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AUDIT FIRM CHARACTERISTICS AND FINANCIAL REPORTING QUALITY OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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Abstract

This study explores the impact of audit firm characteristics and financial reporting quality of listed industrial goods firms in Nigeria. This study uses data from eleven (11) selected firms from 2014-2023.The data were sourced from annual report of listed Industrial goods firms. Multiple regression was used to analyze the data sourced. The study revealed that audit firm independence has a positive and significant impact on financial reporting quality. The impact between audit firm tenure and financial reporting quality was found to be positive but insignificant. However, the audit firm size was found to be positive and significantly related to financial reporting quality. Therefore, the study recommended that industrial goods firms should prioritize investing in measures that strengthen audit firm independence, such as stricter auditor rotation policies and reduced non-audit services. Regulators should also enforce stronger requirements for auditor independence to ensure unbiased financial assessments. Larger audit firms may be associated with better financial reporting quality due to their greater resources, expertise, and robust quality control processes. While longer audit engagements may not significantly impact audit effectiveness, firms should still monitor their audit firm's performance to prevent over-familiarity or complacency.

Keywords: audit firm characteristics, financial reporting quality, listed industrial goods firms

1. Introduction

Financial reporting quality can differ significantly from one company to another. As a result, being able to evaluate the quality of a company's financial reporting is a crucial skill for financial analysts. When financial reporting quality is low, it serves as a red flag for analysts to exercise heightened caution and skepticism. In line with International Accounting Standard Board (IASB), the goal of financial reporting revolves around provision of quality-embedded financial information about reporting entities helpful in making decision (Alwardat, 2019). Furthermore, this will guide the suppliers of capital and other interest groups to make appropriate investment and other related economic and financing decisions to deepen general market efficiency (Herath & Albarqi, 2017).

An appropriate accounting policy that guides the preparation of financial reports are decided by the management who could be subjective in its recognition, measurement and allocation of values to some items of expenditure and revenues in the financial statements (Farouk, 2014). However, this could defeat the purpose of such disclosed information as to its adequacy, fairness and completeness (Aifuwa Et al., 2018; Alwardat, 2019; Mstoi, 2020). As a regulatory and supervisory requirement, as well as a practice of great public interest to internal and external users of financial information, external audit plays a critical role in establishing quality financial reporting (Ibrahim & Ali, 2018; Itoro & Daferighe, 2019). The external audit of financial statement thus provides an oversight function by minimizing the information gap and protecting the interests of its diverse stakeholders, which is carried out by providing reasonable assurance that material misstatements do not occur in the financial statements (Aledwan et al.,2015 & Alwardat, 2019).

Financial reporting quality can be seen as the accuracy and completeness of a company's financial information. High-quality financial reporting is important for investors, creditors, and regulators to make decisions. Financial reporting quality varies across companies. The ability to assess the quality of a company's financial reporting is an important skill for analysts. Indications of low-quality financial reporting can prompt an analyst to maintain heightened skepticism when reading a company's reports, to review disclosures critically when undertaking financial statement analysis, and to incorporate appropriate adjustments in assessments of past performance and forecasts of future performance. However, the ability of auditors to discover and disclose the opportunistic behaviour of managers, manifested by ways of earnings management in the financial report depends on the attributes of the auditor (DeAnglo, 1981; Dechow & Dichev, 2002). In addition, regulatory bodies require audited financial statements to ensure the quality of financial reports and protect investor interests.

Audit firm characteristics are crucial in ensuring the quality and reliability of financial reporting. Effective audits act as a safeguard against financial misstatements maintaining the credibility and integrity of financial statements (Oyedokun et al., 2020). The attributes of audit firms, such as independence, tenure, and size, and, consequently, the quality of financial reports. Strong and independent audit firms with sufficient expertise and resources can enhance the accuracy and reliability of financial reporting by ensuring adherence to established accounting standards and principles.

Understanding the relationship between audit firm characteristics and financial reporting quality is vital for promoting corporate governance, reducing financial scandals, and fostering investor confidence (Ugwu et al., 2020). Moreover, the increasing demand for transparency and accountability in financial reporting highlights the need for audit firms to adopt innovative technologies, such as artificial intelligence and data analytics, to enhance audit quality and effectiveness. This will enable audit firms to provide more robust assurances on financial reporting, ultimately contributing to the stability and integrity of the financial markets.

Audit firm Independence is the ability of an audit firm to maintain its objectivity and impartiality when conducting audits of a company's financial statements. Independence of auditors is essential to ensure that the audit firm provides an unbiased opinion on the fairness and accuracy of the financial statements crucial to maintaining the integrity of the audit process. Audit firms must be aware of the threats to independence and implement safeguards to mitigate these threats. The issue of lack of independence of auditors in clients' relationship could encourage misstatements in financial statements of an organization.

Audit firm tenure is the length of time an audit firm has been engaged to provide audit services to a client. In other words, it is the duration of the audit firm's relationship with the client. Longer audit firm tenure can lead to increased familiarity with the client's business and operations, which can improve audit quality and financial reporting (Qawqzeh et al. ,2018).

Audit firm Size can impact financial reporting quality, with larger firms potentially offering greater expertise and resources, but also facing challenges such as bureaucratic inefficiencies and potential conflicts of interest. In other larger audit firms tend to have more resources, expertise, and reputation at stake, which can lead to higher-quality audits and financial reporting (Hope & Langli, 2010).

Recent financial crises have underscored the importance of promoting high-quality financial reporting practices. The auditing profession has faced criticism for its role in these crises, with high-profile cases like Enron in 2001, WorldCom in 2002 and Cadbury Nigeria Plc in 2016 raising concerns about auditor competence and integrity. These incidents have sparked questions about the effectiveness of audits and the reliability of financial reports. Moreover, the increasing complexity of financial transactions and the rise of emerging technologies, such as artificial intelligence and blockchain, have created new challenges for auditors and regulators. Therefore, it is essential to develop and implement innovative auditing techniques and regulatory frameworks that can effectively address these challenges and promote transparency, accountability, and trust in financial reporting.

Various studies have examined audit firm characteristic and financial reporting quality in different contexts and countries (Abdulrahman et al., 2019; Oladejo et al., 2020; Qawqzeh et al., 2018; Umaru, 2014). This study contributes to the literature by providing insights into the Nigerian context, thereby filling the environmental gap created by previous studies. While previous studies have largely focused on banking systems, there is a noticeable gap in research addressing the impact of audit firm characteristics on the financial reporting quality of industrial goods firms in Nigeria. Given the vital role that reliable financial reporting plays in investment decisions, addressing the audit firm characteristics within this sector is essential for ensuring transparency, corporate integrity, and investor confidence.

The broad objective of the study is to determine the effect of audit firm characteristics on financial reporting quality of listed industrial good firms in Nigeria. The specific objectives are to:

(i) Determine the effect of Audit firm independence on financial reporting quality of listed industrial goods firm in Nigeria.
(ii) Determine the effect of Audit firm tenure on financial reporting quality of listed industrial goods firm in Nigeria.
(iii)Examine the effect of Audit firm Size on financial reporting quality of listed industrial goods firm in Nigeria.

The following hypotheses in null form were formulated and tested in this study:

H$_1$ Audit firm independence has no significant impact on financial reporting quality of listed industrial goods firms-in Nigeria.

H$_2$: Audit firm tenure has no significant impact on financial reporting quality of listed industrial goods firms in Nigeria.

H$_3$: Audit firm size has no significant impact on financial reporting quality of listed industrial goods firms in Nigeria.

The findings of this study are of particular importance to various parties. The significance of this study can be observed in several ways to include: regulators may find the findings valuable for future policy formulation in Nigeria and other countries; investors may seek information to make informed investment decisions; researchers and academics may understand the role of various audit firm characteristics in addressing conflicts of interest between shareholders and management; and managers would have a guide to improving the quality of reported earnings. Nevertheless, the study examined audit firm characteristics and financial reporting quality of listed industrial goods firms in Nigeria from 2014-2023.

2. Literature Review

Conceptual Framework

The conceptual framework highlighted the independent variables and dependent variables. Figure 1 below represent the conceptual framework of the study.

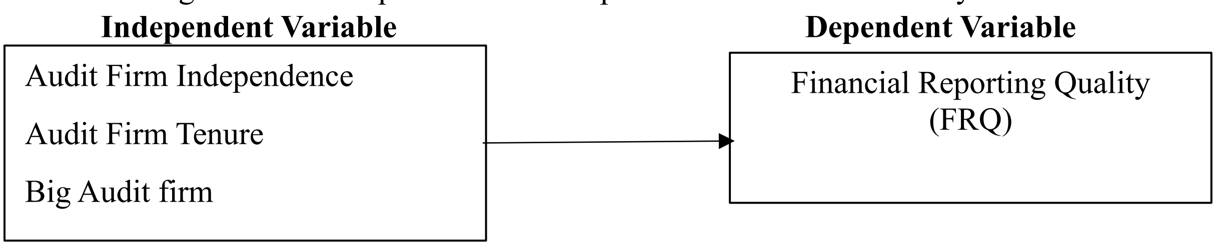

Figure 1. Conceptual Framework of the study

Source: Generated by the Researcher, 2025

Concept of Financial Reporting Quality

Financial reporting quality is concerned with the idea of shareholder's protection. Hence, the process of communicating economic measurement, obligation, and accounting information about the resources and performance of reporting entities to those having realistic rights to such information to facilitate informed judgments and decision making (Kwanbo, 2020).

Gholami et al (2020) defined financial reporting as the reporting of financial statements and other information disclosed by a business unit to third parties, such as shareholders, creditors, customers, governmental organizations and the general public. Undoubtedly the most important element of financial reporting is the usefulness of financial reporting. Financial reports must be relevant, reliable, and understandable.

Financial reporting quality describes the capability of the quantitative data factored in financial reports to convey the right facts of the company to the users without bias. The reports should reveal the financial standing of the reporting entity with respect to net earnings, resources held for income generation, liabilities among others (Abdulrahman et al., 2019). Quality of financial reporting implies how well an audit is able to detect and document any material misstatements in corporate financial reports (Soyemi & Olawale, 2019). 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 (Akpan, & Nsentip, 2020).

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. This study however, define financial reporting quality as the presentation of financial statement in such a way that it is free of misstatement, presenting the true and fair financial performance of an organizations to enable stakeholders make a sound business decision.

Audit Firm Characteristics

Oyedokun, (2020) defined audit firm characteristics as the specific attributes and features of an audit firm, such as its independence, tenure, and size, that influence the quality of its audit services. These characteristics play a crucial role in ensuring the reliability, accuracy, and transparency of a firm's financial reporting. Audit firm characteristics are the distinguishing factors, including the firm's objectivity, resources, and experience, that affect the auditor's ability to provide high-quality audit services. These attributes determine the audit firm's capability to effectively evaluate a company's financial statements and internal controls, thus ensuring stakeholder confidence (Daferighe & George, 2020).

Audit firm characteristics are the key attributes inherent to an audit firm that significantly influence the quality of its audit services and the reliability of a firm's financial reporting. These characteristics help bridge the gap between management and external stakeholders by ensuring that financial statements are accurate, free from material misstatements, and compliant with accounting standards. They play a critical role in building trust and confidence in the audited financial reports, which are essential for maintaining transparency and accountability within organizations. Among the key attributes are audit firm independence**,** tenure**,** and size. Independence is crucial for ensuring objectivity, as auditors must provide unbiased opinions without being influenced by their relationship with the client (Mustapha et al 2021).

Prolonged audit firm tenure can enhance auditors' understanding of the firm's operations, but it may also lead to over-familiarity, which can compromise objectivity. Audit firm size is another critical factor, with larger firms generally having more resources, expertise, and advanced technology at their disposal, enabling them to conduct more thorough audits. Larger firms also tend to project credibility and competence, fostering stakeholder confidence in the audit process (Mustapha et al 2021). This study conceptualizes audit firm characteristics as key attributes such as independence, tenure and size that impact the effectiveness of the audit process and the quality of financial reporting.

Concept of Audit Firm independence

According to Okolie (2014), auditor independence is the unbiased mental attitude of the auditor in providing decisions all through the audit and financial reporting process. 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 (Otuya, 2019). 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.

Concept of Audit Firm Tenure

Auditor tenure has been categorized into two aspects: the first has to do with the period spent by an individual on an audit engagement, most especially a partner involved in an audit, and the other category has to do with the audit firms' tenure (Oyebamiji, 2022). Audit tenure is defined as the number of consecutive years that a public accounting firm has audited clients and the length of time that a public accountant has worked on a contract (Griffin et al., 2010; Carey & Simnett, 2006; Johnson et al., 2002).

According to Adeyemi *et al* (2012), audit-firm tenure is considered as a determinant of an effective and qualitative financial reporting, measured as the length of the audit-firm-client relationship as of the financial year-end covered by the audited financial statements. The length of the auditor/client relationship potentially affects both the auditor's technical ability to identify misstatements and the auditor's objectivity in correcting or reporting those misstatements. Technical ability to identify misstatements is generally thought to be jeopardized by short audit tenures, while the auditor's objectivity is often argued to be jeopardized by longer tenures (Woodland & Reynolds, 2003).

Concept of Audit Firm Size

The size of the public accounting firm is the size which can be classified based on big four firms and non-big four firms (Hayes et al., 2014). Audit firms can be broadly classified into two groups based on area of coverage, number of employees, level of financial and material resources, presence in different nations of the world. The classification is namely: the big 4 firms (Deloite Touché Tohmatsu, KPMG Ernst and Young and PricewaterhouseCoopers) and the non-big 4 firms (others): Big 4 auditors are considered reputable due to their size and non-Big 4 auditors considered also small and non-reputable. Big 4 auditors are argued to provide better quality audits than non-Big 4 auditors (Boulila et al., 2014).

With a higher financial resource, big audit firms also have higher motivation to spend on training and hiring competent auditors to protect their reputation (Rezaei and Shabani, 2014). Furthermore, big audit firms normally have higher motivation to reduce errors and mistakes than non-big partners (Beatty, 1989; Bigus, 2015). To maintain the reputation in order to reduce conflicts of interest, a reputable audit firm will try to maintain its level of independence and apply more stringent and comprehensive disclosure standards.

Review of Empirical Studies

Audit Independence and Financial Reporting Quality

Ibrahim (2022) examines the impact of audit independence on the financial statement quality of commercial banks listed in Nigeria. The study was conducted using a twelve-year scope (2010 to 2021), while twelve (12) commercial banks that consistently submitted their annual financial reports throughout the entire period of investigation were used as the sample size. This study conducted the analysis using the multiple regression analysis. The regression result revealed a significant influence of audit fees on financial statement quality while auditor tenure, joint audit and auditors' opinion showed no statistically significant influence on the financial statement quality of the sampled banks. In line with the outcome, the study recommends strengthening the oversight and regulation of auditing practices in the Nigerian banking sector. This could involve closer collaboration between regulatory authorities and audit firms to ensure that audit fees are commensurate with the quality of audits conducted.

Qawqzeh *et al*. (2020) investigate the influences of the external auditor's effectiveness on the financial reporting quality, as well as the mediating effect of the external audit quality on this relationship in the Jordanian firms. The study population was 180 Jordanian companies. The data were analyzed using the Causal Steps Method. The findings of the result revealed that the auditor size has an insignificant impact on FRQ, whereas the industry specialization has significantly a positive impact on FRQ through preventing the EM practices, as well as the auditor tenure has significantly a negative impact on FRQ (Ebo; 2016; Okezie & Uchenna, 2019; Olanisebe et al., 2020) have measured audit independence using audit fees, tenure, and firm rotation and have reported significant relationship and impact on financial reporting. This study however measured auditor’s independence using the years of service of the audit firm to the audited company (tenure). The proposition is therefore that auditor independence does not have significant impact on quality of financial reporting of listed companies in Nigeria.

Okolie (2014) examined the relationship and effects of auditor tenure and auditor independence on the earnings management (measured by discretionary accruals) of non-financial institutions in Nigeria. The study relies on secondary data and applying an all-inclusive multivariate analysis. The findings using a total of 342 company years’ observations, shows that audit auditor tenure and auditor independence exert insignificant effects and exhibits significant relationship with the amount of discretionary accruals of quoted companies in Nigeria

Audit Firm Tenure and Financial Reporting Quality

Bala et al., (2022) assess the value relevance of the tenure of auditors and size of audit firm by using empirical data from actively traded firms on the floor of Nigerian Exchange Group. Data for the study were obtained from the published annual reports and accounts of 124 quoted companies in Nigeria for 2012-2021. The average -monthly share price of the fourth month after accounting year end of all sampled firms was utilized as the dependent variable of the study in order to establish the value relevance of accounting information in the financial statements. Incorporating the explanatory variables of the study (auditor tenure and control variables) into The Ohlson’s 1995 price model quantitative approaches such as descriptive statistics, correlation, and panel corrected standard errors regression analysis were used in analyzing the data for the study. Findings of the study indicate that auditor tenure and audit firm size led to significant positive influence on market reaction in the first month after the release of annual reports and accounts of sampled firms. The study recommends that investors should consider the audit tenure and auditors size when making investment decisions and prioritize firms that have been audited by big auditors and by integrating small audit firms, as well as firms whose audit tenure is on average of five to six years in line with International best practices, rather than ten years as stipulated by the Code of Corporate Governance and CBN.

Oyedokun et al. (2020) investigated the effect of audit firm characteristics on financial reporting quality of Nigerian Consumer goods firms. The study employed secondary data. Data were sourced from the audited financial statements of the selected consumer goods firms and the Nigerian Stock Exchange Fact book over a period of 11 years (2008-2018). The study population comprised all the 20 listed consumer goods firms on the Nigerian Stock Exchange. Purposive sampling technique was adopted to select 13 consumer goods firms whose data were readily available and accessible, and stocks were actively and consistently traded on the stock market. Data collected were analyzed using Random Effect method. The results showed that audit tenure had a positive and significant relationship with financial reporting quality. Moreover, financial condition had a negative and significant relationship with financial reporting quality. The study concluded that audit tenure had strong influence on financial reporting quality of Nigerian consumer goods firms. The results indicated that audit tenure in Nigerian environment is consistent with learning effect theory as financial reporting quality is positively related to audit tenure.

Ugwu et al (2022) examine the effects of audit firm characteristics on the financial reporting quality of listed consumer goods firms in Nigeria. Audit firm characteristics were measured by auditor opinion, independence, tenure, and audit quality and audit rotation while financial reporting quality was measured by discretionary accrual (Kothari, 2005). Correlational research design was employed and purposive sampling technique was used to sample 12 out of 21 consumer goods firms listed on the Nigerian Exchange Group as at December 2020. Data collected covered 15 years (2006 to 2020). Findings revealed that auditor opinion, audit tenure and audit rotation have positive significant effects on financial reporting quality. On the other hand, auditor independence and audit quality show insignificant effects. The study therefore, concludes that, auditors' opinion, tenure and rotation are the determinants of financial reporting quality among consumer goods firms in Nigeria.

Audit Firm Size and Financial Reporting Quality

Daferighe and George (2020) examined the impact of audit firm attributes on the financial reporting quality of quoted manufacturing firms in Nigeria for the period of 2011 to 2015. Data were obtained from the published annual reports and accounts, notes to the financial statements of the sixteen firms that represent the sample of the study. Multiple regression analysis was employed in analyzing the data and testing the stated hypotheses. The results of the findings showed that auditor fees have significant influence on the financial reporting quality of quoted manufacturing firms in Nigeria. However, it was discovered that audit firm size and audit delay have insignificant impact on the financial reporting quality of manufacturing firms in Nigeria. It was therefore recommended that the manufacturing firms should create enabling environment that will ensure the conduct of proper audit by the auditors and also for a timely release of their reports to users thus promoting quality decision making.

Suryani *et al*. (2023) examined the effect of audit firm size and audit tenure on the detection of financial statement fraud. The research sample was 140 manufacturing companies from 2014 to 2015, which were listed on the Indonesia Stock Exchange using a purposive sampling technique. Descriptive analysis used multiple regression. The study finds that the size of the audit firm(big4) and the tenure of the audit did not significantly affect the indications of fraudulent financial statements. It was recommended that, the auditor of public accountant needs to improve their ability in auditing so that the audit objectives meet audit procedures that comply with international standards and can detect indications of fraud in the financial statements.

Theoretical Review

There are a few theories that clarify the connection between ownership structure and earning management in the writing of business. In any case, just three speculations are identified with the investigation in particular shareholder's theory, opportunistic theory and agency theory.

Agency Theory

According to Jone (1991), audit is a monitoring tool implemented to address the principal agent conflict. Agency theory is an economic theory that attempts to explain the imperfections of an agency relationship. Auditors as agents are expected to act in accordance to the agency relationship agreement and thereby provide possible solutions that align issues with respect to financial presentations that may cause conflict between principal and agent. Agency theory suggests that, under an agreement of one or more people (principals) hire someone else (agent) to act on their behalf as well as delegate some decision-making authority.

Depending on the principal-agency agreement, the agent performs duties as delegated by the principal. Mistrust between the two parties may be caused by information asymmetries which may in turn lead to principal-agency conflicts. Consequently, the principal resolves to put in place mechanisms to align their interest to that of agents to reduce any opportunistic behaviour and the magnitude of information asymmetries (George, 2017). The auditor assesses financial statements of a going concern prepared by the principal to determine the financial position of the company as presented by the financial statements in compliance with GAAPs and other applicable standards. The report an auditor produces from audited accounts helps to re-enforce the trust between the various stakeholders.

Inspired Confidence Theory and Policeman Theory

Hayes et al. (2005), inspired confidence theory suggested that when stakeholders demand accountability from management as an exchange from their contribution to the company, audit services are a direct consequence of the participation of outside stakeholders in the financial markets. Thus, the management may give biased information and therefore audit of this information is required. This is in support of Hayes et al, 2015, Policeman Theory which restrains the auditor's responsibilities on arithmetical accuracy and on the prevention and detection of fraud. An auditor is expected by public and users of audit reports to perform the audit process in accordance with relevant laws and regulations that govern the audited entity and present an unbiased and independent audit report of his findings. This is in a bid to prevent fraud and encourage management to be prudent and transparent on making decisions on the affairs of an entity (Appah et al., 2011).

As a result of inspired confidence by beneficiaries, public and users of auditor's report, existing expectation gaps perceived by stakeholders are addressed as part of the duties of an auditor in the financial statements. There are also instances, where an auditor falls prey to personal, emotional or financial pressure which cause compromise on his independence resulting to poor audit quality. This theory therefore supports the audit firm compensation which support the fact that an auditor may falls prey to personal, emotional or financial pressure as a result of compensation received or not received which may result in a certain degree of compromise on his opinion resulting to poor audit quality and audit firm type which described the auditor's responsibilities as arithmetical accuracy and the prevention and detection of fraud.

The auditor is expected by public and users of audit reports to perform the audit process in accordance with relevant laws and regulations to prevent fraud. Therefore, it is on the bases of the above theories that this study seeks to examine the effect of audit firm characteristics and financial reporting quality of listed industrial goods firms in Nigeria. Specifically, both agency theory and the theory of inspired confidence theory are used in underpinning the findings of this study. The former links shareholders and the management who are the providers of financial statements to be audited by audit firms and the latter anchored managers and audit firms that plays a prominent role in ensuring quality of financial reporting.

3. Methodology

This study examines the effect of audit firm characteristics on financial reporting quality of listed industrial firms in Nigeria. Co-relational research design was adopted by the study. Due to its usefulness in evaluating the relationships as well as the influence of one factor on another, co-relational study layout is used. As such, the model is in line with this study's hypotheses. The study population includes all thirteen (13) industrial goods companies listed as at 31 December 2023 on the Nigerian exchange group. However, two firms have been filtered out based on data accessibility and availability throughout the study period (2014-2023), and the study's sample size is 11 firms. The analysis utilized secondary data derived from all the sample firms ' financial statements only. Multiple regression technique for data analysis has been used to analyse the study’s panel data.

Table 1

Population and Sample Size of the Study

SN	Firms	Year of Incorporation	Year of Listing	Sample Size
1	Austin LAZ & Co Plc.	1982	2012	Selected
2	Berger Paints Plc.	1959	1989	Selected
3	Beta Glass Plc.	1974	1986	Selected
4	BUA Cement Plc.	2014	2020	Not Selected
5	Cap Plc.	1965	1978	Selected
6	CUTIX Plc.	1982	1987	Selected
7	Dangote Cement Plc.	1992	2010	Selected
8	Greif Nigeria Plc.	1940	1979	Selected
9	Lafarge Africa Plc.	1959	1979	Selected
10	Meyer Plc.	1960	1979	Selected
11	Notore Chemical Ind. Plc.	2005	2018	Not Selected
12	Premier Paints Plc.	1982	1995	Selected
13	Tripple Gee & Co. Plc.	1980	1991	Selected

Source: ***Nigerian Exchange Group Plc, 2023***

Table 2

Variables, Measurements and Sources

Type of Variable	Variables	Measurement	Sources
Dependent	Financial Reporting Quality	Measured using discretionary accruals using modified Jones Model prepared by Yoon, Miller & Jiraporn (2006)	Daferighe & George (2020)
Independent	Audit Firm Independence	Measured by the ratio of non-audit services fee to total fees paid to the audit firm in each fiscal year	Mohammed & Joshua, (2012); Oladejo et al., (2020)
Independent	Audit Firm Tenure	Measure as the length of auditor-client relationship. '1' if 3 years+ and '0' if otherwise	Abdulrahman et al., (2019); Bassey et al., (2020); Olanisebe et al., (2018)
Independent	Audit Firm Size	Measured using dichotomy ('1' if audited by any of the big4 (Deloitte, PWC, Ernst & Young and KPMG) audit firm and '0' if otherwise).	Umar (2014)

Source: Researcher's Compilation, 2023

Model Specification

To estimate the results of this study, a multiple regression was used in order to determine the relationship between the variables of audit firm characteristics and financial reporting quality. The model of this investigation is expressed as follows;

$$DA = \frac{TA}{REV} - \beta_0 + \frac{\beta 1\,(\Delta REV - \Delta REC)}{REV} + \frac{\beta 2\,(\Delta EXP - \Delta PAY)}{REV} + \frac{\beta 3\,(\Delta DEP - \Delta RET)}{REV}$$

Where: DA = Discretionary Accruals; TA = Total Accruals = Accounting Earnings less Cash flow from Operating Activities; REV = Revenue; REC = Receivables; EXP = Total Expenses except known cash expenses; PAY = Payables; DEP = Depreciation Expenses; RET = Retirement benefits expenses.

In a bid to ascertain audit firm characteristics and financial reporting quality of listed industrial goods firms in Nigeria, a multiple linear regression model was built thus:

$$FRQ_{it} = \beta_0 + \beta_1 AUDIN_{it} + \beta_2 AUDTEN_{it} + \beta_3 BIG4_{it} + \varepsilon_{it}$$

Where: FRQ = Financial Reporting Quality; AUDIN= Audit firm Independence; AUDTEN = Audit Firm Tenure; BIG4 = Audit Firm Size; β_0 = Constant Term, $\beta_1 - \beta_3$ = Coefficients of independents variables; ε = Error Term; i = Firms (Industrial Goods Firms); t = Period (2014-2023).

4. Result and Discussion

This section presents and discusses the findings from the data analysis, starting with descriptive statistics and followed by a summary of the regression results.

Descriptive Statistics

The descriptive is presented and mentioned here, the summary of the descriptive statistics in

Table 3:

Descriptive Statistics

Variables	Obs.	Min	Max	Mean	Std. Dev.
FRQ	110	12.0642	20.5269	15.2474	2.1772
AUDIN	110	9.62	182.6	43.7611	21.24268
AUDTEN	110	0	1	0.7364	0.4426
BIG4	110	0	1	0.5364	0.5009

Source: Extracted from STATA Output, 2024

Table 3 presents the descriptive statistics for the financial reporting quality (FRQ) measure. The median FRQ is 15.2474, with a standard deviation of 2.1772. The minimum and maximum values are 12.0642 and 20.5269, respectively. The standard deviation indicates some variability in the data, but further analysis is needed to determine the extent of the scattering. The result also indicates that in the listed industrial goods companies in Nigeria the average audit firm independence (AUDIN) is 43.7611 with a standard departure of 21.243. indicating a wide variability in audit firm independence among the listed industrial goods companies in Nigeria and a minimal of 9.62, suggesting that some audit firms have relatively low independence. and 182.6 as the maximum indicating that some audit firms have very high independence.

Furthermore, the results indicate that the average audit firm tenure for listed industrial goods companies in Nigeria is 73.64% (or 0.7364). The standard deviation is 0.4426, indicating some variability in audit firm tenure. The minimum and maximum values are 0 (0% tenure) and 1 (100% tenure), respectively. The findings of Table 3 indicate that the average audit firm size (BIG4) in the industrial goods companies indexed in Nigeria is 0.5364 (or 53.64%). The standard deviation is 0.5009, indicating some variability in audit firm size. The minimum and maximum values are 0 (0%) and 1 (100%), respectively.

Table 4:

Correlation Matrix

Variables	FRQ	AUDIN	AUDTEN	BIG4
FRQ	1			
AUDIN	0.1399 (0.1448)	1		
AUDTEN	0.0236 (0.8064)	-0.0484 (0.6157)	1	
BIG4	0.2882* (0.0023)	0.0156 (0.8717)	-0.0184 (0.8484)	1

Source: Extracted from STATA Output, 2024

The result in table 4 shows that there is a positive relationship between audit firm independence, audit firm tenure and financial reporting quality which is insignificant as evidence by the value (0.1399) and (0.0236) respectively. This which implies that audit firm independence has no impact on financial reporting quality. while the relationship between big4 audit firm and financial reporting quality is positive at a meaning level of 5% which implies that it can influence financial reporting quality, indicating a moderate positive relationship between financial reporting quality and audit firm size. Audit independence has a negative relationship with audit firm tenure (-0.0484). audit firm tenure has a negative relationship with big4 audit firm. Also, there is a positive relationship between audit firm tenure and financial reporting quality which implies that audit firm tenure has no significant impact on financial reporting quality.

Table 5

Diagnostic Test

Variables	VIF	Tolerance Value
AUDTEN	1.00	0.997346
AUDIN	1.00	0.997443
BIG4	1.00	0.999444
Mean VIF	1.00	

Source: Extracted from STATA Output, 2024

The Mean VIF of 1.00 assesses multicollinearity, which occurs when independent variables are highly correlated with each other. A VIF value above 10 is often considered problematic. Since 1.00 is much lower than 10, this suggests that multicollinearity is not an issue in the model, meaning the independent variables are not excessively correlated.

Table 6

Summary of Regression Results

This phase offers and examines the consequences of this investigation model regression. The findings are proven in table beneath;

Variables	Coefficients	Z-Value	P-Value
AUDIN	.0014212	2.25	0.024
AUDTEN	.2605151	0.53	0.598
BIG4	1.205184	4.27	0.000
CONSTANT	14.347	21.61	0.000
R2	0.1023		
Wald Chi2	26.91		
Prob. Chi2	0.0000		

Source: Extracted from STATA Output, 2024

Outputs from Table 5 indicate that audit firm independence (AUDIN) has a coefficient of 0.0014 and a p-value of 0.024, which is 5% significant. The positive coefficient (0.0014) suggests that an increase in audit firm independence is associated with an improvement in financial reporting quality. Thus, audit firm independence has a strong positive impact on financial reporting quality in this model. Therefore, the result of this model rejects the null hypothesis that there is no significant relationship between audit firm independence and financial reporting quality of listed industrial good firms in Nigeria. Nevertheless, the finding of this study confirms with the findings of Ibrahim (2022) who revealed a significant relationship between audit firm independence and financial reporting quality but contradicts findings of Ugwu et al, (2022) and Daferighe & George (2020).

Audit firm tenure has a positive coefficient (0.2605) implies that longer audit firm tenure is associated with a increase in financial reporting quality at an insignificant level of 0.598. Hence, the result failed to reject the null hypothesis that audit firm tenure does not have a significant relationship with financial reporting quality. The finding is in conformity with the study of Daferighe and George (2020) findings who revealed an insignificant relationship between audit firm tenure and financial reporting quality. But contrary with the studies of Ibrahim (2022), Bala et al. (2022) and Oyedokun et al. (2020). However, big4 audit firm has a positive coefficient of (1.205) with a p-value (0.000) indicates that the relationship between being a Big 4 audit firm and financial reporting quality is statistically significant. Therefore, audit firm size (whether or not the firm is one of the Big 4) have a significant impact on financial reporting quality in this study. This result was compatible with the finding of Ibrahim (2022) but not compatible with findings of Oyedokun et al. (2020), Ugwu, et al. (2022).

Similarly, the outcome from table 4 also reveal that the independent variants of (audit firm independence, audit firm tenure, audit firm size) explained around 10.23% of the variations in the financial reporting quality (FRQ) of listed industrial goods firms in Nigeria, from the coefficient of multiple determinations (R2 value of 0.1023).

5. Conclusions and Recommendations

The study concludes that audit firm characteristics have varied impacts on the financial reporting quality of industrial goods firms. Specifically, audit firm independence has a positive and statistically significant relationship with financial reporting quality, suggesting that independence is an important factor in ensuring high-quality financial reporting. However, the strength of this relationship and the underlying factors driving it require further investigation.

Audit firm tenure has an insignificant positive relationship with financial reporting quality, suggesting that longer audit engagements do not significantly impact audit effectiveness, which may be compromised by over-familiarity or complacency. However, the size of the audit firm has a positive and statistically significant associated with financial reporting quality, suggesting that bigger audit firms are associated with better financial reporting quality, possibly due to greater resources and expertise, more robust quality control processes and increased independence and objectivity.

Based on these findings, industrial goods firms should prioritize investing in measures that strengthen audit firm independence, such as stricter auditor rotation policies and reduced non-audit services. Regulators should also enforce stronger requirements for auditor independence to ensure unbiased financial assessments. Larger audit firms may be associated with better financial reporting quality due to their greater resources, expertise, and robust quality control processes. While longer audit engagements may not significantly impact audit effectiveness, firms should still monitor their audit firm's performance to prevent over-familiarity or complacency.

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