010514	1.000000	
AUDSIZE	0.045110	0.031222	0.027203	1.000000

Source: Author Computation, 2019.

The result showed that there exists a positive relationship between Audit Tenure (AUDTEN) and Quality of Financial Reporting (QFINPR). The correlation co-efficient between Audit Tenure (AUDTEN) and Quality of Financial Reporting (QFINPR) is 0.089042 which means the strength of relationship between them is about 8% which shows a weak positive relationship between Audit Tenure (AUDTEN) and Quality of Financial Reporting (QFINPR).

The result showed that there exists a positive relationship between Auditor Independence (AUDINP) and Quality of Financial Reporting (QFINPR). The correlation co-efficient between Auditor Independence (AUDINP) and Quality of Financial Reporting (QFINPR) value 0.143087 which means the strength of relationship between them is about 14% which also shows a weak positive relationship between Auditor Independence (AUDINP) and Auditors Fee (AUDINP).

Audit Firm Size (AUDSIZE) exhibits a positive relationship between it and Quality of Financial Reporting (QFINPR). The correlation co-efficient between Audit

Firm Size (AUDSIZE) and Quality of Financial Reporting (QFINPR) value 0.045110 which means the strength of relationship between them is about 4% which shows a weak positive relationship between Audit Firm Size (AUDSIZE) and Quality of Financial Reporting (QFINPR).

4.2 Model Summary and Analysis of Result

The result obtained from the preliminary ordinary least square estimation technique is presented below:

Table 4.3: OLS Regression Result (Initial Output)

Dependent Variable	Independent	Coefficient	Standard Error	T-Stat.	Prob.
QFINPR	C	5.213700	0.192828	27.03807	0.0000
	AUDTEN	0.400438	0.187292	2.138038	0.0329
	AUDINP	3.05E-06	8.91E-07	3.421959	0.0007
	AUDSIZE	0.096648	0.105126	0.919356	0.3583

Source: Author Computation, 2019.

$$QFINPR = \beta_0 + \beta_1 AUDTEN + \beta_2 AUDINP + \beta_3 AUDSIZE + U_t$$

$$QFINPR = 5.213700 + \underset{(2.13)}{0.400438(AUDTEN)} + \underset{(3.42)}{3.05E\text{-}06(AUDINP)} + \underset{(0.91)}{0.096648(AUDSIZE)}$$

R-Squared = 0.03

R-Bar Squared = 0.02

F-Stat. = 15.76

DW-Statistic = 0.51

The coefficient of determination (R^2) with a value of 0.03 shows that about 03% of the total systematic variations in the dependent variable Quality of Financial Reporting (QFINPR), have been explained by the explanatory variables taken together. The adjusted R-Square shows that after adjusting for the degree of freedom, the model could still explain about 0.02% of the total systematic variations in Quality of Financial Reporting (QFINPR), while about 98% of the systematic variation in Quality of Financial Reporting (QFINPR) was left unaccounted for, which has been captured by the stochastic disturbance term in the model. This indicates a low fit of the regression line and also the model has a low forecasting power.

On the basis of the overall statistical significance of the model as indicated by the F-statistic, it was observed that the overall model was statistically significant since the calculated F-value of 5.76 was less than the critical F – value of 1.65 at 5% level of significance. This implies that there exist a positive and significant linear relationship between Quality of Financial Reporting (QFINPR) and all the independent variables Auditor Independence (AUDINP), Audit Tenure (AUDTEN) and Audit Firm Size (AUDSIZE).

On the basis of the individual statistical significance, as shown by the t-statistic, it was observed that Audit Tenure (AUDTEN) is positive and significant, hence its calculated t-values of 2.13 is greater than the critical t-value of 1.65 at 5% level of significance.

The result revealed that Auditor Independence (AUDINP) is positive and significant, since its calculated t-values of 3.42 is greater than the critical t-value of 1.65 at 5% level of significance.

Audit Firm Size (AUDSIZE) is positive but insignificant since its calculated t-value of 0.91 is less than the critical t-value of 1.65 at 5% level of significance.

The DW-statistics of 0.51 showed the presence of first order auto-correlation in the model. Due to the problem of first order auto-correlation in the preliminary ordinary least square regression result, the model was re-estimated using Cochrane-Orcutt Method.

The result is shown below in table 4.4.

Table 4.4: OLS Regression Result (Final Output)

Dependent Variable	**Independent**	**Coefficient**	**Standard Error**	**T-Stat.**	**Prob.**
QFINPR	C	5.488028	0.186831	29.37425	0.0000
	AUDTEN	0.191809	0.117573	1.631409	0.1034
	AUDINP	2.61E-06	6.23E-07	4.194357	0.0000
	AUDSIZE	-0.007856	0.117269	-0.066989	0.9466

Source: Author Computation, 2021.

$QFINPR = \beta_0 + \beta_1 ATEN + \beta_2 AUDINP + \beta_3 AUDSIZE + U_t$

$$QFINPR = 5.488028 + \underset{(1.63)}{0.191809(AUDTEN)} + \underset{(4.19)}{2.61E\text{-}06(AUDINP)} - \underset{(-0.06)}{0.007856(AUDSIZE)}$$

R-Squared = 0.57

R-Bar Squared = 0.56

F-Stat. = 184.19

DW-Statistic = 2.05

The coefficient of determination (R^2) with a value of 0.57 shows that about 57% of the total systematic variations in the dependent variable Quality of Financial Reporting (QFINPR), have been explained by the explanatory variables taken together. The adjusted R-Square shows that after adjusting for the degree of freedom, the model could still explain about 0.56% of the total systematic variations in Quality of Financial Reporting (QFINPR), while about 44% of the systematic variation in Quality of Financial Reporting (QFINPR) was left unaccounted for, which has been captured by the stochastic disturbance term in the model. This indicates a low fit of the regression line and also the model has a low forecasting power.

On the basis of the overall statistical significance of the model as indicated by the F-statistic, it was observed that the overall model was statistically significant since the calculated F-value of 184.19 was greater than the critical F – value of 1.65 at 5% level of significance. This implies that there exist a positive and significant linear relationship between Quality of Financial Reporting (QFINPR) and all the independent variables Auditor Independence (AUDINP), Audit Tenure (AUDTEN) and Audit Firm Size (AUDSIZE).

On the basis of the individual statistical significance, as shown by the t-statistic, it was observed that Audit Tenure (AUDTEN) is positive butinsignificant, hence its calculated t-values of 1.63 is less than the critical t-value of 1.65 at 5% level of significance.

The result revealed that Auditor Independence (AUDINP) is positive and significant, since its calculated t-values of 4.19 is greater than the critical t-value of 1.65 at 5% level of significance.

Audit Firm Size (AUDSIZE) is negative and insignificant since its calculated t-value of -0.06 is less than the critical t-value of 1.65 at 5% level of significance.

The Durbin-Watson (DW) statistics value of 2.05 is a significant improvement on the preliminary OLS and hence indicates the absence of autocorrelation.

4.3 Test of Hypotheses

In order to test the hypotheses of the study, the t-statistic obtained from the regression result were used. The study adopted 5% level of significance under the one-tailed test. Our decision rule is that we accept the alternative hypothesis if the T-calculated is greater than the T-critical value (from table distribution) otherwise we reject and accept the null. The t-critical value is 1.65 at 5% (0.05) significant level and at 560 degree of freedom (one-tailed)

Hypothesis 1:

H_o: There is no significant relationship between Audit Tenure and Quality of Financial Reporting.

H_1: There is a significant relationship between Audit Tenure and Quality of Financial Reporting.

From the empirical analysis it was observed that Auditor Tenure (AUDTEN) with a calculated t-value of 1.63is less than the critical t-values of 1.65 at 5% level of significance. We therefore accept hypothesis and reject the alternative hypothesis which means that there is no significant relationship between audit tenure and Quality of Financial Reporting.

Hypothesis 2:

H_o: There is no significant relationship between Auditor Independence and Quality of Financial Reporting.

H_1: There is a significant relationship between Auditor Independence and Quality of Financial Reporting

The empirical analysis shows that Auditor Independence (AUDINP) with a calculated t-value of 4.19 is greater than the critical t-value of 1.65 at 5% level of significance. We therefore accept the null hypothesis and reject the alternative hypothesis which means that there is a significant relationship between audit fee and Quality of Financial Reporting.

Hypothesis 3:

H_o: There is no significant relationship between audit firm size and Quality of Financial Reporting.

H_1: There is a significant relationship between audit firm size and Quality of Financial Reporting.

From the empirical analysis it was observed that Audit Firm Size (AUDSIZE) with a calculated t-value of -0.06 is less than the critical t-values of 1.65 at 5% level of significance. We therefore reject the null hypothesis and accept the alternative hypothesis which means that there is no significant relationship between audit firm size and Quality of Financial Reporting.

4.4 Discussion of Findings

Firstly, the results of the OLS reveal that that there is no significant relationship between audit tenure and quality of financial reporting. This finding is in conformity with Adeyemi, Okpala & Dabor (2012), whose study reveal that audit firm tenure is not a significant factor for enhancing quality of financial reporting in Nigeria. Also Mgbame, Eragbhe and Osazuwa (2012) note that an audit firm's tenure can result in a loss of auditor's independence. A long audit tenure could lead to an alignment of the auditors interest and that of its client which makes truly independent behaviour of the auditor a probability.

But this finding is not in agreement with Shafie, Hussin, Yusof and Hussain (2009) who find that audit firm tenure is positively significant relationship with auditor reporting quality.

Secondly, the findings show that there is a significant relationship between auditor independence and quality of financial reporting. This is in line with Yuniarti (2011)who find that audit fees significantly affect the quality of audits. Higher fees will increase quality of financial reporting, improved quality of financial reporting is due to audit fees earned in one year and the estimated operational costs needed to implement the audit process.

Thirdly, the study shows that there is no significant relationship between audit firm size and quality of financial reporting. This result agrees with Sawan and Alsaqqa (2013) who finds that Big Four firms are superior to their non-big four counterparts in all of the reputation issues presented to them, and that the size of the audit firm is positively associated with quality of financial reporting. Also Shafie, Hussin, Yusof and Hussain (2009) theorized that larger audit firms have superior quality of financial reporting since they invest more in audit technology and training. Thus, in term of audit competence, it could be argued that larger audit firm would be more accurately able to detect problems related to going-concern assumption than smaller audit firms.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The aim of this section is to summarize the findings of this research work as well as the analysis carried out in the previous chapters. Conclusion and recommendations will finally be drawn from the study.

The results obtained from this study suggest an essential approach into audit tenure and financial reporting quality in Nigeria. A sample of eighty (80) firms quoted on the Nigeria Stock Exchange were used for a period of seven years (2011 – 2016) with quality of financial reporting captured as the dependent variable, while the independent variables include audit tenure, auditor independence and audit firm size. The findings as we gathered through the analysis show that auditor independence (as proxy for the amount paid for audit service) is a significant determinant of quality of financial reporting, while audit tenure and audit firm size exhibit insignificant relationship with financial reporting quality as we observe that a unit change in audit tenure and audit firm size decrease financial reporting quality by 1.63% and -0.06% respectively in Nigeria for the period under study.

5.2 Conclusion

In conclusion, auditor independence remains an important element when individuals are conducting an audit. Auditor independence ensures an unbiased perspective and allows financial statements to be more reliable. Firms face the risk of damaging their reputation once auditors fail to report mistakes in their audits. Independence became an issue after corporate scandals such as Enron. Also, the

International Standards board began to establish different frameworks to help provide rules and standards for auditor independence. However, the meaning of "appearance" continues to remain a challenge for researchers. The question of whether investors can truly understand the relationship between the client and auditor to determine how the audit will be affected is still unanswered.

The first factor that we examined was the level of competition in the market. As the competition rises, it is easier for clients to find other auditors to conduct their services. On the other hand, some auditors choose to remain loyal to their clients because they do not want to lose their clientele. The excessive competition changes the behavior of firms. The second, factor audit firm size, distinguished the difference between a large firm (Big 4) and a small firm. For example, individuals should take into consideration the number of employees or how large are their clients. According to research, large firms have more access to resources to produce a quality audit and media attention. Smaller firms face pressures within their working environment due minimum client exposure.

Tenure was another concern that influenced auditor independence. Before the Sarbanes-Oxley Act was passed to require auditors to rotate clients every five years, auditors would stay with clients for long periods of time. As a result, questions began to arise about the connection and closeness of their relationship and what affect it would have on the audit. However, some believe auditors become experts in their field once they are very familiar with their client. Research has proven that higher earnings and a decrease in debt are directly associated with firms that have longer relationships with clients. Non-audit services have a risk of impacting auditor independence because individuals are willing to compromise their independence to gain more income for other services. An example of a non-audit service would be consulting. A firm cannot audit and consult a company at the same time because of a conflict in interest. Rules and regulations have been established to limit the amount of non-audit services. Audit fee size varies based off the diversity of the company, the size of the firm and so on. Drawing inferences about audit fees can be challenging because firms have different practices and limited access to data about costs and rates. The top determinant of auditor independence was not clear; however, other researches ranked them based off importance because of their hypothesis that they chose to test. It is evident that independence remains a going concern when discovering how reliable and credible financial statements are to investors.

5.3 Recommendations

The study recommends that:

1. Since audit tenure does not exhibit significant association with audit firm size, we recommend that corporate organization should not be base its quality of financial reporting determinant on audit tenure and audit firm size. This implies that corporate organization should consider audit rotation as a determinant of quality of financial reporting.

   Corporate organization in Nigeria should pay proper attention to auditor independence as it’s a major determinant of quality of financial reporting among quoted companies in Nigeria.

   Improved service rendered by an auditor in agreement of attractive remuneration in a different guiding principle submission that can also ensure in facilitating quality of financial reporting will improve to a large extent.

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