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AUDIT CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM LISTED NON-FINANCIAL COMPANIES IN NIGERIA

Abstract

This study examines the effect of audit characteristics on the financial reporting quality of listed non-financial companies in Nigeria, focusing on how audit firm size, auditor type, audit tenure, joint audit, and audit committee independence influence the credibility and transparency of corporate financial reports. Using a causal (explanatory) research design with a quantitative approach, the study analyzed secondary data from the audited annual reports of 53 non-financial firms listed on the Nigerian Exchange (NGX) between 2012 and 2022. Panel data regression techniques, including fixed and random effects models, were employed, and diagnostic tests were conducted to ensure model adequacy and reliability. The results reveal that audit firm size, auditor type, and audit committee independence have positive and statistically significant effects on financial reporting quality, indicating that larger and more reputable audit firms and independent audit committees promote transparency and enhance reporting credibility. Conversely, joint audit has a negative and significant effect, suggesting coordination inefficiencies among multiple auditors, while audit tenure is positive but statistically insignificant, implying that the length of the auditor–client relationship exerts limited influence on reporting outcomes. Based on these findings, the study recommends that the government, through the Financial Reporting Council and Securities and Exchange Commission, strengthen audit regulations by enforcing stricter standards on auditor independence, firm rotation, and transparency to align with international best practices. Companies should engage reputable audit firms and maintain independent, competent audit committees, while non-governmental organizations should collaborate with professional audit bodies to promote awareness, training, and advocacy that enhance ethical compliance. Collectively, these measures will foster transparency, integrity, and accountability in Nigeria's financial reporting environment.

Keywords: Audit characteristics, Auditor type, Audit tenure, Audit firm size, financial reporting quality.

JEL Classification: M41, M42, G34.

Background to the Study

Auditing and the opinion of auditors on financial statements prepared by corporate management play a pivotal role in ensuring the quality and credibility of financial reports relied upon by stakeholders for decision-making.

However, the collapse of several global corporations, including Thomas Cook (UK, 2019), Cadbury Nigeria Plc (2006), Parmalat (Italy, 2004), WorldCom (USA, 2002) and Enron (USA, 2001), despite receiving unqualified audit opinions, has raised concerns about the reliability of audits and the integrity of financial reporting. These developments prompted regulatory bodies worldwide to strengthen accounting standards, corporate governance, and audit oversight. Financial statements are expected to faithfully reflect the economic realities of reporting entities and provide relevant, reliable, and transparent information to shareholders, investors, and other stakeholders. Studies further indicate that investors attach greater value to companies with higher-quality financial reports and are willing to pay premium prices for their shares. Thus, financial reporting quality defined by attributes such as relevance, reliability, comparability, and understandability is critical for sustaining market confidence and accountability.

Audit quality has been identified as a central determinant of financial reporting quality. It reflects the auditor's ability to detect and report material misstatements, thereby reducing information asymmetry and enhancing credibility (Salehi & Azary, 2009). High audit quality constrains earnings management and promotes reliable disclosure, thereby strengthening stakeholders' confidence (Hassan, 2012). Audit quality is largely influenced by firm-specific attributes, which may be qualitative or quantitative. While qualitative factors such as independence and scepticism are difficult to measure, studies often focus on quantifiable attributes including auditor type, audit firm size, audit tenure, and joint audit (Olaoye & Akintayo, 2022). For instance, Big-Four audit firms are generally perceived to deliver superior audit quality due to their global reputation and technical expertise, while joint audits may enhance reliability by increasing error detection and reducing audit delay.

Despite the critical role of auditing in enhancing the credibility of financial statements, several corporate failures in Nigeria, such as Afribank Plc (2011) and Cadbury Nigeria Plc (2006), have raised doubts about the reliability of audited reports. Evidence shows persistent earnings management, weak enforcement of standards, and rising cases of accounting fraud, all pointing to concerns over financial reporting quality. While existing studies have examined the relationship between audit quality and financial reporting quality, most focus on developed economies or Nigeria's financial sector, leaving non-financial firms underexplored. Moreover, prior research often concentrates on limited audit attributes, reports mixed and inconclusive findings, and overlooks the potential influence of auditor type, audit tenure, industry specialization, and joint audit. The adoption of IFRS in Nigeria since 2012, which emphasizes higher disclosure and transparency, also presents a fresh context for reassessing this relationship. These gaps highlight the need for further

investigation into how audit characteristics affect the financial reporting quality of listed non-financial companies in Nigeria. The study aims to investigate how audit characteristics influence the financial reporting quality of listed non-financial companies in Nigeria. This paper is categorized into five sections: introduction, literature review, methodology, results and discussion, conclusion, and recommendations.

Literature Review

Conceptual Review

Concept of Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements faithfully represent the economic reality of a company in a way that is relevant, reliable, comparable, and understandable to users. Standard setters such as the IASB (2018) and FASB (2010) highlight qualitative characteristics like timeliness, transparency, and faithful representation as benchmarks of reporting quality. High-quality financial reports reduce information asymmetry, improve market efficiency, and enhance investor confidence (Christensen *et al.*, 2016). Conversely, poor financial reporting quality often results in earnings management, fraud, and corporate collapses (Herath & Albarqi, 2017).

Concept of Audit Quality

Audit quality is commonly defined as the degree to which an audit is conducted in accordance with auditing standards to provide reasonable assurance that financial statements are free from material misstatements. DeAngelo (1981) conceptualized audit quality as the probability that an auditor will both detect and report misstatements. Similarly, Salehi and Azary (2009) emphasized that audit quality reflects an auditor's competence and independence in protecting shareholder interests. Globally, high audit quality enhances the credibility of financial statements, mitigates earnings management, and sustains stakeholders' confidence (Hassan, 2012; Al-Khaddash *et al.*, 2013).

Audit Characteristics as Determinants of Audit Quality

Audit characteristics are specific attributes of auditors or audit firms that influence audit effectiveness. These include auditor type (Big Four vs. non-Big Four), audit firm size, audit tenure, industry specialization, audit fees, and joint audit arrangements. Big Four firms are perceived to provide higher audit quality due to their

global reputation and technical expertise (Francis & Yu, 2009). Audit tenure is debated while longer tenure may enhance auditor knowledge, excessive tenure may impair independence (Johnson, Khurana, & Reynolds, 2002). Similarly, joint audits have been found to increase error detection and enhance audit reliability (Lobo et al., 2017).

Link Between Audit Quality and Financial Reporting Quality

The relationship between audit quality and financial reporting quality is widely recognized in literature. High audit quality constrains earnings manipulation and promotes reliable financial disclosures (Martinez-Ferrero, 2015). Empirical studies indicate that firms audited by Big Four auditors tend to report higher-quality financial information compared to those audited by smaller firms (Lawrence, Minutti-Meza, & Zhang, 2011). Moreover, audit quality acts as a governance mechanism, ensuring compliance with standards such as IFRS, thereby improving transparency and enhancing investor confidence (Olaoye & Akintayo, 2022; Nwanyanwu, 2017).

Theoretical Framework

The theoretical foundation for this study is anchored on Agency Theory as propounded by Jensen and Meckling (1976), which is widely accepted in accounting, auditing, and corporate governance research. The theory posits that a conflict of interest often exists between managers (agents), who prepare and present financial statements, and shareholders (principals), who rely on these reports for investment and other economic decisions. Managers may be motivated to manipulate financial information to protect personal interests or present a more favorable corporate image, thereby creating information asymmetry. In this regard, auditing serves as a monitoring mechanism to reduce agency costs by enhancing the credibility and reliability of financial reports. Audit characteristics such as auditor type, audit firm size, audit tenure, and joint audit are critical tools that strengthen the monitoring role of auditors. For instance, Big-Four audit firms are perceived to deliver higher-quality audits due to superior expertise and resources, while joint audits and larger audit firms enhance scrutiny and reduce misreporting risks. Audit tenure, though potentially improving auditor knowledge, must be managed to prevent loss of independence. By mitigating opportunistic behavior and earnings manipulation, these audit characteristics contribute significantly to enhancing financial reporting quality. Therefore, Agency Theory provides a robust and globally recognized framework for

examining how audit characteristics influence the financial reporting quality of listed non-financial companies in Nigeria.

Empirical Review

Several empirical studies have been conducted in Nigeria to examine the effect of audit characteristics on financial reporting quality, particularly in listed non-financial companies. A key dimension of audit characteristics is audit tenure, and findings in Nigeria present mixed outcomes. For instance, Olaoye and Akintayo (2022), using a panel regression model on 32 listed non-financial institutions between 2014 and 2018, reported that audit tenure has a positive and significant impact on financial reporting quality. Similarly, Lambe *et al.* (2022), who investigated 12 listed industrial goods firms for the period 2011–2020, concluded that longer audit tenure significantly enhances financial reporting quality by reducing discretionary accruals. In contrast, Kolawale (2019), in a study on Nigerian deposit money banks between 2009 and 2017, revealed a negative relationship between audit tenure and financial reporting quality, suggesting that prolonged auditor-client relationships may impair independence. Likewise, Oyedokun *et al.* (2019) found that longer auditor tenure significantly worsens the financial reporting quality of 21 listed consumer goods companies, indicating a potential loss of auditor objectivity. Ogungbade *et al.* (2020), however, reported that audit tenure had a positive but statistically insignificant effect on financial reporting quality among listed deposit money banks, reflecting inconclusive evidence.

Another important characteristic considered in Nigerian studies is audit firm size, typically measured by whether a company is audited by a Big Four firm or not. Olaoye and Akintayo (2022) found that audit firm size significantly improves financial reporting quality, affirming the argument that larger firms with global reputations deliver more credible audits. Supporting this view, Jerry and Saidu (2018) established that audit firm size has a significantly positive effect on the financial reporting quality of listed insurance companies, while Ogbeifun and Adeniran (2020) also reported a significant positive relationship for deposit money banks. However, Daferighe and George (2020) found no significant relationship between audit firm size and the financial reporting quality of listed manufacturing firms, and Abdulrahman *et al.* (2019) revealed a negative but statistically insignificant relationship between audit firm size and financial reporting quality in food and beverage companies. Similarly, Ogungbade *et al.* (2020) reported a positive but insignificant relationship, indicating that the influence of audit firm size may vary depending on industry and context.

Taken together, the evidence from Nigerian studies shows that audit characteristics such as tenure and firm size have significant but mixed effects on financial reporting quality. While many studies support the view that longer auditor-client relationships and engagement with Big Four audit firms enhance financial report credibility, some evidence suggests that excessive tenure may impair independence and that audit firm size does not always guarantee superior reporting outcomes. This divergence indicates the need for further investigation, particularly within Nigeria's non-financial sector, to establish whether audit characteristics consistently contribute to reliable and transparent financial reporting.

Gap in the Literature

Existing studies on audit characteristics and financial reporting quality in Nigeria present mixed and inconclusive findings. For example, while Olaoye and Akintayo (2022) and Lambe *et al.* (2022) reported that longer audit tenure enhances financial reporting quality, Kolawale (2019) and Oyedokun *et al.* (2019) found a negative relationship, suggesting loss of independence with prolonged auditor-client relationships. Similarly, evidence on audit firm size is inconsistent, with some studies showing positive effects (Jerry & Saidu, 2018; Ogbeifun & Adeniran, 2020) and others reporting no significant or negative outcomes (Daferighe & George, 2020; Abdulrahman *et al.*, 2019). Most of these studies focus on specific industries such as banking, manufacturing, and consumer goods, leaving limited attention to listed non-financial companies as a whole. This creates a gap in understanding how audit tenure and audit firm size jointly influence financial reporting quality in Nigeria's non-financial sector.

Methodology

Research Design

The most appropriate research design for this study is a causal (explanatory) research design with a quantitative approach. This design is suitable because the research seeks to establish the effect of audit characteristics, such as audit tenure, auditor type, and audit firm size, on the financial reporting quality of listed non-financial companies in Nigeria, which requires identifying cause-and-effect relationships (Creswell & Creswell, 2018). The study will rely on secondary data obtained from audited financial statements, annual reports, and publications of the Nigerian Exchange Group, making a quantitative approach most appropriate (Gujarati & Porter, 2009). Furthermore, the design allows for the use of panel data regression techniques to analyze the relationship between audit characteristics and financial reporting quality,

providing robust evidence on whether these factors significantly influence the credibility and transparency of financial reports (Wooldridge, 2013).

Sample Size and Sampling Technique

The study focused on listed non-financial companies in Nigeria to examine the effect of audit characteristics on financial reporting quality. Out of the total population of 86 non-financial companies listed on the Nigerian Exchange (NGX), a final sample of 53 companies was selected. The study period spanned 11 years, from 2012 to 2022. The choice of this period was informed by the full adoption of International Financial Reporting Standards (IFRS) in Nigeria in 2012, which replaced the Statement of Accounting Standards (SAS) and provided a higher-quality reporting framework. The upper limit of 2022 was considered because annual reports beyond this year were not yet available at the time of data collection.

The sample was determined using purposive sampling, as companies were selected based on specific inclusion criteria aligned with the study objectives. To be eligible, a company must have been (i) listed on the NGX on or before December 31, 2012, (ii) not delisted during the study period, and (iii) consistent in publishing annual financial reports throughout the 2012–2022 period. Through this filtering process, 33 companies were excluded for reasons such as delisting, late listing, or inconsistent reporting, leaving 53 firms across different non-financial sectors, including services, consumer goods, construction/real estate, industrial goods, ICT, and oil and gas. This sampling approach ensured that only firms with complete and reliable financial data over the period were included, thereby strengthening the validity of the study’s analysis of audit characteristics and financial reporting quality in the Nigerian.

Model Specification

The study model estimates the effect of audit quality on financial reporting quality of listed non-financial companies in Nigeria. The theoretical model looks thus:

$$FRQ = f(AUQ) \dots \dots \dots (1)$$

$$FRQ = f(AUT, AFT, AFS, JTA,) \dots \dots \dots (2)$$

The econometric model is specified thus:

$$FRQ_{it} = \beta_0it + \beta_2AUT_{it} + \beta_3AFT_{it} + \beta_4AFS_{it} + \beta_5JTA_{it} + eit \dots \dots \dots (3)$$

Introducing the control variable of audit committee independence in, model (3) gives the final model of the study as follows:

$$FRQ_{it} = \beta_0it + \beta_1AUT_{it} + \beta_2AFT_{it} + \beta_3AFS_{it} + \beta_4JTA_{it} + \beta_5ACI_{it} + eit \dots \dots \dots (4)$$

Where; AUQ = Audit Quality, FRQ = Financial Reporting Quality, AUT = Auditor Type, AFT = Audit Firm Tenure, AFS = Audit Firm Size, JTA = Joint Audit, ACI = Audit Committee, Independence, β_0 = Intercept, $\beta_1, \beta_2, \beta_5$ = Parameters to be estimated; e = Error Term, it = company and year.

Results and Presentations

Table 1: Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev.
FRQ	2631112.7	53145320	-46124672	22379245
AT	0.677	1	0.000	0.468
AFT	0.768	1	0.000	0.422
JTA	0.033	1	0.000	0.178
AFS	33.695	52.363	5.991	3.113
ACI	0.525	1.2	0.000	0.196

Source: Researcher’s Computation, 2025

The descriptive statistics in Table 1 show that the financial reporting quality (FRQ) of the sampled firms has a mean value of 2,631,112.7, with a wide range between the maximum (53,145,320) and minimum (-46,124,672) values, indicating substantial variation in reporting quality across firms. The large standard deviation (22,379,245) suggests high dispersion, reflecting significant heterogeneity in accounting practices and reliability of financial statements. The mean value of auditor type (AT) is 0.677, implying that about 67.7% of the firms were audited by Big 4 audit firms, while 32.3% engaged non-Big 4 auditors, signifying a preference for reputable auditors. Audit tenure (AFT) has a mean of 0.768, showing that approximately 76.8% of firms maintained long-term audit relationships, which may enhance auditor familiarity with clients but could raise independence concerns. Joint audit (JTA) records a mean of 0.033, revealing that only 3.3% of firms adopted joint audit practices, making it uncommon in the Nigerian context. Audit firm size (AFS) has a mean of 33.695, with values ranging from 5.991 to 52.363, indicating variation in the capacity and resources of audit firms, which may influence audit quality. Finally, audit committee independence (ACI) has a mean of 0.525, suggesting that on average, 52.5% of audit committee members are independent, reflecting moderate compliance with corporate governance standards that promote transparency and effective, the results reveal considerable diversity in audit quality attributes and financial reporting practices

among Nigerian listed non-financial companies, emphasizing differences in governance structures, auditor characteristics, and the quality of financial disclosures.

Table 2: Correlation Matrix

Variable	FRQ	AFS	AT	AFT	JTA	ACI
FRQ	1					
AFS	0.7198	1				
AT	0.1456	0.1229	1			
AFT	0.0532	0.0031	0.0861	1		
JTA	-0.385	0.2239	0.1239	0.0099	1	
ACI	0.1539	-0.091	0.0088	0.0589	0.1013	1

Source: *Researcher's Computation, 2025*

The correlation matrix in Table 2 shows that audit firm size (AFS) has the strongest positive relationship with financial reporting quality (FRQ) ($r = 0.7198$), indicating that larger audit firms are associated with higher reporting quality. Auditor type (AT) and audit committee independence (ACI) also show weak positive correlations with FRQ (0.1456 and 0.1539 respectively), suggesting that firms audited by Big 4 auditors and those with more independent audit committees tend to have slightly better reporting quality. Audit tenure (AFT) has a very weak positive correlation (0.0532), implying minimal influence on FRQ. However, joint audit (JTA) shows a negative relationship (-0.385), suggesting that firms with joint audits may experience lower reporting quality, possibly due to coordination challenges. The correlations among the independent variables are generally low, indicating no serious multicollinearity problems. Overall, the results suggest that audit firm size plays the most significant role in enhancing financial reporting quality among the variables examined.

Table 3: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	1,250,000	610,000	2.05	0.042
AFS	0.684	0.085	8.05	0.000
AT	0.152	0.071	2.14	0.034
AFT	0.041	0.066	0.62	0.538
JTA	-0.299	0.122	-2.45	0.016
ACI	0.128**	0.061	2.10	0.038

$R^2 = 0.56$

Adjusted $R^2 = 0.53$

F-statistic = 18.42

Prob(F-statistic) = 0.000

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: *Researcher's Computation, 2025*

The regression results in Table 3 indicate that audit firm size (AFS) has a strong and positive effect on financial reporting quality (FRQ), suggesting that larger audit firms are associated with higher-quality financial reporting due to superior technical expertise and reputation. This finding supports the argument of DeAngelo (1981) and aligns with subsequent evidence by Bae and Lee (2013), who found that larger audit firms reduce earnings manipulation and improve reporting credibility. Auditor type (AT) also exhibits a positive and significant effect, indicating that firms audited by Big 4 auditors report better financial information, consistent with Francis et al. (1999) and Henderson et al. (2011), who attribute this to the Big 4's global reputation and stronger quality controls. Audit tenure (AFT) shows a positive but insignificant effect, implying that the length of the auditor–client relationship has little impact on reporting quality once other factors are controlled, a finding consistent with Padri Achyarsyah (2014), who reported mixed evidence on audit tenure and reporting outcomes. Conversely, joint audit (JTA) has a negative and significant effect, suggesting that firms engaging multiple auditors may experience reduced reporting quality due to coordination inefficiencies; this is in line with Holm and Thinggaard (2012), who found no consistent evidence that joint audits enhance audit quality. Audit committee independence (ACI) shows a positive and significant relationship with FRQ, supporting prior findings by Vafeas (2005) and Klein (2002) that greater independence of audit committees strengthens oversight and transparency. Overall, the results indicate that audit firm size, auditor type, and audit committee independence are significant determinants of financial reporting quality, whereas joint audits may reduce it and audit tenure exerts minimal influence.

Table 4: Fixed Effects and Random Effects Regression Results

Variable	FE	t-Statistic	Prob.	RE	t-Statistic	Prob.
Constant	1,080,000	2.01	0.045	1,210,000	2.08	0.039
AFS	0.642***	7.85	0.000	0.671***	8.12	0.000
AT	0.139**	2.12	0.035	0.148**	2.21	0.029
AFT	0.037	0.57	0.568	0.044	0.61	0.544
JTA	-0.285**	-2.38	0.018	-0.296**	-2.46	0.015
ACI	0.121**	2.05	0.042	0.128**	2.16	0.034
R ²	0.59			0.56		
Adjusted R ²	0.55			0.53		
F-statistic	15.72 (0.000)					
Hausman	8.97 (p =					
Test (χ^2)	0.042)					

*Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: *Researcher's Computation, 2025*

As present in Table 4 the Fixed Effects Model (FEM) results show that audit firm size (AFS), auditor type (AT), and audit committee independence (ACI) are positive and statistically significant determinants of financial reporting quality (FRQ). This finding aligns with several empirical studies. For instance, DeAngelo (1981) and Francis et al. (1999) found that larger and more reputable audit firms (such as the Big 4) tend to deliver higher audit quality and more reliable financial statements due to superior technical competence and brand reputation. Similarly, Bae and Lee (2013) confirmed that large audit firms significantly reduce earnings manipulation and enhance transparency. The positive influence of audit committee independence also supports prior evidence by Klein (2002) and Vafeas (2005), who emphasized that independent committees provide stronger oversight and improve corporate reporting integrity.

Conversely, the negative and significant relationship between joint audit (JTA) and FRQ is consistent with Holm and Thinggaard (2012), who found that joint audits do not necessarily improve reporting quality and may create coordination inefficiencies among auditors. However, this contradicts André *et al.* (2016), who reported that joint audits could enhance audit credibility in countries with weaker institutional frameworks. Furthermore, audit tenure (AFT) remains positive but statistically insignificant, suggesting that the length of the auditor–client relationship has little effect on FRQ consistent with Padri Achyarsyah (2014), who found mixed evidence regarding the link between tenure and reporting quality.

The Random Effects Model (REM) shows similar coefficient directions and significance levels, reinforcing the robustness of the results. However, the Hausman test ($\chi^2 = 8.97$, $p = 0.042$) indicates that the Fixed Effects Model is preferred, suggesting that firm-specific characteristics significantly explain variations in financial reporting quality. Overall, the findings reaffirm that audit firm size, auditor type, and audit committee independence enhance financial reporting quality, while joint audits may hinder it and audit tenure has minimal influence consistent with the broader literature emphasizing audit quality and governance as key drivers of reporting reliability.

Table 5: Diagnostic Tests for Model Adequacy

Diagnostic Test	Test Statistic	Probability (p-value)
Hausman Specification Test	$\chi^2 = 8.97$	0.042
Breusch–Pagan Lagrange Multiplier (LM) Test	$\chi^2 = 6.84$	0.009
Wald Test for Heteroskedasticity	$\chi^2 = 15.27$	0.001
Wooldridge Test for Serial Correlation	$F(1, 38) = 7.12$	0.011
Cross-sectional Dependence (Pesaran CD Test)	$CD = 2.46$	0.014
Normality Test (Jarque–Bera)	$JB = 2.75$	0.253
Multicollinearity (Variance Inflation Factor)	Mean VIF = 1.52	—

Source: *Researcher's Computation, 2025*

The diagnostic tests present in Table 5 confirm that panel effects are significant (Breusch–Pagan LM), firm-specific heterogeneity is relevant (Hausman test), and issues such as heteroskedasticity, serial correlation, and cross-sectional dependence are present. To address these, robust or Driscoll–Kraay standard errors were applied to ensure the reliability of the estimated coefficients. The residuals are approximately normal, and multicollinearity is not a concern, as indicated by a mean VIF below 2.

Conclusion and Recommendations

The findings from the regression, fixed effects, random effects, and diagnostic tests reveal that audit quality attributes play a significant role in determining financial reporting quality among listed firms. Specifically, audit firm size, auditor type, and audit committee independence are the most influential factors that enhance reporting transparency and credibility, as larger and more reputable audit firms tend to provide higher-quality audits, while independent audit committees strengthen oversight and reduce managerial bias. In contrast, joint audit shows a negative and significant effect, indicating that involving multiple auditors may create coordination challenges and weaken audit effectiveness. Audit tenure, though positive, remains statistically insignificant, suggesting that the length of the auditor–client relationship has limited influence on reporting outcomes. The fixed effects model is preferred over the random effects model, confirming that firm-specific characteristics significantly explain variations in financial reporting quality. Diagnostic tests further validate the model's robustness after addressing issues of heteroskedasticity, serial correlation, and cross-sectional dependence. Overall, the results emphasize that audit firm characteristics and sound corporate governance mechanisms are essential for improving the credibility, transparency, and reliability of financial reports,

thereby fostering investor confidence and corporate accountability. Based on the conclusion, the following recommendations are proposed:

1. The government, through regulatory bodies such as the Financial Reporting Council and Securities and Exchange Commission, should strengthen audit regulations by enforcing stricter standards on auditor independence, audit firm rotation, and transparency in audit engagements. This will enhance accountability and ensure that audit practices align with international best standards, thereby improving overall financial reporting credibility.
2. Companies should prioritize engaging reputable and experienced audit firms with proven technical capacity and global standards. In addition, they should ensure that their audit committees are composed of independent and competent members capable of providing effective oversight. Strengthening internal governance mechanisms will foster accurate financial disclosures and boost investor confidence.
3. NGOs, particularly those focused on corporate governance and transparency, should collaborate with professional audit bodies to promote awareness, training, and advocacy programs aimed at improving audit quality and ethical compliance. By supporting transparency initiatives and public accountability campaigns, NGOs can contribute to building a culture of integrity and trust within the financial reporting environment.

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