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Audit Quality and Financial Reporting Quality of Quoted Manufacturing Firms in Nigeria

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Abstract. The quality of financial reports has been a contemporary discuss in accounting and finance literature as it is capable of helping investors or the users of financial statement to make timely and informed economic decision. Financial statement should portray features like relevance, faithful understandability and timeliness. The reporting quality from literature is seen not to possess the relevant qualities as expected which has become worrisome for investors and stakeholders. The study investigated the effect of audit quality on the financial reporting quality of quoted manufacturing firms listed in Nigeria, employing a survey research design. The population of interest consisted of 250 auditors and accountants, with a sample size of 201 selected using the Taro Yamane Formula and purposive sampling. Data were gathered through a well-structured questionnaire and analyzed using both descriptive and inferential statistics. Findings revealed that audit quality had a significant impact on the relevance of financial reports (Adj. $R^2 = 0.766$; $F = 99.565$; $p = 0.00$) and also notably influenced the faithful representation of financial reports (Adj. $R^2 = 0.598$; $F = 47.930$; $p = 0.00$). The study concluded that audit quality plays a critical role in enhancing the financial reporting quality of listed manufacturing firms in Nigeria. The study recommended that management should prioritize the presentation of financial reports to improve their relevance to users.

Keywords: Audit Quality, Financial Reporting, Financial Statement, Faithful Representation, Relevance, Understandability

1. Introduction

Quality of financial statement has been publicly discussed as a result of it remains the major way of communication between the investors and the stakeholders. The reports shared with shareholders and stakeholders are expected to reflect the true financial position of the entity. However, whether the information in these reports is faithfully represented and the relevance of the accounting figures they contain is another matter entirely. A sure way to communicate financial information to the stakeholder is true effective and efficient financial report; this is the means of check and balance available for the managers with their agents (Shahanif et al., 2020). The standard of accounting information within an organization influences the caliber of its reports (Herath et al., 2017).

Sound decision-making depends on the quality and utility of accounting information, which is reflected in the value relevance of the data in financial statements. Soni and Imang (2019) looked at the issues related to financial report quality as a result of information gaps between the manager and stakeholders. These gaps frequently lead to mistakes and misleading expectations that result in litigation, so they pose an external factor that prevents managers from performing at their best. According to Hanna and Ivan (2021), non-financial reporting frequently causes friction with current social and environmental issues because it only enables stakeholders to make wise decisions.

As a means of check and balancing, audit services are the tools to embrace the credibility of the company's performance so as to allow the stakeholders to evaluate their performance over the years, which in return will help them to build confidence and to make future economic, investment and finance decisions (DeAngelo, 1981 as cited in Thuweba 2014). Olusegun (2016) opined that the bedrock of audit as a profession is auditor's independence, public built their trust on an audited financial statement, hence, on the job, the independence of the auditor allows them to perform their task and to pass their professional judgment on the company under watch (Thuweba, 2014).

Financial statements speak for management of those organizations because those figures on the financial statement speak for them. Meanwhile, reporting of those figures on the financial statement are not credible until an independent auditor performs independent examination on it and certify that in his opinion, the statement passes the test of time and it is therefore, useful for the stakeholders for various finical decisions. Amanda et al., (2020) opined that audit independence aims at authenticate the reliability of fact and figures presented in the financial statement which is a process of analyzing and validating the statement of accounts and journals, vouchers and assets presented by the management to the auditor which is aiming at checking whether the books are kept and the useful and necessary accounting principles are employed.

Emmanuel and Siriyama (2016) in their opinion see auditor's independence as a matter of honesty which an auditor wear while discharging his duty. While discharging his professional duties, auditors are expected to maintain his or her independence in such a way to avoid conflict of interest whatsoever with his or her clients. Investors depend largely on the auditor's report as this show how credible the financial statement therefore, auditors are to appear independent at all times.

With the growing concerns and recent crises affecting banks, many questions have arisen regarding the quality of financial reports used and practiced by companies globally. For example, auditors may hold different views on the current laws surrounding auditor independence compared to other users of financial statements (Fredrik & Patrik, 2012). Despite these differing perspectives, it is crucial that financial statements are faithfully represented, comparable, and verifiable before being released, in order to maintain users' trust and confidence in the reports.

This study's main goal was to investigate how the quality of audits affected the financial reporting of Nigerian manufacturing companies that were quoted. Among the particular goals are:

- Assess the impact of audit quality on the applicability of financial reporting for Nigerian manufacturing companies that are listed.
- Examine the effect of audit quality on the faithful representation of financial reporting of quoted manufacturing firms in Nigeria.

The following hypotheses were formulated:

$H_0$1: Audit quality does not have significant effect on relevance of financial reporting of quoted manufacturing firms in Nigeria.
$H_0$2: There is no significant effect of audit quality on faithful representation of financial reporting of quoted manufacturing firms in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Financial Reporting Quality

To give stakeholders a comprehensive picture of the entity's financial stewardship, financial reporting entails the collection, analysis, categorization, and summarization of financial operations over a time period, usually a year (Bastani, 2020). Jonas and Blanchet (2020) described financial reporting as the faithful transmission of accounting information. They emphasize that financial reporting outputs include not only disclosures of corporate transactions but also the selection of accounting policies and judgments. In light of this, a global benchmark has been recommended by the International Public Sector Accounting Standards (IPSAS) for government financial reporting.

Financial analysts and stock market agents first proposed the concept of quality reporting, arguing that reported earnings could not necessarily be an accurate representation of a company's true profitability. The International Accounting Standards Board (IASB) defined financial reporting quality by the faithful representation of financial data and the complete disclosure of all relevant information. These characteristics ensure that financial information is reliable for making informed investment decisions. Therefore, financial reports must be timely, verifiable, understandable, comparable, and faithfully presented.

2.1.2 Relevance

The International Accounting Standards Board (2018) defined relevance as the provision of useful information to decision-makers, which can be predictive or confirmatory depending on the context. According to the International Public Sector Accounting Standards Board (IPSASB, 2019), for information to be relevant, it must aid users in making sound economic decisions. Financial statements, non-financial data, fair worth as opposed to historical value, and user feedback can all be used to determine relevance.

According to the Conceptual Framework for Financial Reporting (2018), financial data remains relevant to decision-makers if it has the potential to influence their decisions, whether or not they decide to depend on it or have already come across it in another way. This relevance is established when the information offers forward-looking insights, validation of past events, or a synergy of both predictive and confirmatory attributes, ensuring it plays a pivotal role in guiding financial decisions.

Similarly, assets, liabilities, equity, revenue, and costs are important components of financial statements, according to the Australian Accounting Standards Board (2018). Even though acknowledging these components does not guarantee relevance, doing so does not imply that the information is not significant.

2.1.3 Faithful Representation

Ahmed et al., (2018) in their opinion said faithful representation is detailed summarized information listed on the financial statement and are faithfully represented. Abang (2017) opined that for information to be faithful and reliable it should be free from any form of biases and it should be neutral. It should be noted that the provider of financial information should provide useful and essential financial information to the users without omission or error. IASB (2018) also stated that to recognize a specific asset or liability, it must provide relevant and useful information relevant to faithful representation of asset or liability and of any resultant income, expenditure or changes in equity.

IASB (2018) stated that financial report represents economic phenomena both in words and numbers. Adding that for it to be useful, financial information is expected to faithfully represent both the relevant phenomena and material occurrence that it meant to represent. The expected features to be seeing in faithful representation are completeness, neutrality, and error free. The idea of showing and presenting the actual economic situation of a company's financial position that has been reported which explains the impact of economic resources, transactions and events which are dully represented in the financial statement (Siriyama & Norah 2017). Organizational role on the account of faithful representation cannot be underemphasized as they are controlled and directed which affects faithful presentation qualities. When there is comprehensive disclosure information on corporate governance issues in annual reports, this is in reality provided as a corporate governance component (Beest et al., 2009) as cited by (Siriyama & Norah, 2017).

2.1.4 Audit Quality

The probability that an auditor will find and disclose any anomalies in a client's accounting system is known as audit quality. This definition underscores that audit quality extends beyond technical expertise and accounting skills, emphasizing the auditor's integrity and willingness to report material irregularities. Ahmad (2012), as referenced by Gana et al., (2020), asserted that integrity is foundational to the accounting profession. The Independence Standards Board (2000) echoed this, defining auditor independence as freedom from biases that may influence an auditor's ability to make impartial judgments.

Naslmosavi et al., (2013) further highlight that timely auditor responses regarding financial statements enhance stakeholders' confidence. Auditor independence has long been recognized as an effective tool for addressing discrepancies in financial statements by ensuring objectivity, reliability, and timely reporting (Ndubuisi & Ezechukwu, 2017).

According to Ahmad (2012), the foundation of the auditing profession is integrity. The Independence Standards Board (2000) elaborated on this by noting that independence means freedom from constraints that might affect an auditor's ability to make unbiased judgments. When auditors provide timely opinions, it boosts confidence in financial reports. This independence is crucial in reducing information asymmetry by offering reliable, objective assessments of financial statements. Ndubuisi and Ezechukwu (2017) emphasized that auditor independence reflects an impartial and rational approach to financial reporting, with some scholars, like Albeksh (2017), asserting that independence is a defining characteristic of auditors.

2.1.5 Non-Audit Services

Yakubu and Williams (2020) opined that economic relationship between the management and the auditors is at increase over the time which its resultant is the length collaboration. Non audit services (NAS) has been discussed widely among the professional as well as the regulators in the industry in terms of the auditors' independence and quality of financial statement. In countries like United States and United Kingdom, there are rules in place to limit Non-Audit

Services provisions by audit firms. Several scholars, including Khasharmeh and Desoky (2018); Van Liempd et al., (2018); and Meuwissen and Quick (2019), have contended that the blending of Joint Audit Services with Non-audit Services will unavoidably undermine auditor independence. In a parallel vein, Chu and Hsu (2018) explored the connection between non-audit services and accounting conservatism in the periods preceding and following the enactment of the Sarbanes-Oxley Act (SOX). They found that non-audit services negatively impacted earnings quality prior to the enactment of SOX, but that the lack of a decisive conclusion on non-audit services delivery had an impact on audit quality. Chambers and Payne (2015) argued that when auditors provide non-audit services to their clients, it strengthens their economic relationship, which in turn could jeopardize the auditors' independence.

2.1.6 Audit Firm Size

Ye (2020) opined that the impact of firm size on audit fees is felt as a result of expansion in audit firm, division of labor set in specific ways thereby, this will enhance work efficacy, fixed cost distributed across department will be reduced, by the way, cost reduction is achieved and in the other way round, the quality of services deliverable will be enhanced, therefore, since the quality services has been discharged, the expected return will be high cost for the task which is expected to be on the high side. Summarily, the law of demand and supply will fall in: the higher the audit quality, the higher the fees charged.

Bandyopadhyay and Kao (2001) opined that in most cases, most accounting firms enjoy goodwill which attract higher audit fees quote. He further stated that most listed companies are ready to pay bit higher than average fees to audit firms with higher goodwill. Hence, the firm with higher audit quality deliverable services, the more realistic information produced to the users of financial information. Seyedhossein et al., (2013) argued in their discussion on audit independence that the quality of an audit should not be judged by the size of the audit firm. They rejected the notion that smaller firms are less capable and emphasized that larger audit firms tend to be more independent and produce more robust audit reports. On the other hand, Bakar (2005) suggested that the size of an audit firm can indeed influence auditor independence, with studies showing that larger firms are more likely to maintain their independence compared to smaller ones. The size of the audit firm sometimes enhances the auditor’s reputation as it enables them to withstand any form of intimidation from managers and directors/client.

3. Theoretical Review

3.1 Signaling Theory

The widespread acceptance of signaling theory, which was first proposed by Michael Spence in 1973, can be partially attributed to its intuitive nature. When a journalist once asked Spence whether one could earn a Nobel Prize in Economics for merely observing that in some markets, certain participants lack information that others wish to communicate, Spence humorously acknowledged that the answer was likely "no." However, his work marked a significant effort to address how information flows within market structures. The theory’s significance lies in assigning costs to the process of acquiring information that resolves information asymmetries across various economic and social contexts. Several scholars have critiqued this theory, pointing out that power is not equally distributed, as it often resides within institutions rather than individuals (Gray et al., 1996). Others, like Penno (1997) and Nagar (1999), suggested that non-disclosure may occur because managers lack the necessary information or are uncertain about how disclosure will impact their performance.

The theory’s core premise is that information asymmetry can be minimized when those with more information signal it to others, particularly in markets where there is a separation of ownership and management. Market pressures compel managers to disclose information, as they typically know more about the company than owners and investors. This theory is relevant to the study of manufacturing firms, as it emphasizes the importance of providing information that allows stakeholders to form informed opinions about the firm's values and future direction.

3.2 Stakeholders’ Theory

Building upon the foundational concepts of stakeholder theory that emerged in the 1970s, Freeman (1984) broadened its scope, advocating for a more inclusive approach to corporate accountability. He maintained that companies have responsibilities to a wide range of stakeholders, including governments, local communities, environmental concerns, upcoming generations, and customers, suppliers, and employees, in addition to their shareholders. King (2002) further underlined how important integrated sustainability reporting is to strengthening the mutually beneficial relationship between a company and its larger social context. He cautioned that disregarding the interests of these various stakeholders might seriously harm a business's standing and jeopardize its long-term operational and financial viability.

Unlike agency theory, which centers on the relationship between shareholders and management, stakeholder theory views organizations as systems that must address the interests of multiple groups within their environment (Lawal, 2012). It suggests that companies cannot operate in isolation and must engage with their wider environment, considering the needs of various stakeholders like employees, customers, suppliers, and local communities in strategic decisions. Organizations should therefore take into consideration the expectations of other stakeholders in addition to generating shareholder value. The notion promotes sustainability reporting and practices as a means for businesses to fulfill their social and ethical obligations while simultaneously increasing shareholder income.

4. Empirical Review

Several prior studies on the effect of audit quality on financial reporting quality of quoted manufacturing firms in Nigeria. Some of the studies incorporated various cost benefit analysis tools in analyzing the impacts and effects on audit quality on financial reporting quality in Nigeria.

A study by Riccardo et al., (2020) titled "Auditor Independence and Value Relevance in the European Banking Sector: How Important Are Investor Protection and Corporate Governance?" looked at how statutory auditor independence affected value relevance while taking into account the quality of investor protection at the firm and national levels. The study examined 98 listed European financial institutions between 2009 and 2014, and the results showed that differences in corporate governance and investor protection did not always result in a decrease in the value relevance of accounting numbers, even when auditor independence was compromised. In the Netherlands, Ferdy (2019) carried out research on "Quality of Financial Reporting: Measuring Qualitative Characteristics." In order to meet a requirement issued by the FASB and IASB (2008), this study aimed to enhance the evaluation of financial reporting quality by operationalizing qualitative features.

Rahman and Tracey (2020) conducted research in Nigeria while examining "A Theoretical Approach to Auditor Independence and Audit Quality." According to their findings, audit costs frequently reflect the extra work necessary for comprehensive audits, and auditor independence improves audit quality. A study named "Financial Reporting Quality: A Literature Review" was carried out by Siriyama and Norah (2017) from Clark Atlanta University. Nevertheless, the sample size was too little to make firm judgments. Agwor and Okafor (2018) investigated "Accounting Ethics and Financial Reporting Quality in Tourism and Hospitality Enterprises in Rivers State." To improve adherence to ethical norms in financial reporting, the study suggested that corporate entities set up ethics compliance divisions.

Oyetunji et al., (2020) investigated how sustainability reporting influences the accuracy and integrity of accounting information in Nigeria’s publicly traded deposit money banks. The study employed an ex post facto research approach to assess this relationship. The study analyzed data from 13 of the 21 listed banks on the Nigerian Exchange Group over a 15-year period. The results, derived from descriptive and inferential statistics (multiple regression), indicated that sustainability reporting positively influences the faithful representation of accounting information.

Joe (2020) conducted an inquiry into the nexus between audit independence and the credibility of financial reporting within the Nigerian banking sector, employing a survey-based methodology. Primary data were gathered and subjected to analysis via descriptive statistics (mean and standard deviation) in conjunction with inferential techniques such as regression and correlation. The study's conclusions indicated that auditor independence significantly influences the clarity, reliability, and faithful representation of financial statements within the sector. Meanwhile, Okezie and Egeolu (2019) undertook a longitudinal investigation of audit independence and financial report reliability in Nigerian banks across a five-year span (2014–2019). Utilizing data from four banks listed on the Nigerian Stock Exchange, their research adopted an ex post facto design and employed multivariate linear regression. Their findings revealed that audit independence had a minimal effect on the timeliness of financial reporting.

Ogbodo and Jiagbogu (2021) conducted an empirical study on Nigerian banks, using an ex post facto research design that covered 11 years (2011-2019). Secondary data was analyzed through regression analysis using E-views version 9. The study concluded that the size of an audit firm significantly influences the timeliness of financial reports, as auditors rely on client cooperation to adjust reporting timelines. Novie and Leny (2018) investigated the impact of audit firm size on audit quality and the reputation of public accounting firms in Indonesia. Their findings indicated that audit quality significantly affects the reputation of these firms and is also influenced by audit firm size. Aliu et al., (2018) published a study titled "Auditor's Independence and Audit Quality: An Empirical Study," conducted in Nigeria. The research highlighted the need for regulation and disclosure of all components related to audit fees to enhance public understanding of auditors' financial dependence on clients and ensure that fees align with audit complexity. The study employed correlation matrices, descriptive statistics, and binary logit regression techniques to reach its conclusions.

5. Research Methodology

In order to concentrate on the study's population and sample, the survey research design was used. 168 manufacturing companies that were quoted on the Nigerian Exchange Group (NGX) as of December 31, 2022, make up the study's population. A systematic questionnaire with five scales was used to gather the data.

The sample strategy used was proportionate, stratified, and simple random sampling. Using the Taro Yamani methodology, the sample size from the 28 chosen firms was 201. The anticipated 201 respondents were chosen from among the senior accountants in the internal audit and bursary departments.
Taro Yamane formula:
Where:

n= sample size
N = Finite population size which is 250
e = Maximum acceptable error Margin which is 5% (0.05)
Confidence level = 95%
Therefore;
n=153.8 approximately 154
Allowing for 30% non-respondents
Sample size: 30/100 * 154= 46.2
Sample size: 46.2+ 154= 200.2 approximately 201

Model Specification
Y = f(X) ----------------------------- (1)
Y= Dependent Variable
X = Independent Variable
Where: Y = Financial Reporting Quality (FRQ)
y_1 - Relevance (REL)
y_2 - Faithful Relevance (FR)
X = Audit Quality (AQ)
x_1 - Audit Firm Size (AFS)
x_2 - Non-Audit Services/Non-Audit Fees (NAS)
RELi = β0 + β1AFSi + β2NASi + ei -------- Model 1
FRi = β0 + β1AFSi + β2NASi + ei -------- Model 2
Where;
β0 = Constant,
β0, β1, β2, β3, β4 = Model coefficients,
i = Number of sampled firms
e = stochastic error term which is representing other variable that could cause a variation on the dependent variable which are not stated in the model.

6. Results and Discussion of Findings

Table 4.1: Descriptive Analysis

Variable		Frequency	Percentage %
Gender	Male	102	53.7%
	Female	88	46.3
	Total	190	100
Age	10 to <20	-	
	20 to <30	-	
	30 to <40	51	26.8
	40 to <50	95	50
	50 and above	44	23.2
Total		190	100
Academic Qualification	OND/NCE	-	-
	HND/BSc	79	41.6
	MSc/MBA/PHD	111	58.4
	Others	-	-
Total		190	100
Position Occupied	Senior Manager (Upper Level)	108	56.8
	Manager (Middle Level)	-	-
	Asst. Manager (Lover Level)	-	-
	Others	82	43.2
	Total	190	100

Duration	Less than 5years	51	26.8
	5-10 years	130	68.4
	Above 10years	9	4.7
	Total	190	100

Source: *Author's Field Survey (2024)*

Table 4.1 showed that male population was 102 which amounted to 53.7% while 88 females of the respondents representing 46.3% participated in the research. This showed that many employees of the Audit, Bursary and Management staff are male.

As for the of the respondents, people within age 30-40 were 51 representing 26.8%, age 40 to 50 were 95 representing 50% and 50 years and above were 44 representing 23.2%. In addition, holders of HND and BSc were 79 respondents representing 41.6% while MSc/MBA and PHD were 111 respondents representing 58.4% of the population sampled. This means the actual targeted respondents were met.

In respect to the position held, it showed that 108 of the respondents were senior Managers (Upper Level) representing 56.8% and others were 82 respondents representing 43.2%. For the duration of years, those who are less than 5 years were 51 representing 26.8%, for 5 to 10 years, were 130 respondents representing 68.4% while for those above 10years respondents were 9 representing 4.7%.

Test of Hypothesis One

Table 4.2: Result of Regression Estimate Test for Hypothesis One

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.875[a]	.766	.758	.63102	.766	99.565	6	183	.000

Predictors: (Constant), AFIS, AFS, AT, NAS, AF

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	237.874	6	39.646	99.565	.000[b]
	Residual	72.869	183	.398		
	Total	310.742	189			
a. Dependent Variable: RL						
b. Predictors: (Constant), AFIS, AFS, AT, NAS, AF						

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.029	.660		-3.075	.002
	AT	.334	.040	.312	8.355	.000
	AF	.250	.030	.393	8.389	.000
	NAS	-.035	.021	-.064	-1.665	.098
	AFS	-.048	.025	-.082	-1.961	.051
	AFIS	.114	.038	.110	2.964	.003
	R^2	.766				
	Adjusted R^2	0.758				
	F stats	99.565				

Dependent Variable: Relevance

Source: Author's Computation (2024)

$RL= \beta 0 + \beta_1 AT + \beta_2 AF + B_3 NAS + B_4 AFS + B_5 AFIS$

RL= -2.029 + 0.334AT + 0.250AF -0.035NAS + -0.048AFS + 0.114AFIS.

Interpretation

Table 4.2 demonstrates that the relevance of financial reporting is significantly impacted by audit quality. (β=.0334, t=8.355, P=0.000) in the regression analysis. The findings revealed a comprehensive multiple regression analysis examining the influence of audit quality on the relevance of financial reports. The results indicated that the linear relationship between audit quality and relevance positively affects financial reporting, as evidenced by the standardized coefficients and T-statistics. Additionally, the model demonstrated that relevance significantly impacts financial reports ($p<0.05=0.000$, Adj. $R^2=0.758$, $F=99.565$).

In summarizing the initial model, the adjusted coefficient of determination was found to be 0.758, suggesting that 75.8% of the variability in relevance can be attributed to the quality of financial reports, which encompasses audit tenure (AT), audit fee (AF), non-audit services (NAS), audit firm size (AFS), and audit firm industry specialization (AFIS). The remaining 24.2% of the variation in relevance is attributable to other factors not incorporated into the model.

Notably, audit tenure exhibited a significant influence on financial report quality ($\alpha=0.334$, $t=8.355$, $p=0.00$), while audit fees also had a substantial effect ($\alpha=0.250$, $t=8.389$, $p=0.000$). In contrast, non-audit services demonstrated a significant negative effect ($\alpha= -0.035$, $t=-1.665$, $p=0.98$), and audit firm size had a negligible impact ($\alpha=-0.048$, $t=-1.961$, $p=0.51$). Conversely, audit firm industry specialization was found to significantly influence financial report quality ($\alpha=0.114$, $t=2.964$, $p=0.003$).

Decision: At a significance level of 0.05, the ANOVA F-statistic is 99.565, with a p-value of 0.000, which is less than the 0.05 threshold used in this study. Consequently, the null hypothesis is rejected in favor of the alternative hypothesis. This implies that audit quality has a statistically significant and positive impact on the financial reporting of listed companies in Nigeria.

Test of Hypothesis Two

Table 4.3: Result of Regression Estimate Test for Hypothesis Two

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.782[a]	.611	.598	.71701	.611	47.930	6	183	.000

a. Predictors: (Constant), AFIS, AFS, AT, NAS, AF

ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	147.848	6	24.641	47.930	.000[b]
	Residual	94.082	183	.514		
	Total	241.930	189			

a. Dependent Variable: FR
b. Predictors: (Constant), AFIS, AFS, AT, NAS, AF

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.092	.750		14.790	.000
	AT	-.161	.045	-.170	-3.534	.001
	AF	-.253	.034	-.450	-7.463	.000
	NAS	-.062	.024	-.128	-2.596	.010
	AFS	.045	.028	.087	1.619	.107
	AFIS	-.408	.044	-.446	-9.371	.000
	R^2	0.611				
	Adjusted R^2	0.598				
	F stats	47.930				

a. Dependent Variable: FR

Dependent Variable: Faithful representation
Source: Author's Computation (2024)

$FR= \beta 0 + \beta_1 AT + \beta_2 AF + B_4 NAS + B_5 AFS + B_6 AFIS$

$FR= 11.092+ -0.161AT + -0.253AF -0.062NAS + 0.045AFS + -0.408AFIS$

Interpretation

Table 4.3 shows that audit quality has a significant effect on faithful representation of financial reporting. The regression analysis indicated a significant relationship between audit quality and the faithful representation of financial reports (β = -0.161, t = -3.534, p = 0.001). This suggests that the combination of audit quality and faithful representation positively affects financial reporting, as evidenced by the standardized coefficients and t-statistics. Furthermore, the model demonstrates that faithful representation significantly enhances financial report quality in public universities ($p < 0.05$, Adj. $R^2 = 0.598$, F = 47.930).

From Table 4.2.2, the model summary shows that the adjusted R^2 is 0.598, indicating that 59.8% of the variation in faithful representation can be attributed to audit quality, while the remaining 40.2% is due to other unmeasured variables. The analysis reveals significant effects of various factors on audit tenure:
Audit quality (α = -0.161, t = -3.534, p = 0.001), Audit fee (α = -0.253, t = -7.463, p = 0.000) Non-audit services (α = -0.062, t = -2.596, p = 0.010). Audit firm size (α = -0.045, t = -1.619, p = 0.107) Audit firm industry specialization (α = 0.408, t = -0.446, p = 0.000)

These results suggest that an increase in audit fees correlates positively with audit quality.

Decision: With a significance level of 0.05, the ANOVA F-statistic of 47.930 yields a p-value of 0.000, which falls below the established threshold of 0.05 for this study. Consequently, the null hypothesis is dismissed, and the alternative hypothesis is affirmed. This finding suggests that audit quality exerts a meaningful and positive influence on the financial reporting quality of publicly traded firms in Nigeria.

7. Discussion of Findings

In Model 1, the results indicate that relevance substantially influences non-audit services, which in turn has a marked impact on audit tenure (α = -0.035, t = -1.665, p = 0.98). Furthermore, audit firm size significantly contributes to audit tenure (α = -0.048, t = -1.961, p = 0.51), suggesting that extended audit tenure enhances audit quality in public universities across southwest Nigeria. In a parallel study, Riccardo et al., (2020) explored the interplay between audit quality and value relevance in the European banking sector, with a particular focus on the influence of investor protection mechanisms and corporate governance structures on the observed outcomes. Their research assessed the degree to which statutory auditor independence affects value relevance by comparing it to the quality of investor protection at the national level and corporate governance at the firm level. This analysis was based on a sample of 98 publicly listed European financial institutions over the period from 2009 to 2014.

In Model 2, the summary shows an adjusted coefficient of determination of 0.611, meaning that 61.1% of the variation in faithful representation is attributed to financial reporting quality, while the remaining 38.9% is explained by other factors not included in the model. Non-audit services significantly impact financial reporting quality (α = -0.062, t = -2.596, p = 0.010), while audit firm size also has a notable effect (α = -0.045, t = 1.619, p = 0.107). Novie and Leny (2018) investigated the effect of audit firm size on audit quality and the reputation of public accounting firms in Indonesia. Their findings suggest that audit quality significantly influences the reputation of public accounting firms and also has a considerable impact on audit firm size.

8. Conclusion and Recommendations

The study concluded that audit quality significantly enhances the financial reporting quality of publicly listed firms in Nigeria.
Based on the findings, the following recommendations were made:
In order to facilitate better economic decision-making, management should guarantee that users receive financial information in a timely manner. The timely release of financial statements must therefore be a top priority for businesses.
Firms' management should present financial reports in a way that increases their relevance and utility to the intended audience, ensuring they are clear, accessible, and actionable.
The management should ensure that those preparing the financial statement should present it in an easy way that will be understood by the users. Manufacturing firms should imbibe the culture of presenting the financial statement in such a way to show transparency to the users of financial statement.

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