

**AUDIT QUALITY AND TRANSPARENCY IN
CORPORATE FINANCIAL REPORTING**

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AWARD OH HIGHER NATIONAL DIPLOMA (HND) IN
ACCOUNTANCY,**

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CERTIFICATION

We the undersigned hereby certify that this project work on “Forensic audit and Fraud management in Nigeria” was carried out by Efevwiare Ochuko Ruth with Matriculation SBS/6011840671. The project work has been found adequate in scope and quality in partial fulfillment of the requirement for the award of Higher National Diploma (HND) in Accountancy.

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DEDICATION

I dedicate this project work to God Almighty the beginning and the end, the first and the last, my fortress, for seeing me through in the course of writing this project work.

ACKNOWLEDGEMENTS

I sincerely express my profound gratitude to God, who through His abundant wisdom and knowledge made this project work possible.

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My special thanks goes to my parents and guardians Mr./Mrs. Efevwiare for their support, encouragement, advice and care towards my Education.

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Abstract

The study examines audit quality and transparency in corporate financial reporting. The study employed survey research design. The study used primary data which were obtained through the use of questionnaire. The study use STATA computer package to analyze the data. The results of the analysis revealed that, The quality of audit report determine the transparency of financial statement; Auditors' engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria; Professional and regulatory stipulations on audit independence in Nigeria is adequate to guarantee the transparency of financial statement; The study recommends that; The service of qualified Auditors preferably chartered Accountants should be engaged in all corporate entities as this will improve the quality of audit reports; Also, auditors should be encouraged to attend company's Annual general meetings whenever it is held so as to equip them with the operations of the companies they serve; It is also recommended that audit regulatory authorities should formulate policies that will encourage the independency of the Auditors as this will enhance their performances.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Audit quality is one of the most important issues in audit practice today. The quality of the financial information is dependent, among other things, on audit quality. Several individuals and groups have an interest in the quality of audited financial information. External financial statement users, including current and potential investors, creditors, and others need reliable financial information on which to base their resource allocation decisions.

However, there have been concerns about audit quality in the present audit environment, where severe audit failures have come to light such as Enron, Worldcom, Arthur Anderson in the U S A and Bennett, Coleman and Co. Ltd (BCCL) in the UK. It has been found that the perceived reliability of audited financial information has declined. In contrast, the perceived relevance of audited financial information has increased (Hodge, 2013).

Angelo (2010) defines audit quality as the market-assessed joint probability that the auditor will both identify a breach in the client company's accounting system and report that breach that is, the auditor has both the technical competence to detect material error during the audit process, and the independence to ensure that material errors and omissions are corrected and disclosed in the auditor's report.

Audit quality is important because it affects the transparency and reliability of the auditor's report. If the auditors perform a poor audit, the opinion rendered about the

audited financial statements could be misleading, and this would definitely affect the users' economic decisions. In this discourse, audit quality is thought to protect the economic interest of the owners and other interested parties by enhancing the value of the financial statements prepared by the managers. Concerns about audit quality and the factors that influence quality have been longstanding subjects of interest in academic, practitioner and regulatory debates about auditing. The objective of enhancing audit quality underlies standard setting activities and doubts about the quality of audit have motivated investigations and other actions by regulators.

In Nigeria the spate of corporate failures witnessed in the financial sector in the early 1990's brought auditors into sharp focus and caused the Nigerian public to question the role of the auditor (Okike, Bakre, & Ajibolade, 2018). Furthermore the investigation launched by the regulators and other stakeholder into the auditors were implicated (NDIC, 2013). With the recent banking crises in Nigerian, members of the auditing professional are once more again in the limelight, as the banking crises and the revelation of unethical practices by bank executive and board members has raised many questions, about the quality of financial report issued by professional accountants (Thisday, 9 December, 2009). This question was raised as a result of the failure on the part of the auditor to alert regulators when they have discovered fraud and other irregularities in company records (Bakre, 2016).

Audit quality is perceived to play an important role in reducing information asymmetry as well as in mitigating agency problems between managers and shareholders and between shareholders and creditors (Jensen & Meckling, 2012). In line with the

above many researchers have used different proxies to measure audit quality. The theory advanced by Angelo (2010) proposes that the audit firm size is an indicator of audit quality because larger firms have more equipment. Following Angelo's study, many other studies empirically examine the relationship between audit firm size and audit quality (Krishan & Schauer, 2000).

Another proxy for audit quality that is used in researches is audit fee as it relates to economic dependences of auditors. Choi, Kim, and Zang (2010) examine whether the association between audit fee and audit quality is positive and thus linear in the sense that the higher the audit fee the higher the audit quality.

The major corporate collapses and related frauds which occurred in Nigeria and around the world have raised doubts about the transparency of the operating and financial reporting practices of quoted companies in Nigeria. This stirred a number of professional and regulatory organizations to recommend reforms that will improve transparency in financial reporting and thereby increase audit quality and corporate governance practices.

Good corporate governance by boards of directors is recognized to influence the Audit quality, financial reporting, which in turn has an important impact on investor confidence (Levitt, 2011). Transparency and disclosure practices followed by firms are an important component and a leading indicator of corporate governance quality and are directly affected by audit quality. Studies have shown that good governance reduces the adverse effects of earnings management as well as the likelihood of creative financial reporting arising from fraud or errors (McMullen, 2012).

Past studies by Beasley and Petroni (2015) have also showed that audit quality have significant relationship with several component of corporate financial reporting.

1.2 Statement of Problem

Several studies have attempted to analyze the impact of audit quality on the transparency of financial statement. In view of these studies, auditor quality has become the focus of much debate. Should a firm replace its auditors on a regular basis, or should the auditor be allowed to build a long-term relationship with the client? Studies on the effect of audit quality and financial statement transparency are at divergent. The spate of audit failure in the world, especially in Nigeria, has brought great disappointment to the users of financial reports. The bane of the problem has been linked to long term of audit firm tenure which has also been linked with creative accounting. In Nigeria audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical studies beyond mere anecdotal opinions (Mgbame & Osazuwa, 2012). It is on this backdrop that this study seeks to examine the effects of audit quality on financial statement transparency in Nigeria.

1.3 Research Questions

The following research questions are used to provide direction to the achievement of the objectives of the study.

- i. To what extent does the quality of audit report determines the transparency of financial statement?

- ii. To what extent does auditors' engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria?
- iii. Does professional and regulatory stipulations on audit independence in Nigeria adequate to guarantee the transparency of financial statement?

1.4 Objectives of the Study

The main objective of the study is to examine the impact of audit quality on transparency of corporate financial reporting. The specific objectives of the study are as follows:

- i. To determine whether the quality of audit report determines the transparency of financial statement.
- ii. To find out the extent to which auditors' engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria.
- iii. To examine whether professional and regulatory stipulations on audit independence in Nigeria is adequate to guarantee the transparency of financial statement.

1.5 Statement of Hypotheses

Below are the formulated null hypotheses to be tested in this study:

Hypothesis One

H₀: The quality of audit report does not determine the transparency of financial statement.

Hypothesis Two

H0: Auditors' engagement in management advisory services (non-audit services) does not influence the quality and transparency of financial reporting in Nigeria.

Hypothesis Three

H0: Professional and regulatory stipulations on audit independence in Nigeria is not adequate to guarantee the transparency of financial statement.

1.6 Significance of the Study

The following are the significance of this study:

- i. This study is expected to provide useful insight into improving audit quality and the transparency of financial reporting.
- ii. This study contributes to the audit literature as it provides additional empirical evidence on the extent to which auditors report guarantee the transparency of financial reporting.
- iii. The study also reflects the quality of audit services between “big and non-big” audit firms in Nigeria.
- iv. The empirical results would also be the general indicators of corporate governance mechanisms useful for regulators, policy makers, managers and business people in making policies and decisions.
- v. It can serve as a stepping stone for future researchers who want to conduct study on related topic.

1.7 Scope of the Study

This study focuses on the impact of audit quality on transparency of corporate financial reporting. The study particularly focus on deposit money banks in Auchi Edo State.

1.8 Limitations of the Study

Some of the limitations to this study are as follow;

- i. This study is limited by inadequate empirical research material dealing extensively on the subject matter in Nigeria. Data constraint is another factor that may hinder the perfection of this study
- ii. Another limitation of this research was fund. A substantial amount was committed to this work in terms of data gathering. In reviewing of the related literature, the researcher faced some challenges of accessing journals with relevant materials. Some internet sites were secured and could not be accessed, in some cases, subscription were made in order to gain access to needed materials. The researcher also faced a big challenge in acquiring the econometric software that was used for the analysis.

1.9 Definitions of Terms

In the process of carrying out this research work, the following important terms were used and their definitions are given below:

Audit Committee: An audit committee is the section of an organization's board of directors that is in charge of monitoring an organization's financial reporting and authenticating its accuracy.

Audit Quality: This is the probability that auditors will both discover and truthfully report material errors, misrepresentations or omissions in accounting system of clients.

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

Board of Directors: is a group of people who jointly supervise the activities of an organization, which can be either a for-profit business, nonprofit organization, or a government agency.

Corporate Governance: Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled.

Corporate performance: Corporate performance is a composite assessment of how well an organization executes on its most important parameters, typically financial, market and shareholder performance.

Financial Reporting: Is the process of producing statements that disclose an organization's financial status to management, investors and the government.

Financial Statement: It is a set of documents prepared usually by directors or government at the end of an accounting period. It generally contains summary of accounting data for that period, with background, notes, forms and other information.

Transparency: Transparency, in a business or governance context, is honesty and openness.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Audit Quality

Audit quality is of significant value to present investors and potential investors because these investors often use audited financial statements by external auditors as the basis for investment decisions because auditors are as both insurance providers and informational intermediary that provide independent verification of directors prepared financial statements, audit quality contributes to the credibility of financial statements. On the premise of the above, Angelo (2018) referred to audit quality as the probability that auditors will both discover and truthfully report material errors, misrepresentations or omissions in accounting system of clients. In addition, Walkins, Hilson and Morcroft (2017) state that the components of audit quality consist of “monitoring strength and reputation.” The monitoring strength gives the auditors ability to increase the quality of financial statement information which reflects true economic circumstances of clients. Also, reputation represents the auditors’ ability to enhance the credibility of financial statement information.

Palmrose (2018) defined audit quality as the level of audit assurance. Since the purpose of an audit is to provide opinion on financial statements, audit probability that financial statements contain no material misstatements. In fact, this definition uses the result of the audit, that is, reliability of audited financial statements to reflect audit quality. This definition leads to the following question. “How do financial statements

users assess the level of assurance and reliability of audited financial statements”? This is a post hoc audit quality definition because the assurance level cannot be assessed until the audit has been conducted. As a result, Palmrose’s definition refers to actual audit quality.

Titman and Trueman (2017) define auditor quality in terms of the accuracy of information the auditor supplies to investors. Their definition is similar to the one provided by (Palmrose,2018). Davidson (2017) provide an audit quality definition that is based on the auditor’s ability to detect and eliminate material misstatements and manipulations in reported net income. Lam and Chang (2018) suggest that audit quality should be defined on an engagement-by -engagement rather than on a firm basis.

Bradshaw, Richardson and Sloan (2017) defined audit quality as the willingness to report any material manipulation or misstatements that will increase the material uncertainties and/or going concern problems; Baotham and Ussah (2016) addressed another definition as the probability that an auditor will not issue an unqualified report for statements containing material errors. Palmrose (2018) asserted that high audit quality is associated with the absence of material omissions or misstatements in the financial statements. Audit quality and the measurement of audit quality have been studied widely, Kilgore (2019) indicated that no single generally accepted definition of audit quality has emerged, nor has any single generally accepted measure been introduced. Reisch (2018) attributed the absence of a single measure of audit quality to the fact that it is a multidimensional latent construct and is therefore, somewhat difficult to measure. This

was a reason that many researchers study this area and have used different proxies for measuring the level of audit quality.

2.1.2 Financial Reporting

Financial reporting is concerned with the presentation of financial statements in a form for comprehension by users of financial information (Nwanyanwu, 2017). It is essentially a process of communication of financial information and also represents an instrument of identifiable stewardship (Obazee, 2017).

In another dimension, financial reporting is the medium of communicating information about the financial affairs of both profit and non - profit organisations and constitutes an important service that is so special which the accounting profession extends to societies of economic and social systems. It is by no means, the only avenue by which managers of organisations (public and private) give account of their stewardship to their owners and other stakeholders (Adebayo, 2017). The foregoing definitions, irrespective of the dimensions from where they were configured, are homogenous as they present financial reports as key documents that provide data about an organisation's financial activities for use by interested parties in decision making. As a result, auditors are expected to be circumspect in the provision of audit services to ensure that information contained in their reports is of high quality, sufficient and reliable. In the views of Kaklar (2018) it is expected that high audit quality leads to high financial reporting quality which in turn serves as an instrument for averting financial crisis. In fact, since the purpose of an audit is to provide assurance on financial statements, the reliability of audited financial statements is reflected on audit quality (Palmrose, 2018).

According to Nwanyanwu (2017) financial reporting objectives vary from one organisation to the other depending on the nature of activities. In his opinion, whereas in a public sector, the objective may be to identify how taxpayers' resources were utilized in the provision of social and infrastructural facilities, in a private sector, the purpose may be to report how owners' resources were applied to generate income and whether such application increased or decreased their wealth. Specifically, Adebayo (2016) documents some objectives of financial reporting as including the provision of useful information for making economic decisions for resource allocation; the provision of information for evaluating the stability and liquidity of organisations as well as about performance generally; the provision of information especially for government and non-profit making organisations for evaluation of effectiveness of management of resources in achieving set societal goals, the provision of information for predicting, comparing and evaluating the status of an organisation in the industry and economy as a whole and the provision of relevant statements of financial activities of an organisation. Aside the objective of providing information for informed decision making, financial reports are expected to convey information which are relevant, understandable, reliable and complete in content to provide full picture of financial events (Alexander & Britton,2018).

2.1.3 Auditor Independence

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 that 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 (2018) that auditor's independence and auditing quality are viewed as important factors in auditor selection and thus indicate the confidence level in financial reports, confirms this assertion. In addition, Wright and Wright (2017) 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 American Institute of Certified Public Accountant (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 Corporate Performance

Measurement of performance of a company may not only depends on the efficiency of the company itself but also on the market where it operates (Ajayi, 2017).

In the financial sector, it also known as financial stability or financial health. There are different financial measures that can be used in order to evaluate the performance of a company. Some of the common financial measures are: revenue, return on equity, return on assets, profit margin, sales growth, capital adequacy, liquidity ratio, and stock prices, among others. Depending on the industry on which the company operates, some financial

ratios will be more meaningful than others. For instance, in a manufacturing company, total unit sales, return on assets and inventory turnover may be key ratios to monitor, while for financial institutions, stock prices, cash flow, revenue and operating income may be the key ratios to monitor. For companies in the consulting business, return on assets and inventory turnover may not be meaningful given the fact that it is not an asset intensive industry. According to Hesting (2019) another factor to consider in order to evaluate the performance of a company is the relative value of the financial measures of the company in relation to competitors within the same specific industry, because each industry is unique and making comparison across industries may provide bias interpretation about the performance of a company.

2.1.5 Financial Statements

Financial Statements have been widely defined in the extant literature by scholars and experts. According to the Companies and Allied Matters Act 2020 (CAMA), financial statements consists the basic statement of accounts used to convey the quantitative information of financial nature about a business to shareholders, creditors and others interested in the reporting company's financial condition, result of operation uses and sources of funds. Nwoha (2018) also defines financial statements as reliable financial information about the economic resource and obligations of a business enterprise. Meigs and Meigs (2019) defines financial statement as a logical point to begin the study of accounting. This is because most of the accounting information we see and use every day reflects the terminology and concepts used in these statements. Duru (2018) defines financial statement as a statement which conveys to management and to

interested outsiders a concise picture of the profitability and financial position of a business. Concurring with above definitions, we can generally define published financial statement as the audited annual report and accounts of an organization including the balance sheet, profit and loss account and the cash flow statements which gives a summary of the results of operations of a firm, the financial condition of a company or organization for the period represented. It is prepared by the company or organization and duly audited by the company's external auditor(s) and therefore made public for use by any interested party. Flowing from the above, the published financial statements should be devoid of any material mis-representation or errors so that all the interested parties can be adequately equipped to make informed decision.

2.1.6 Credibility of Published Financial Statements

Source credibility is the extent to which information is believed based on where it comes from. This work seeks to enhance the comprehension or understanding of the process by which published financial statement influences users' behavior particularly the investors in the Nigeria banking sector. (Anao, 2018). This depends on the extent of the users' appreciation and acceptance of the financial statement, which indirectly depends on the users' perception of the source. An individual's acceptance of information and ideas is based on who said it and those associated with it. Therefore, for any published financial statement to be credible for acceptance, it must be endorsed by a reputable audit firm. Source credibility is very important to investor's reception of the published financial statement because the authenticity of the financial statement is assumed therefore to be the reliance of the investors. (Ogbu, 2015)

2.2 Theoretical Framework

2.2.1 The Auditor Reputational Theory

This theory was developed by the Dutch professor Theodore Limperg (1920). Regulators and small audit firms allege that audit firm size does not affect audit quality and therefore should be irrelevant in the selection of an auditor. Contrary to this view, the current paper argues that audit firm size, even when auditor initially possesses identical technological capacities, in particular when incumbent auditors earn client specific such as rents, auditor with a greater number of clients have more to lose by failing to reports a discover breach in a particular client records (Oye, 2018). This collateral aspect increase the audit supplied by large audit firms. Although some theories can be attributed to this concept which will be expounded in sub section below.

2.2.2 Deep Pocket Hypotheses

The Deep Pocket hypothesis was developed by Milton and Friedman (1976). Empirical studies have shown that large auditors are more accurate than small auditors as large auditors have more wealth at risk. From litigation and thus, have more incentive to issue accurate reports. The amount of wealth can factor into the result of the lawsuit and size of the litigation penalty. Large auditors receive more criticism and are more prone to litigation but still maintain strong demand for their services (Oye, 2018).

2.2.3 The Police-men Theory

This was the most widely held theory on auditing until the 1940s (Hayes 2018). under this theory, an auditor acts as a policeman focusing on arithmetical accuracy and on prevention and detection of fraud. However, due to it's inability to explain the shift to,

“verification of truth and fairness of the financial statements” the theory seems to have lost much of its explanatory power.

2.2.4 Theory of Inspired Confidence

Theodor (1926) developed a theory known as the theory of inspired confidence which was later known as the theory of Rational Expectations. The theory holds that the value of the auditor's reports derives from the expert nature of the auditor as an independent, competent professional. Broadly, this is a dynamic theory which holds that as the business community changes so the business community's function also changes. The function is rooted in the confidence that society places on the effectiveness of the audit and in the opinion of the accountant. This confidence is therefore, a condition for the existence of that function. If the confidence is betrayed, the function too is destroyed, since it becomes useless.

There were two circumstances in which the confidence could be betrayed. It could be betrayed if the expectation of society is exaggerated, that is, it exceeds what the auditor is capable of performing, conversely, it can be betrayed if the auditor underperforms. It was recognized that the society's needs are not static. They are dynamic and influenced by changing perceptions and changes in the environment.

2.2.5 The Agency Theory

A simple agency model suggests that as a result of information asymmetries and self-interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of scope for information

asymmetries and opportunistic behavior (Institute of Chartered Accountants England and Wales, 2017).

The Institute of Chartered Accountants in England and Wales, in 2017 expound and expatiate on the motives of agents and information asymmetries and these includes; financial rewards, labour market opportunities and relationship with other parties. Though agents may also have more risk averse than principals. As a result of these differing interests, agents may have an incentive to bias information principal may also express concerns about information asymmetries where agents are in possession of information to which principals do not have access.

The institute of chartered accountant of England and Wales in 2017, suggest mechanisms to align interest which may impact on the level of trust that principals will have in their agents and these includes; Remuneration packages and incentives for agents, can provide an effective mechanism and audit, than provides an independent check on the work of agents and of the information provided by an confidence and trust.

2.3 Empirical Review

Deis and Giroux (2018) examines audit tenure and audit quality in quoted firms. They found that the longer the auditors audit their clients, it leads to closer relationship between the audit firms and clients and consequently decrease audit quality. Prior studies have documented two viewpoints of the effect of audit tenure on the credibility of financial statements; regulators view and economic view (Geiger & Raghunandan, 2017). In the point of regulatory view, long association between a client and an audit firm may lead to impair their independence (Geiger & Raghunandan, 2017). For example, in the

United States, the Metcalf Committee report argued that long association between a corporation and an accounting firm may lead to such close identification of the accounting firm with the interests of its client's management that truly independent action by the accounting firm becomes difficult. Therefore, the report suggested a mandatory auditor rotation as a way for the accounting profession to bolster their independence from clients (Geiger & Raghunandan, 2017). Geiger & Raghunandan (2017) Lewis and Evans (2017) found that the long auditor tenure would decrease audit quality. Similarly, Vanstraelen (2018) found negatively relationship between auditor tenure and opinion and then again provide support for a mandatory audit firm rotation.

Barbadillo and Aguilar (2017) reveals an inverse relationship between auditor tenure and audit quality and suggests that auditors tend to be more dependent in the first years of the auditing engagement. The study concludes that the shorter the auditor's tenure, the more they behave in a dependent fashion.

Ebimobowei and Oyadonghan (2018) concludes that a policy favoring mandatory rotation of auditors could have positive effects on the quality of audit reports as it would allow for fresh approach and restore public confidence in the audit function. Adeyemi and Okpala (2018) notes that an audit firm's tenure can result in a loss of auditor's independence. A long audit-client relationship could lead to an alignment of the auditors' interest and that of its client which makes truly independent behaviour of the auditor a probability.

According to Johnson (2017) as the auditor-client relationship lengthens, there is the tendency that auditor may develop a "learned confidence" in the client which may

result in the auditor not performing religiously, the required testing of financial reports. This learned confidence results in the auditor making assumptions about outcomes and using less rigorous audit procedures or static audit programmes. Potentially, a loop hole for a decline in audit quality has been created. Arrunada and Paz-Ares (2017) argued that a long auditor–client relationship may result to the development of personal relationship that may lead to the bonds of loyalty, trust or emotive relationship been developed between the client and the auditor. The implication is that truly independent auditor opinion becomes difficult and there is the increased likelihood of the auditor acceding to client’s pressure in relation to their choice and application of accounting policies. This adversely affects the auditor’s ability to offer a true and fair audit report. Summer (2017) analyzed the hypothesis that audit tenure can enhance audit quality. This test was carried out within the framework of a stylized game model between borrowers, auditors and capital. When audit engagement lasts for two periods, the equilibrium entails that auditors report risky projects as risky, with a positive probability, in the first period. On the other hand, when the auditor engagement lasts only for one period, the equilibrium shows that auditors will report risky projects as safe in the first period. The study concludes that auditors are more unlikely to produce reporting quality in short term than in long term engagements and tenure rotation might have adverse effects on audit quality because it undermines the incentives for building up a reputation for honesty.

Dopuch, King and Schwartz (2017) also examined the impact of auditor tenure on audit quality. The result is consistent with the hypothesis that the auditor compromises his independence most often in a long term auditor contract and suggests that afterall

auditor tenure may have significant effect on the audit quality. Copley and Doucet (2018) opined that the longer the period of engagement, the higher the risk of lower audit quality. Geiger and Raghunandan (2017) investigate the relationship between the length of the auditor-client relationship and audit reporting failures .The result indicates the existence of a positive and significant relationship between tenure variable and audit reporting failures. Vanstraelen (2018) examined the effect of long-term audit client relationship on audit quality. The external user's perception of the audit report was used as the indicator for quality. Utilizing the logistic regression model, the study findings shows that long-term auditor client relationships is positively related with the increased likelihood of the auditor issuing an unqualified opinion.. Walker, Lewis and Casterella (2017) provide empirical evidence relating to the link between the length of the audit engagement and audit failures. A logit model was used to predict failures. The results suggest that risk increases early on in audit client relationship and then declines over long term periods. As the failure rate in long term engagements is low, the authors conclude that auditor rotation may not necessarily improve audit quality. Nashwa (2017) using a sample of U.S companies, carried out a study to examine the relationship between long term auditor-client relationship and the probability of audit failure. A logit regression model was used to predict failure using tenure as the independent variable. The results indicate that risk increases early in the auditor client relation and then declines over time suggesting that longer audit tenure overtime will smoothen out any initial challenges that may impair the quality of the auditor's performance. The results of the study do not support the hypothesis that short auditor tenure improves audit quality. In the light of the

positions of various studies as reviewed above, we can argue that the effects of auditor tenure on audit quality are controversial. Moreover, few empirical studies use publicly available secondary data in order to determine whether perceived threats to auditor independence actually compromise auditor independence. Again, we could not access any documentary evidence from Nigeria in this subject area. Therefore, this study which was motivated by the lack of consensus in the literature on the impact of audit tenure on audit quality will contribute to the debate by examining the relationship between auditor tenure and audit quality in Nigeria.

2.4 Summary of the Review

As can be observed from the review of empirical literature, the effect of different audit quality on financial statement credibility has been studied, both abroad and in Nigeria, but to the best of the researchers. This study is underpinned under the Deep Pocket hypotheses which shown that large auditors are more accurate than small auditors as large auditors have more wealth at risk. From litigation and thus, have more incentive to issue accurate reports. The amount of wealth can factor into the result of the lawsuit and size of the litigation penalty. Large auditors receive more criticism and are more prone to litigation but still maintain strong demand for their services (Oye, 2018).

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The research design adopted for the study is the survey research design. The essence is to capture the causal relationship between audit quality and transparency in corporate financial reporting.

3.2 Description of Population of the Study

The study seeks to audit quality and transparency in corporate financial reporting of firms quoted on the Nigeria stock exchange. However, the population of the study is limited to five selected quoted Nigeria firms which are (First bank plc, Guaranty Trust (GT) bank, Fidelity bank, UBA bank and Zenith bank).

3.3 Sample Size

The sample size for this study is 70 which comprises of some selected employees of (First bank plc, Guaranty Trust (GT) bank, Fidelity bank, UBA bank and Zenith bank).

3.4 Sampling Techniques

This study used simple random sampling technique to select the subjects for the study and the selected subjects were administered the questionnaire.

3.5 Source of Data Collection

The primary method of data collection was used with the aid of questionnaire. The questions are stated in a likert scale form with responses ranging from strongly agree (5) to strongly disagree (1) as given in appendix A of this research work.

3.6 Method of Data Presentation

The data for the study were presented in tables to facilitate easy understanding. Maximum likelihood estimation (MLE) technique was used in this study. The ordered logistic regression was used to estimate the parameters of the stated model.

3.7 Model Specification

The regression model adopted in this study is presented below as:

The model of this study is;

$$\text{TFS} = \alpha_0 + \alpha_1 \text{ARQ} + \mu_0 \quad - \quad - \quad - \quad \text{(i)}$$

$$\text{TFS} = \alpha_0 + \alpha_1 \text{NAS} + \mu_0 \quad - \quad - \quad - \quad \text{(ii)}$$

$$\text{TFS} = \alpha_0 + \alpha_2 \text{AI} + \mu_0 \quad - \quad - \quad - \quad \text{(iii)}$$

ARQ=Audit Report quality

TFS = Transparency in Financial Statement

NAS = Non Audit Service

AI=Auditor's independence

The 5% level of significance is adopted in this study as this is a suitable level of significance in management sciences.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND HYPOTHESIS TESTING

4.1 Presentation of Data

Table 4.1 presents the summary of the descriptive statistics for the dependent and independent variables for 70 observations. It shows that Transparency in financial statement has a mean rating value of 3.85 and a standard deviation of 1.028631. The maximum rating for audit report quality is 5 while the minimum is 1. The maximum rating for all the variables is similarly 5 while the minimum for all the variables is 1, except for audit report quality which was 8 for maximum and 2 for minimum.

For Transparency in financial statement mean rating value was 3.85 and standard deviation of 1.028631 the corresponding values for the others are: non audit services, 3.765 and 0.8240544 respectively; auditor independence, 4.38 and 0.7885545; audit report quality, 3.2975 and 0.8902495 respectively. The p-values of the skewness and kurtosis statistics show that nearly in all the cases the data are judged to be normally distributed at 5% level of significance.

4.2 Data Analysis

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	pr(skewness)	Prob>chi2
TFS	70	3.85	1.028631	1	5	0.0004	0.0034
NAS	70	3.765	0.8240544	1	5	0.0064	0.0220
AI	70	4.38	0.7885545	1	5	0.3569	0.0010
ARQ	70	3.2975	0.8902495	5	8	0.2760	0.4828

Source: Researchers Computation Using STATA (2022)

Table 4.2: Correlation Matrix

	TFS	NAS	AI	ARQ
TFS	1.0000			
NAS	0.2917	1.0000		
AI	0.1208	0.1621	1.0000	
ARQ	0.1190	0.1961	0.0943	1.0000

Source: Researchers Computation Using STATA (2022)

Table 4.2 shows that there are positive correlations between the various variables used in the study. The table shows a positive correlation Transparency in financial statement and audit report quality, positive correlation between Transparency in financial statement and non audit service, positive correlation between Transparency in financial statement and auditors independence. The table shows that no two of the explanatory variable are perfectly correlated or nearly so. Thus, the problem of multicollinearity is absent in this model.

Table 4.3 Regression Results on Transparency in financial statement and Audit Report Quality.

<p style="text-align: right;">Number of obs = 70</p> <p style="text-align: right;">LR chi² (1) = 1.55</p> <p style="text-align: right;">Prob > chi² = 0.0031</p> <p style="text-align: right;">Pseudo R2 = 0.0546</p> <p>Log likelihood = -168.01548</p>						
TFS	Coef.	Std. Error.	Z	p>/z/	95% conf.	Interval
ARQ	-0.063985	0.051934	1.23	0.018	-0.0378036	0.165774
Cons	1.077304	0.2097519	5.14	0.000	0.6661976	1.48841

Source: Researcher’s computation STATA (2022).

Table 4.3 shows that the explanatory variable does not account for much of the systematic variations in the dependent variable. The table shows a low pseudo R-squared of 0.0546.

This low value of the R-squared statistic suggests that there are many other variables in explaining changes in the dependent variable. For the model, the p-value of the chi squared statistic (0.0031) shows that the model overall is suitable for estimating the stated model.

Table 4.4 Regression Result on Transparency in financial statement and Non audit Service.

Number of obs = 70 LR chi ² (1) = 0.21 Prob > chi ² = 0.0096 Pseudo R2 = 0.0216						
Log likelihood = -173.93219						
TFS	Coef.	Std. Error.	Z	p>/z/	95% conf.	Interval
NAS	0.0213579	0.0471647	0.45	0.051	-0.0710832	0.1137991
Cons	1.394583	0.188776	0.000	0.000	1.024589	1.764577

Source: Researcher’s computation STATA (2022).

Table 4.4 shows that the explanatory variable does not account for much of the systematic variations in the dependent variable. The table shows very low pseudo R-squared of 0.0216.

This low value of the R-squared statistic suggests that there are many other variables in explaining changes in the dependent variable. For the model, the p-value of the chi squared statistic (0.0096) shows that the model overall is suitable for estimating the stated model.

Table 4.5 Regression Result on Transparency in financial statement and Auditor Independence

Number of obs = 70 LR chi ² (1) = 1.55 Prob > chi ² = 0.0031 Pseudo R2 = 0.0546						
Log likelihood = -164.6793						
TFS	Coef.	Std. Error.	Z	p>/z/	95% conf.	Interval
AI	0.307789	0.0530318	-0.58	0.042	-0.1347194	0.0731615
Cons	1.311162	0.2097942	6.25	0.000	0.8999735	1.722351

Source: Researcher’s computation STATA (2022).

Table 4.5 shows that the explanatory variable does not account for much of the systematic variations in the dependent variable. The table shows very low pseudo R-squared of 0.0546.

This low value of the R-squared statistic suggests that there are many other variables in explaining changes in the dependent variable. For the model, the p-value of the chi squared statistic (0.0031) shows that the model overall is suitable for estimating the stated model.

4.3 Hypotheses Testing

Test Statistic

The statistical tool used in testing the stated hypotheses is the regression test procedure which uses the individual significance test (z-test) and the overall significance test (chi-squared test). The goodness of fit of the model is tested using the coefficient of determination. The estimation of these statistics is done using the STATA computer software.

Significance Level

The level of significance adopted in this study in testing the stated hypotheses of this study is 5%. This level is usually considered adequate for studies in management and other behavioral sciences.

Decision Rule

The critical p-value used in these tests is 0.05. Thus, the researcher accepts a given alternative hypothesis if calculated p-value is less than or equal to 0.05, otherwise the researcher accepts the null hypothesis that there is no significant effect.

Hypothesis I

H0: The quality of audit report does not determine the transparency of financial statement.

H1: The quality of audit report determine the transparency of financial statement.

Computation

The test statistic is computed by STATA software and the results are as shown in Table

4.3

Table 4.3 Regression Results on Audit Report quality and Transparency in financial statement

TFS	Coefficient	z-test statistic	p-value	R-squared	Chi-sq
ARQ	0.063952	1.23	0.018	0.0546	1.55 (0.0031)

Source: Extracted from STATA Computations

Decision

With a coefficient of 0.0639852 the results indicate that audit report quality impacts Transparency in financial statement , while the probability value of 0.018 indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis which state that the quality of audit report determine the transparency of financial statement, thus rejecting the null hypothesis.

Hypothesis II

H0: Auditors’ engagement in management advisory services (non-audit services) does not influence the quality and transparency of financial reporting in Nigeria.

H1: Auditors’ engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria.

Computation

The test statistic is computed by STATA software and the results are as shown in Table 4.4

Table 4.4: Regression Results on Transparency in financial statement and Non Audit Service.

TFS	Coefficient	z-test statistic	p-value	R-squared	Chi-sq
NAS	0.213579	0.45	0.051	0.051	0.21 (0.0096)

Source: Extracted from STATA Computations

Decision

With a coefficient of 0.213579 the results indicate that there is a significant relationship between Transparency in financial statement and non audit service, while the probability value of 0.051 indicates that the positive impact is significant.

This leads to the acceptance of the alternative hypothesis which state that Auditors’ engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria, thus rejecting the null hypothesis.

Hypothesis III

H0: Professional and regulatory stipulations on audit independence in Nigeria is not adequate to guarantee the transparency of financial statement

H1: Professional and regulatory stipulations on audit independence in Nigeria is adequate to guarantee the transparency of financial statement.

Computation

The test statistic is computed by STATA software and the results are as shown in Table 4.5

Table 4.5: Regression Results on Auditor Independence and transparency of financial statement

TFS	Coefficient	z-test statistic	p-value	R-squared	Chi-sq
AI	0.0307789	-0.58	0.032	0.0010	0.33 (0.5635)

Source: Extracted from STATA Computations

Decision

With a coefficient of 0.0307789 the results indicate that auditor’s independence impact on Transparency in financial statement , while the probability value of 0.032 indicates that the positive impact is insignificant. This leads to the acceptance of the alternative hypothesis, thus rejecting the null hypothesis.

4.4 Discussion of Findings

This study examined audit quality and Transparency in corporate financial reporting of firms quoted on the Nigerian stock exchange.

The results indicate that almost all the variables are significantly normally distrusted at 5% level of significance. The correlation matrix indicates the variables have positive relationship. The results also indicate the absence of multicollinearity. Essentially, the findings of the study are:

With a coefficient of 0.0639852 the results indicate that audit report quality impacts Transparency in financial statement , while the probability value of 0.018 indicates that the positive impact is significant. This leads to the acceptance of the

alternative hypothesis which state that the quality of audit report determine the transparency of financial statement, thus rejecting the null hypothesis.

Also, With a coefficient of 0.213579 the results indicate that there is a significant relationship between Transparency in financial statement and non audit service, while the probability value of 0.051 indicates that the positive impact is significant.

This leads to the acceptance of the alternative hypothesis which state that Auditors' engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria, thus rejecting the null hypothesis.

Lastly, With a coefficient of 0.0307789 the results indicate that auditor's independence impact on Transparency in financial statement , while the probability value of 0.032 indicates that the positive impact is insignificant. This leads to the acceptance of the alternative hypothesis, thus rejecting the null hypothesis.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The followings are the summary of the findings of the study;

- i. The quality of audit report determine the transparency of financial statement.
- ii. Auditors' engagement in management advisory services (non-audit services) influence the quality and transparency of financial reporting in Nigeria.
- iii. Professional and regulatory stipulations on audit independence in Nigeria is adequate to guarantee the transparency of financial statement.

5.2 Conclusion

Having examined Audit quality and Transparency in financial reporting in Nigeria , it is however concluded that the quality of the financial information is dependent, among other things, on audit quality. Several individuals and groups have an interest in the quality of audited financial information. External financial statement users, including current and potential investors, creditors, and others need reliable financial information on which to base their resource allocation decisions. The long run pervasive effects of earnings management as witnessed in several corporate collapses around the world as heightened stakeholder awareness and signaled considerable paranoid responses with regards to credibility of corporate financial reporting.

5.3 Recommendations

The following recommendations are made in line with the findings of the study;

- i. In line with the findings of the study, the study recommended that the service of qualified Auditors preferably chartered Accountants should be engaged in all corporate entities as this will improve the quality of audit reports.
- ii. It is therefore recommended that Auditors should be encouraged to attend company's Annual general meetings whenever it is held so as to equip them with the operations of the companies they serve.
- iii. It is recommended that audit regulatory authorities should formulate policies that will encourage the independency of the Auditors as this will enhance their performances.

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Appendix I

Department of Accountancy,
School of Business Studies,
Auchi Polytechnic,
Auchi,
Edo State.

Dear Sir/Madam,

I am a student of the above named institution (HND), carrying out a research work on the topic: “Audit quality and transparency in corporate financial reporting”. The research work is purely for academics purpose and is written in partial fulfillment of the requirement for the award of Higher National Diploma of in Accounting.

The questionnaire will be used for the study. All the information supplied will be treated in absolute confidence and use only for the purpose of the study.

Thank you for your anticipated assistance.

Yours faithfully,

Efeviare ochuko Ruth

Appendix II

RESEARCH QUESTIONNAIRE

Instruction: Please read through each part of the questionnaire and complete appropriately by marking (√) the columns provided

SECTION A: BIO-DATA

1. Sex:

a. Male

b. Female

2. Age of years

18-24

25-34

35 -44

45-54

55 and above

2. Years of Experience:

a. Below 5 years

b. 5-9years

c. 10 above

3. Educational Qualification:

a. ND

b. HND/B.Sc

c. M.Sc

d. ACA or MA

e. Others (please specify)

SECTION B

Instruction: *Please note the following and what they represent*

SA – Strongly Agreed

A –Agreed

U - Undecided

D-Disagreed

SD- Strongly Disagreed

Please tick {✓} whichever is most appropriate in relation to the questions below:

S / N	Questions For Respondents	S A	A	U	D	S D
1 .	The audit quality of the firm is Encouraging.					
2 .	The financial reporting process is transparent.					
3 .	The auditors are independent.					
4 .	The company is performing better.					
5 .	The corporate performance is encouraging.					
6 .	The financial performance of the firm is encouraging.					

APPENDIX III

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	pr(skewness)	Prob>chi2
TFS	70	3.85	1.028631	1	5	0.0004	0.0034
NAS	70	3.765	0.8240544	1	5	0.0064	0.0220
AI	70	4.38	0.7885545	1	5	0.3569	0.0010
ARQ	70	3.2975	0.8902495	5	8	0.2760	0.4828

Source: Researchers Computation Using STATA (2022)

Table 4.2: Correlation Matrix

	TFS	NAS	AI	ARQ
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NAS	0.2917	1.0000		
AI	0.1208	0.1621	1.0000	
ARQ	0.1190	0.1961	0.0943	1.0000

Source: Researchers Computation Using STATA (2022)