AUDITORS' INDEPENDENCE AND QUALITY OF FINANCIAL REPORTING IN LISTED NIGERIAN MANUFACTURING COMPANIES

Sunday Otuya
Department of Accounting & Finance,
Faculty of Humanities, Social and Management Sciences,
Edwin Clark University, Kiagbodo, Delta State

Abstract

This study examined the relationship between auditors' independence and quality of corporate financial reporting in Nigeria. The study was anchored on the Agency Theory and adopted the content analysis research design. Data were collected from annual reports of listed manufacturing companies for the period 2013 to 2017. Some descriptive and correlation statistics were deployed as tools of analysis while regressions were used to examine the relationship between the variables highlighted in the study. Findings of the study indicate that audit incentives, audit tenure and audit client size have a significant positive relationship with quality of financial reporting. The study also finds that audit reporting lag has a positive but insignificant correlation with financial reporting quality whereas auditor's status such as being one of the big 4 audit firms has a significant negative relationship with quality of financial reporting. The study concludes that longer auditor tenure and higher incentives promote independence of the auditor which by extension improves quality of financial reporting. The study recommends that audit firms should charge reasonable fees to ensure adequate compensation for engagement staff as this will promote independence. The study further suggests that Financial Reporting Council of Nigeria (FRC) and other regulatory bodies should increase the three years mandatory professional requirement for auditors so as to encourage longer auditor tenure.

Keywords: Auditor's independence, Auditor's incentives, Audit report lag, Auditor tenure, Financial reporting quality, Manufacturing companies.

Introduction

Changes in the economic environment and growth of corporate structure have brought about the need to separate business ownership from management. In the past, the nature and size of businesses made it possible for owners to manage their firms hence self-accountability was prominent. Separation of owners (principals) from managers (agents) has necessitated owners and managers rapport such that managers have the responsibility of handling the business activities of the firm on behalf of their principals. This in turn brought the need for owners of business organizations to search for an intermediary whose responsibility was to check the stewardship of managers of the firm and assure the owners of fair performance. This intermediary role is what auditing plays so as to be able to establish whether managers' report truly reflect correct and complete position of transactions as presented (DeAngelo, 1981).

Auditing involves scrutiny of financial records with a view to ascertaining the true state of financial position of the company as presented by directors. It enhances credibility, provides an independent confirmation of financial information presented by management thus serving to lessen investors' information risk (Watts & Zimmeranson, 1983; Mansi, Maxwell & Miller 2004). In its role as the link between management and other stakeholders, the auditor assesses how corporate managers apply relevant accounting standards in financial statements preparation. In view of this, accounting information users anticipate auditors to apply technical ability, honesty, and independence, in the audit process to prevent issuance of false financial reports. Thus, for an audit to satisfy the reasonable expectations of various stakeholders, it becomes imperative for the audit assignment to be executed with due regard for financial reporting excellence.

It is the duty of a company's directors to prepare financial statement. Nevertheless, Section 359(1) of the Companies and Allied Matters Act (CAMA), 1990 (as amended) provides for audit of financial statements. External auditors are appointed at Annual General Meetings (AGM) by shareholders for this purpose. The audit report being the end product of any audit task is then issued expressing a 'true and fair view' opinion on the financial statements (Blandon & Bosch, 2015; Otuya, Donwa & Egware, 2017).

Recent studies on financial crises and corporate failures (Enofe, Mgbame, Otuya & Ovie, 2013; Igbekoyi & Agbaje, 2018; Ilaboya & Ohiokha, 2014; Manukaji, 2018; Odia, 2015; Oyewole & Adegoke, 2018) have raised public concerns regarding independence of auditors. Studies such as (Awa, 2015; Enofe, Mgbame, Otuya & Ovie, 2013; Ndubuisi & Ezechukwu, 2017) have asked questions about the effectiveness of financial statements to perform their function as a guide to informed decision making and a tool for appraisal of corporate performance. The studies reveal that a number of the corporate failures in Nigerian have had a link to external auditors' vulnerability in displaying independence required of them. Auditor independence which is a necessity to achieve financial reporting quality, seems to have been compromised in recent times as companies given a clean bill of health with unqualified reports had experienced financial problems shortly after release of audit reports with shocking revelations of financial misstatements (Adeyemi, Okpala & Dabor, 2012; Enofe, Mgbame & Okunega, 2013; Ilaboya & Ohiokha, 2014). Based on the foregoing problems, the study is designed to give clarifications to the ensuing research queries.

1. What is the relationship between Auditor's Incentives and Financial Reporting Quality?
2. What is the relationship between Audit Report Lag and Financial Reporting Quality?
3. What is the relationship between Auditor Tenure and Financial Reporting Quality?
4. What is the relationship between Status of Audit Firm and Financial Reporting Quality?
5. What is the relationship between Audit Client Size on Financial Reporting Quality?

Conceptualizations

Auditor's Independence

Independence of the auditor implies the capacity of an auditor to sustain a dispassionate and neutral mental attitude in the process of carrying out an audit. DeAngelo (1981) defines auditor independence as the balanced mental assertiveness of an auditor in making judgments in the course of carrying out an audit and disclosing the outcome of such audit. Whenever independence of the auditor is under any threat, there is likelihood of an auditor being seen as lacking objectivity. The implication is that the auditor will be viewed as not having the independence to report any discovered breach. Arens, Elder and Beasley (2014) explain that independence entails an attitude of a sense of obligation distinct from the client's interest. Independence encourages the external auditor to display a position of healthy professional incredulity. According to Sucher and Maclullich (2004), independence of the auditor facilitates sound audit opinion being the final product of an audit assignment. This in turn lends credibility to financial reporting and enhances confidence on the information presented to stakeholders of the business. Saputra (2015) maintains that quality of an audit report is influenced by how independent minded the auditor is as it enables him to conduct his assignment in agreement with generally acceptable auditing standards. Independence makes it possible for an external auditor to report any material misstatements - due to error or fraud - in the company's books of account when detected.

Quality of Financial Reporting

Quality of financial reporting implies how well an audit is able to detect and document any material misstatements in corporate financial reports. The competence of the auditor mirrors this detection capability while the ability to disclose such material misstatement reflects audit ethics or auditor's integrity which forms auditor independence (Arens, Elder & Beasley, 2014). In other words, financial reporting quality entails reliability of opinion expressed by the auditor on the financial reports.

Prior studies have adopted a number of proxies as a measure of quality of financial reporting. Otuya, Donwa and Egware (2017), Francis and Wang (2008), Carey and Simnett (2006) and Francis and Krishman (1999) used Discretionary Accruals (DACC). DeFond and Park (2001) also adopted abnormal working capital accrual as a measure of audit quality. Other studies used proxies such as audit fees and hours, NSE President's Merit award, earnings response coefficients and tendency to issue a modified audit opinion to represent audit quality/financial reporting quality (Deis & Giroux, 1996; Caramanis & Lennox, 2008; Ghosh & Moon, 2005 and Adeyemi, Okpala & Dabor, 2012).

This study adopts Discretionary Accruals (DACC) as measure of quality of financial reporting. DACC has been adjudged as a superior technique to determine level of earnings management and by extension audit quality (Dechow, Sloan & Sweeney, 1995; DeAngelo, 1986; Jones, 1995). Based on the DACC view, high income smoothing/earnings management reduces the quality of financial reports. The implication is that higher DACC creates a greater distance between the true state of affairs (financial performance) and results shown in the financial statements.

Underpinning Theory: The Agency Theory

This study adopted the Agency Theory because it explores the link between owners and directors which is one of the main reasons for demanding an audit. Further, the theory is used because it incorporates some components of two other related theories such as the Policemen and Lending Credibility theories. The Agency Theory links with the Policemen theory in that the audit work is seen as an assignment to ascertain the arithmetical accuracy of the financial statements presented by management and by extension prevents or detects fraud. The audited financial statement on the other hand lends credence to management ability to steer the business in the right direction hence enhances shareholders' belief in agent's stewardship of the business (Hay, Knechel & Wong, 2006).

The Agency Theory is anchored on the basis that there exists an agency connection in which the owners of the firm assign responsibilities to the managers. This leads to sharing of risks which also gives rise to conflict of interest between the two parties. Managers are reputed to be motivated by self-interest rather than the need to maximize shareholders' wealth. The principal - agent contrasting interest is demonstrated in this concept, where owners (principal) nurse reasons not to have faith in their managers (agents) because of asymmetries of information and contrasting concerns (Jensen &

Meckling, 1976). Information asymmetry is concerned with situations whereby one party is judged to have more information knowledge than other. In their confirmation of the validity of the financial statements, external auditors play an essential part in reducing this information asymmetry. An important postulation surrounding the Agency Theory is that the auditor is viewed as independent hence is expected to provide an independent opinion. Therefore external auditors as a third-party are expected to bring into line management interests with shareholders and to let shareholders measure the conduct of their managers and reinforce confidence in management.

Theoretical Framework and Hypotheses Development

Auditor's Incentives and Quality of Financial Reporting

Auditors receive fees for audit services rendered to their audit clients. The issue of how audit incentives affect quality of audit has been a subject of research for many reasons. One, there is the issue of charging low audit fee so as to get a foot in the client's door. Two, there is also the issue of charging high fees to cover other non-audit services provided to client. On part of low audit fee, Francis and Wilson (1988) argue that a low audit fee may result to less audit work, with an inherent consequence of producing low quality financial reports. Hay and Davis (2004) further contend that some auditors low-ball so as to explore the possibility of providing profitable non-audit services. It is believed that when auditors render such services, they could compromise integrity for the fear of not retaining audit client. This again is an issue associated with auditor independence. Kinney, Palmrose and Schoolz (2004) state that high audit fee connotes economic dependence by the auditor which is also capable of weakening auditor's objectivity. Studies such as (Francis, 2004; Elke & Schroé, 2010; Hussein & Hanefah, 2013) proved that that auditor's fee does not weaken audit quality. However, (Silvano, et al, 2015; Larcker & Richardson, 2004; Basioudis, Papakonstantinou & Geiger, 2008; Kinney & Libby, 2002) document that higher auditor incentives increase the threat to auditor independence. Following from the above, we therefore assume in this study that auditor's incentive does not positively affect quality of financial reporting.

Hypothesis One: There is no significant positive relationship between Auditor's Incentives and Quality of Financial Reporting in Nigeria.

Auditor's Report Lag and Quality of Financial Reporting

The auditors' report being the final product of the audit process serves as an important means through which corporate performance is provided. It is an essential document used in evaluating the going concern status of the firm. 'Relevance' is an essential qualitative characteristic of financial reporting. For accounting information to be relevant, it also has to satisfy the feature of timeliness. Timeliness is therefore viewed from the perspective of audit reporting lag; the interval of time from accounting year end and the date financial report is signed.

On the one hand, it is believed that if the audit report period is unusually long, it is meant to carry out a thorough audit job by the external auditors. This position is supported by a number of prior studies who view extended audits as additional effort to achieve better audit quality. Bamber and Schoderbek (1993) establish positive correlation between lag period and amount of audit work required and thus higher audit reporting quality. According to Knechel and Payne (2001), there exist a positive association between time put in audit process, audit reporting lag and audit quality. Egbunike and Abiahu (2017) found no significant connection between lag period and financial performance.

On the other hand, long audit reporting lag could be seen as a compromise by the auditors to buy time so as to be able to doctor audit reports to favour management. For instance, Blankley, Hurtt and MacGregor (2014) in a study to ascertain whether undue delays in submitting an audit report has a connection with a future restatement, discovered that there is greater possibility of financial statement being restated. From the foregoing, we hypothesize that longer audit reporting lag will not have a positive relationship with financial reporting quality.

Hypothesis Two: There is no significant positive relationship between Audit Report Lag and Quality of Financial Reporting in Nigeria.

Auditor's Tenure and Quality of Financial Reporting

Auditor's tenure according to Johnson, Khurana and Reynold (2002) is how many years an audited client retains an audit firm successively. Arguments on auditor tenure have been anchored on two distinct hypotheses. The first is the auditors' independence which revolves around the fact that longer audit tenure could be a threat to independence. This argument is hinged on the fact that longer union between the client and the auditor may raise too much familiarity which could threaten "honest neutrality" (Vanstraelen, 2000; Carey & Simnett, 2006). Secondly, the expertise hypothesis postulates that extended tenure improves the working relations between the auditors and firm which makes for better understanding and learning on the job. Geiger and Raghunandan (2002) argue that auditor's expertise theory anchors on information asymmetry in the auditor-client relationship. The information asymmetry diminishes over time as the auditor obtains further understanding of the company to gain more knowledge of the business and operation environment (Odia, 2015).

Empirical results on auditor tenure and financial reporting quality are conflicting. Study by Ghosh and Moon (2005) claimed that quality of an audit improves with extended relationship between the auditor and audit client. Chen, Lin and Lin (2008) also report a positive association between auditor tenure and financial reporting quality. However, Manry, Mock and Turner (2008) find that auditor tenure is not associated with financial reporting quality for large clients, while a negative association exists for small clients. Based on the foregoing, this study hypothesizes that longer auditor tenure does not impact on auditor independence thus the development of the third hypothesis.

Hypothesis Three: There is no significant positive relationship between longer Auditor Tenure and Quality of Financial Reporting in Nigeria.

Auditor's Status and Quality of Financial Reporting

Audit firm size is a variable that can proxy for auditor's status. Auditor's status can be categorized in terms of an audit firm belonging to the Big Four audit firms such as KPMG, Ernst & Young, PwC and Akintola Williams Deliotte or non-Big Four which are other smaller audit firms. Rachmawati (2008) explains that the Big Four audit firms have higher technical capability and have access to modern audit and accounting software and training that non-Big Four don't. The Big Four have the resources at their disposal to employ the best manpower and retain them. This is coupled with the fact that they also have international presence and are able to move expertise and personnel to countries where certain proficiencies are deficient. Studies such as (Ndubuisi & Ezechukwu, 2017; Francis, 2004; Francis & Wilson, 1988; Sirois & Simunic, 2010) indicate that Big Four auditors have a better financial reporting quality. However, it is also instructive to note that most of the past corporate failures resulting from

window dressing and earnings smoothing have been carried out by the Big Four auditors. Given this scenario, this study constructs the fourth hypothesis in the null form:
Hypothesis Four: There is no significant positive relationship between the status of audit firm and the quality of financial reporting in Nigeria.

Auditor's Client Size and Quality of Financial Reporting
Auditors charge fees for rendering audit services. The implication is that auditors have clients that are more economically important than others. Those clients whom the audit firm deems economically important carry greater portfolio weight in an auditor's client list. The wider implication is that an external auditor is likely to have greater inducement to succumb to management pressure of such bigger clients thereby compromising independence.

Studies on client size and quality of financial reporting have produced divergent results. Reynolds and Francis (2001) in their study found that big four auditors are susceptible to indulging in earnings management so as to retain their clients. Studies by Hunt and Lulseged (2007) and Sharma, Sharma and Ananthanarayanan (2011) find that smaller audit firms are more conventional towards their big and more important clients. But, Chung and Kallapur (2003) find no link between audit client size and unusual accruals. Nevertheless, Gaver & Paterson (2007) find audit client size is negatively linked to earnings management. There is therefore conflicting evidence suggesting that auditor's client size/importance influences financial reporting quality. Following from this, our fifth hypothesis is formulated thus:

Hypothesis Five: There is no significant positive effect of auditor's client size on quality of financial reporting in Nigeria.

Methodology

Design and Data
This study adopts the Content analysis research design. The rationale for using this design is due to the nature of the study. Firstly, data were obtained from secondary sources by analyzing the contents of the sampled manufacturing firms' audited financial statements for the period 2013 to 2017. Secondly, the study seeks to examine the impact of auditors independence attributes on financial reporting quality. The population of the study comprises of all quoted manufacturing firms in Nigeria. Based on the NSE market report as at January 8, 2018, eighty two manufacturing firms are listed on the Nigerian Stock Exchange. However, the study used censoring sampling techniques which is based on the availability of data hence 42 manufacturing firms which had all the relevant data for five years were utilized for the study making a total of 210 observations.

Empirical Model
In order to ascertain the link between auditors' independence and quality of financial reporting, a multiple linear model is developed. The model captures the influence of auditor's incentives, report lag, tenure, status and audit client size on financial reporting quality in Nigeria. The model is expressed as follows:

$$FRQ_{it} = \beta_0 + \beta_1 AUDFEE_{it} + \beta_2 AUDLAG_{it} + \beta_3 AUDTEN_{it} + \beta_4 AUDSTA_{it} + \beta_5 CLIENT_{it} + \varepsilon_{it}$$

Where FRQ: Financial Reporting Quality; AUDFEE: Audit incentives; AUDLAG: Audit Lag; AUDTEN:

Audit tenure; AUDSTA: Audit Status and CLIENT: Audit Client size. β1- β5 are Regression Parameters and ε is error term; i represent sampled companies while t is the time dimension.

Measurement of Variables

Dependent Variable

Quality of financial reporting is measured in terms of discretionary accruals. Based on this view, high discretionary accrual values signifies a greater distance between actual corporate performance and reported results which implies lower quality of the financial information presented by the firm. The discretionary accrual figure is obtained by using the Jones (1995) modified model where expected level of nondiscretionary accruals is subtracted from total accruals (standardized by lagged total assets) as stated in the cross sectional model:

$TACC_{it} = N.Iit - CFO_{it}$ …………………………………………………………………… (i)

Thus the industry specific parameters of the Jones model are estimated as follows:

$TACC_{it} / TA_{it-1} = \alpha_1 (1/TA_{it-1}) + \alpha_2 [(\Delta REV_{it})/TA_{it-1}] + \alpha_3 (PPE_{it}/TA_{it-1}) + \varepsilon_{it}$ ……...(ii)

Non-discretionary accruals are measured using the equation as follows:

$NDACC_{it} = \alpha_1 (1/TA_{it-1}) + \alpha_2 [(\Delta REV_{it} - \Delta REC_{it})/TA_{it-1}] + \alpha_3 (PPE_{it} / TA_{it-1})$………(iii)

The Difference between total accruals and the non-discretionary components of accruals is considered as discretionary accruals as stated in equation as follows:

$DACC_{it} = TACC_{it} – NDACC_{it}$……………………………………………………………….(iv)

Where:

TACC = Total Accruals; NI = Net Income before Extraordinary Items; OCF = Operating Cash Flows; TA-1 = Previous year's total assets; ΔREV = Change in Operating Revenues; PPE = Gross Property, Plant and Equipment; NDACC = Non-discretionary Accruals; ΔREC = Change in Net Receivables; DACC = Discretionary Accruals; α_1- α_3 = Regression Parameters and ε = error term.

Independent Variables

The AUDFEE variable tests for the compensation paid to an audit firm for carrying out audit assignment. It is the total audit fee paid to the auditor scaled by total administration expenses as disclosed in sampled firms' financial statements.

The study also examines AUDLAG which is the time difference between the date audit reports is signed and the fiscal year end. It is measured in days. AUDTEN (audit tenure) is used to examine whether long or short audit tenure has a significant effect on financial reporting quality. This study utilizes the number of years an audit firm has been retained by a firm in the past five years. AUDSTA is the status of the auditor. It is used to measure whether an audit firm belongs to the Big 4 (KPMG, PwC, Akintola Williams Deloitte and Ernst & Young) or Non-Big 4 (which are considered as smaller audit firms).

Control Variable

An important variable that can be used as a control is audit client firm size. This is because auditors may consider big corporations as important clients to them because of audit incentives, economic value and non- audit services hence would want to maintain longer audit tenure. However, these are issues which may impair the audit independence. Value of a firm's total assets is used to measure audit client size (CLIENT).

Data Analysis and Results

	DACC	AUDFEE	AUDLAG	AUDTEN	STATUS	CLIENT
MEAN	-.1045	2.883	75.6	4.1	1.2	99.35
MINIMUM	-.9015	1.20	43.0	2.0	1	9.0
MAXIMUM	.2771	9.90	121	5.0	2	252
STD. DEV.	.3673	5.650	21.6	.952	.411	78.74
OBSERVATION	210	210	210	210	210	210

Table 1: Descriptive Statistics of the Variables

Source: Analysis of financial statements

Note: The values of CLIENT are in billion.

KEY: DACC= Discretionary Accruals; AUDFEE= Auditors' Incentives; AUDLAG=Audit Report Lag; AUDTEN=Auditors' Tenure; STATUS=Auditor's Status; CLIENT=Audit Client Size.

It can be seen that DACC has a mean of -0.1045 signaling that most of the companies surveyed recorded a negative total accrual for the period. This is a result of average operating cash flow being more than the average net income as much expenses have been deducted from income and have not been included in the operating cash flow such as depreciation and amortization. The maximum and minimum values also stand at 0.2771 and -0.9015 respectively with a standard deviation of 0.3673. The standard deviation measuring the spread of the distribution is high and indicates considerable dispersion from the mean and that the distribution is inclusive of companies with significant variations in their accrual level.

The descriptive statistics also shows that on the average, audit fee and audit lag have 2.883 million naira and 75.6 days respectively. The minimum values are 1.20 and 43.0 respectively while the maximum values are 9.90 and 121 respectively for audit fee and audit reporting lag. The standard deviation also stood at 5.650 and 21.6 respectively. The standard deviation for audit fee is high indicating that there is much variation in payment to independent auditors among the companies sampled. Further, the standard deviation for audit report lag is high compared to the mean value which also implies that there are significant variations in the interval of days from a company's fiscal year end to the date of audit report is endorsed by the auditors.

Auditor's tenure has a mean of 4.1 years. The maximum and minimum tenures are 5 and 2 years respectively. The standard deviation is 0.952 indicating no significant disparity among the firms in terms of auditor's retention. The Auditor's status (STATUS) was categorized in term of Big Four audit firms and Non-Big Four. The statistics shows that 78 percent of the companies sampled engage the services of the Big Four audit firms while 22 percent use the smaller audit firms. The implication is that most quoted firms in Nigeria still have preference for the Big Four audit firms in carrying out audit assignment for their companies.

Finally, the Audit Client size has a mean of 99.35 billion naira. The maximum and minimum values are 252.0 and 9.0 billion naira respectively with a standard deviation of 78.74. The standard deviation measuring the spread of the distribution is low from the mean but high from the maximum and minimum values indicating considerable dispersion in the audit client size which was proxied by total assets of the sampled firms.

		DACC	AUDFEE	AUDLAG	AUDTEN	STATUS	CLIENT
DACC	Pearson Corr. Sig. (2-tailed) N	1 68					
AUDFEE	Pearson Corr. Sig. (2-tailed) N	-.439* .000 68	1 68				
AUDLAG	Pearson Corr. Sig. (2-tailed) N	-.325* .000 68	.156 .204 68	1 68			
AUDTEN	Pearson Corr. Sig. (2-tailed) N	-.181 .010 210	.229 .004 210	-.673 000 210	1 210		
STATUS	Pearson Corre. Sig. (2-tailed) N	.450 .000 210	.491 .000 210	.107 .133 210	.128 .071 210	1 210	
CLIENT	Pearson Corr. Sig. (2-tailed) N	-.189 .007 210	.115 .028 210	-.728 .000 210	.291 000 210	.277 .000 210	1 210

Table 2: Correlation of the Variables
**Correlation is significant at the 0.05 level (2-tailed)*
Source: Analysis of financial statements
KEY: DACC= Discretionary Accruals; AUDFEE= Auditors' Incentives; AUDLAG=Audit Report Lag; AUDTEN=Auditors' Tenure; STATUS=Auditor's Status; CLIENT=Audit Client Size

Table 2 provides the Pearson correlation matrices of the variables under investigation. As observed from the table, the variables do not show too high correlations (r>0.80) among each other. Wasserman and Kutner (1998) assert that simple correlation between independent variables is considered useful for further analysis if correlation coefficient does not exceed 0.80.

The correlation statistics shows that DACC has a negative relationship with AUDFEE (r=-.439), AUDLAG (r=-.325), AUDTEN (r=-.181), and CLIENT (r=-.189). The implication is that higher audit fees, longer audit report lag, long audit tenure and bigger audit client size reduces earnings manipulations hence improves financial reporting quality. The table also shows that DACC has a positive relationship with STATUS (r=.450) which also implies that the bigger the audit firms the higher the chances of earnings management.

The correlation also indicates that audit fee (AUDFEE) has a positive link with AUDLAG (r=.156), AUDTEN (r=.229), STATUS (r=.491) and CLIENT (r=.115). This also implies that level of audit fee enhances better audit reporting lag, audit tenure, status and audit client size in the right direction.. The correlation statistics also indicate presence of a negative link between Audit Report lag (AUDLAG) and audit tenure (AUDTEN) (r=-.673) and STATUS (r=-.728). The implication is that bigger audit firms with longer tenure are susceptible to submit their audit report late. However, AUDLAG is seen to have a positive link with CLIENT (r=.107) which also indicate that the importance or size of the audit client facilitates earlier submission of audit reports.

Further, AUDTEN is observed to have a positive correlation with STATUS (r=.128) and CLIENT (r=.291). This also signifies that the large corporations maintain the Big Four audit firms with longer auditor tenure. Finally, the table shows a positive correlation between STATUS and CLIENT (r=.277) lending credence to the evidence that larger firms engage the Big Four Auditors.

Analysis of Findings

The results of findings are presented thus:

Hypothesis One: There is no significant positive relationship between auditor's incentives and quality of financial reporting in Nigeria.

MODEL	SS	DF	MEAN ^{2}	F	SIG	R	R^2	ADJ. R^2	*SEE*
1 Regression	1.518	1	1.518	11.81	.001[b]	.632	.543	.490	.358
Residual	26.727	208	.128						
Total	28.245	209							

Table 3: Regression Statistics for AUDFEE and Quality of Financial Reporting

a Predictors: (Constant), Audit Fee

b Dependent Variable: DACC

Source: Analysis of financial statements

Table 3 shows a summarized regression results for the level of association between audit incentives and financial reporting quality. From the table it can be observed that the model is significant. The co-efficient of determination or R2 is .543 indicating that 54.3 percent of the changes in discretionary accruals can be explained by the audit fee charged by external auditors. Moreover, the f-ratio of 11.81 shows that the predictor variables are very significantly related with the response variables. From the correlation matrix in table 02, the coefficient of correlation is -.439 while the p-value is 0.001 signifying an inverse relationship between audit fees and discretionary accruals. Since higher discretionary accrual implies lower financial reporting quality and vice versa, we therefore reject the null hypothesis and state that there is a significant positive relationship between auditors' incentives and quality of financial reporting in Nigeria.

Hypothesis Two: There is no significant positive relationship between Audit Report Lag and Quality of Financial Reporting in Nigeria.

MODEL	SS	DF	MEAN ^{2}	F	SIG	R	R^2	ADJ. R^2	*SEE*
1 Regression	2.666	1	2.666	21.67	.000[b]	.307	.204	.190	.350
Residual	25.579	208	.123						
Total	28.245	209							

Table 4: Regression Statistics for AUDLAG and Quality of Financial Reporting

a Predictors: (Constant), Audit Report Lag

b Dependent Variable: DACC

Source: Analysis of financial statements

Table 4 presents the results of estimating regression models for audit reporting lag and financial reporting quality. The regression statistics indicates that R2 value is 0.204, which indicates that 20.4 percent of the variation in the discretionary accruals is caused by the audit reporting lag while 70.6 percent of the variation is explained by other external elements. Further, results presented in correlation matrix show a negative and weak relationship between audit report lag and discretionary accruals (r=-325). This is used as evidence to state that there is a positive but insignificant relationship between audit reporting lag and quality of financial reporting in Nigeria.

Hypothesis Three: There is no significant positive relationship between longer auditor tenure and quality of financial reporting in Nigeria.

MODEL	SS	DF	MEAN ^{2}	F	SIG	R	R^2	ADJ. R^2	SEE
1 Regression Residual Total	1.136 27.109 28.245	1 208 209	1.136 .130	8.720	.004[b]	.601	.465	.328	.361

Table 5: Regression Statistics for AUDTEN and Quality of Financial Reporting
a Predictors: (Constant), Auditor's Tenure
b Dependent Variable: DACC
Source: Analysis of financial statements

The regression analysis in table 5 indicates that the model is only able to explain 46.5 percent of the discretionary accrual practices using data provided by auditors' tenure (AUDTEN). In the correlation table, the Pearson correlation coefficient (r =-.181) presents an inverse linear relationship between the two variables under consideration. The effect of auditors' tenure on discretionary accruals is statistically significant (P = 0.004< 0.05) at 5% level of significance. This implies a positive relationship between longer auditors' tenure and quality of financial reporting in Nigeria.
Hypothesis Four: There is no significant positive relationship between the status of audit firm and the quality of financial reporting in Nigeria.

MODEL	SS	DF	MEAN ^{2}	F	SIG	R	R^2	ADJ. R^2	SEE
1 Regression Residual Total	5.707 22.538 28.245	1 208 209	5.707 .108	52.67	.000[b]	. 450	.202	.198	.329

Table 6: Regression Statistics for STATUS and Quality of Financial Reporting
a Predictors: (Constant), Audit Firm Status
b Dependent Variable: DACC
Source: Analysis of financial statements

From the Regression statistics, the coefficient of determination is .202 which shows that the 20.2 percent of the variants in the dependent variable is explained by the independent variable. From the correlation matrix in table 02, the coefficient of correlation is .450 while the p-value is 0.001 signifying a positive correlation between audit firm status and discretionary accruals. Since higher discretionary accruals imply lower audit quality, the hypothesis that there is a significant positive relationship

between status of audit firm and the quality of financial reporting in Nigeria is therefore rejected.
Hypothesis Five: There is no significant positive effect of audit client size on quality of financial reporting in Nigeria.

MODEL	SS	DF	MEAN ²	F	SIG	R	R^2	ADJ. R^2	SEE
1 Regression	1.030	1	1.030	7.88	.005[b]	.491	.430	.320	.361
Residual	27.215	208	.131						
Total	28.245	209							

Table 7: Regression Statistics for CLIENT and Quality of Financial Reporting
a Predictors: (Constant), Audit Client Size
b Dependent Variable: DACC
Source: Analysis of financial statements

Table 7 shows summarized regression results for the effect of audit client size (CLIENT) on quality of financial reporting. From the table it can be observed that the model is significant with co-efficient of determination or R2 of .430. Moreover, the f-ratio of 7.88 shows that the predictor variable is very significantly related with the response variable. It is also seen from the correlation matrix in table 02, that the coefficient of correlation is -.189 while the p-value is 0.005 signifying that the size of the audit client negatively affects discretionary accruals practices. Since higher discretionary accrual implies lower financial reporting quality and vice versa, we therefore uphold the hypothesis that there is a significant positive effect of audit client size on quality of financial reporting in Nigeria.

Discussion of Findings

The results of data analyzed are discussed thus:

Auditor's Incentives and Quality of Financial Reporting

Empirical analysis of the study indicates a significant positive correlation between auditor's incentives and financial reporting quality in Nigeria. This result did not meet our priori expectation but is in conformity with earlier studies such as Elke and Schroé (2010) and Hussein and Hanefah (2013). This result does not however conform to study by Kinney, Palmrose and Schoolz (2004) who posit that higher audit fees promote economic dependency thereby reducing audit quality. The implication of our findings is that higher audit fees provide the platform for the audit firm to visit more units/branches/departments and cover more ground so as to be able to come up with the true financial position of the audited company.

Auditor's Report Lag and Quality of Financial Reporting

Audit reporting lag is also found to be positively associated with quality of financial reporting. This result agrees with our a priori expectation and conforms to previous studies such as Bamber, and Schoderbek (1993) and Knechel and Payne (2001). This implies that longer audit reporting lag enables the auditor to conduct a higher volume of audit work to come up with true state of affairs of the company. This result is however not consistent with Blankley, Hurtt and MacGregor (2014) who state that longer audit reporting lag gives rise to the probability of the firm restating its financial statements.

Auditor's Tenure and Quality of Financial Reporting

Our findings also show that longer auditor tenure has a positive impact on quality of financial reporting. This did not meet our apriori expectation. The result is however consisted with (Ghosh & Moon, 2005; Myers, Myers & Omer, 2003; and Lin & Lin, 2008). The implication is that the longer the auditor is retained on the job, the better he understands the rudiments of the industry and operations. This finding supports the expertise hypothesis which postulates that extended tenure improves the rapport between the auditors and the audited firm which enhances better audit quality. Manry, Mock and Turner (2008), however find that auditor tenure is not linked with financial reporting quality.

Auditor's Status and Quality of Financial Reporting

This present study discovers that a significant positive relationship exists between status of audit firms and discretionary accruals. Since higher discretionary accruals indicate lower audit quality it therefore means that the quality of financial reporting in bigger audit firms is lower. The implication of this finding is that size of the audit firm does not necessarily imply higher reporting quality. This position did not meet our apriori expectation and is not consistent with prior studies such as (Ndubuisi & Ezechukwu, 2017; Francis, 2004; Francis & Wilson, 1988; Sirois & Simunic, 2010). The result however confirms the position of Enofe, Mgbame, Otuya and Ovie (2013) who stated that most of the big corporations that experienced financial collapse in the past decades were audited by the Big Four audit firms.

Auditor's Client Size and Quality of Financial Reporting

The study finds a significant positive effect of audit client size on quality of financial reporting in Nigeria. This finding meets our apriori expectation. The result conforms to findings of Gaver and Paterson (2007) who find an inverse relationship between auditor client size and earnings management. This is however not consistent with Reynolds and Francis (2001), Hunt and Lulseged (2007) and Sharma, Sharma and Ananthanarayanan (2011) who stated that audit firms are susceptible to indulge in earnings management for bigger audit clients so as to retain them.

Conclusion and Recommendations

The study examined auditor's independence and quality of financial reporting in Nigeria. The study used secondary data from annual reports of listed manufacturing companies for the period 2013 to 2017. Some simple descriptive and correlation statistics were adopted as tools of analysis while regressions were used to examine the relationship between the variables highlighted in the study. Findings of the study indicate that audit incentives, audit reporting lag, audit tenure and audit client size have a positive relationship with quality of financial reporting. The study also finds that auditor's status has a significant negative relationship with quality of financial reporting. The study therefore concludes that independence of the auditor has a significant effect in decreasing discretionary accruals which by extension improves on quality of financial reporting.

The study recommends against this backdrop that audit firms should charge reasonable fees that will cover their audit assignment so as to be able to carry out a thorough audit work. In light of this, low balling of audit fee should be discouraged.

Further, the Financial Reporting Council of Nigeria (FRC) and other regulatory bodies should increase the three years mandatory professional requirement for auditors so as to encourage longer auditor tenure thus improving the working relations between the auditors and firm and enhance better understanding and client industry experience.

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