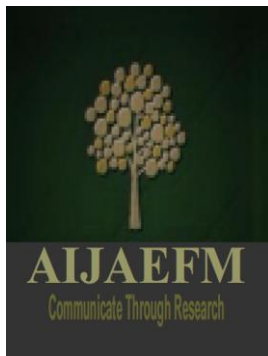


## NEXUS BETWEEN AUDIT QUALITY AND FINANCIAL REPORTING QUALITY OF LISTED INSURANCE COMPANY IN NIGERIA



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### ABSTRACT

*This study investigated the nexus between audit quality and financial reporting quality among listed insurance companies in Nigeria over a twelve-year period (2012–2023). The target population consisted of 24 insurance firms listed on the Nigerian Exchange (NGX) as of December 31, 2023, out of which 18 were purposively selected based on the availability of complete data. Secondary data were extracted from the annual reports and accounts of the sampled firms. Employing a correlational research design, the study utilized multiple regression analysis to assess the data. The results revealed that audit independence exerts a positive and significant effect on financial reporting quality, thereby enhancing the reliability of financial statements. Conversely, audit type exhibited a negative and significant influence, indicating that the structural characteristics of the audit firm may shape reporting outcomes. Joint audits were found to have a positive and significant effect, contributing to enhanced credibility and reduced reporting errors. Similarly, audit tenure demonstrated a positive and significant impact, suggesting that longer auditor engagements foster a deeper understanding of company operations and thus improve reporting quality. Overall, the findings underscore the critical role of audit quality in strengthening financial reporting practices within Nigeria's insurance sector. The study recommends that the independence of external auditors should be safeguarded and reinforced through robust regulatory frameworks to ensure credible and transparent financial reporting.*

**Keywords:** Audit Independence, Audit Type, Joint Audit, Audit Tenure, Relevance

### INTRODUCTION

Financial reporting quality is vital for corporate governance as it underpins transparency, accountability, and effective decision-making, particularly in Nigeria's insurance sector where complex financial arrangements demand rigorous standards (Adebayo & Oladipo, 2021; Chukwu & Okeke, 2020). Relevance, measured through accrual earnings and compliance with IFRS 4, has been empirically validated as a reliable indicator of financial reporting quality among listed insurance firms (Ogullah, Maccarthy, & Maccarthy, 2022; Hafiz, 2023).

Audit quality enhances credibility by ensuring financial statements are free from material misstatements and safeguarding against fraud, with its effectiveness shaped by audit independence, audit tenure, audit type, and joint audit practices (Bello & Ahmed, 2022; Ibrahim & Yusuf, 2023). Independence safeguards objectivity but may be compromised by long auditor-client relationships (Ojo & Musa, 2021; Ogbonna & Eze, 2024). Tenure improves auditors' understanding yet risks overfamiliarity (Ibrahim & Yusuf, 2023; Okoro & Oladipo, 2023). Audit type external, internal, statutory, or voluntary affects the scope of assurance (Akinola & Ojo, 2020; Madu & Akpan, 2021). Joint audits can strengthen audit rigor and reduce bias but are underutilized in Nigeria due to cost and complexity (Madu & Akpan, 2021; Nwafor & Eze, 2022).

Despite the insurance sector's critical role in Nigeria's economic development, weak disclosures, poor governance, and regulatory inconsistencies undermine reporting reliability (Eze & Nwankwo, 2023; Okoro & Oladipo, 2023). However, limited empirical evidence exists on how audit quality dimensions affect financial reporting quality in listed insurance firms (Ogbonna & Eze, 2024). This study therefore examines audit independence, tenure, type, and joint audits to provide evidence-based recommendations for strengthening regulation, enhancing transparency, and boosting investor confidence, thereby contributing to Nigeria's economic growth (Akinola & Ojo, 2020).

## Objectives of the Study

The main objective of the study is to assess the nexus between audit quality and financial reporting quality of listed insurance companies in Nigeria. The specific objectives of the study include:

- i. To determine the effect of audit independence on financial reporting quality of listed insurance companies in Nigeria.
- ii. To assess the effect of audit type on financial reporting quality of listed insurance companies in Nigeria.
- iii. To examine the effect of audit tenure on financial reporting quality of listed insurance companies in Nigeria.
- iv. To determine the effect of joint audit on financial reporting quality of listed insurance companies in Nigeria.

## 2.0 Conceptual Review

### 2.1 Concept of Financial Reporting Quality

Financial reporting quality (FRQ) is guided by the International Accounting Standards Board (IASB, 2021), which classifies its attributes into fundamental qualitative characteristics relevance and faithful representation and enhancing characteristics, including comparability, verifiability, timeliness, and understandability (Herath & Albarqi, 2020; Olowukure, Tanko & Nyor, 2021). The Financial Accounting Standards Board (FASB, 2019) and IASB (2021) emphasize that the core objective of FRQ is to provide high-quality, decision-useful financial information to stakeholders.

FRQ reflects the authenticity of reports and their ability to faithfully communicate company performance to investors, creditors, regulators, and the public (Hassan et al., 2020; Martinez & Ferrero, 2024). It ensures transparency, reliability, and clarity, which are essential for decision-making and stakeholder trust (Verdi, 2016; Jonas & Blanchet, 2020).

Measurement of FRQ is typically divided into quantitative and qualitative approaches (Tuta, 2024; Adamu, 2020). Quantitatively, FRQ is assessed using accrual models and value relevance models. The accrual model examines earnings management, where managers may manipulate accounting information to influence perceptions or contracts (Beast, Braam & Boelens, 2019; Samaila, 2021; Hearly & Wahlen, 2019). The value relevance model evaluates the relationship between accounting figures and stock market reactions, though it is criticized for focusing narrowly on earnings quality (Nicholas & Wahlen, 2019; Barth, Beaver & Landsman, 2020; Adamu, 2020).

Qualitatively, FRQ is evaluated based on IASB and FASB frameworks, focusing on relevance (predictive and confirmatory value) (Beast et al., 2019; Bartov, Gul & Tsui, 2023), faithful representation (neutrality, completeness, verifiability) (IASB, 2021; Maines & Wahlen, 2021), comparability (consistency and uniformity across firms) (Cole, Branson & Breesch, 2020; Bushman, Chen & Engel, 2024), understandability (clarity, classification, and presentation of information) (Birt et al., 2020; Siriyama & Norah, 2020), and timeliness (availability of information before it loses decision usefulness) (Samaila, 2019; Beest et al., 2019). FRQ represents the degree to which financial reports reliably convey a firm's performance and cash flows, facilitating informed decision-making for investors and other stakeholders (IASB, 2020; Martinez & Ferrero, 2024).

## 2.2 Concept of Audit Quality

Audit quality arises from the need to bridge the ownership management gap and limit self-serving managerial bias through independent attestation of financial statements (Millichamp & Taylor, 2022; ICAN, 2023). It is commonly defined as the auditor's ability to provide reasonable assurance that financial reports are free from material misstatements and to issue an unbiased opinion on their truth and fairness (Francis, 2021). Core elements such as competence, integrity, and skepticism ensure audit credibility and investor confidence (DeAngelo, 2019), while quality audits also detect weaknesses in accounting systems, thereby strengthening reporting practices (Ali, Mohaisen & Hameed, 2019). Regulatory perspectives stress that ethical values, professional knowledge, sufficient time, and rigorous procedures drive audit quality (IAASB, 2022), while both quantitative and qualitative indicators of audit performance are highlighted by the Center for Audit Quality (2019). Ultimately, auditors serve as intermediaries between management and stakeholders, tasked with enhancing trust in financial reports (Porter, Simon & Hatherley, 2016).

High audit quality reduces earnings management, constrains opportunism, and enhances compliance with standards, thereby strengthening financial reporting quality (Okafor & Arowoshegbe, 2020; John & Ekpo, 2024). It is often proxied by auditor independence, firm size, tenure, audit fees, and industry specialization (Yakubu & Aliyu, 2022; John & Ekpo, 2024). Independence underpins objectivity but can be threatened by

long tenure, excessive fees, or non-audit services (Kareem et al., 2021; Obi & Ibe, 2021). Larger audit firms, particularly the Big 4, are linked to superior methodologies and resources (Aliyu & Mohammed, 2023), while industry specialization is especially valuable in complex sectors like insurance where deep expertise enhances risk detection and reliability (IFRS Foundation, 2022; Kareem et al., 2021). Conversely, generalist auditors may fail to uncover misstatements (Yakubu & Aliyu, 2022).

Other factors also influence audit quality. Independence in fact and appearance safeguards credibility (Ali & Yusuf, 2021; Bello, 2022; Chinedu, 2023; Obinna, 2025), while regulatory reforms such as mandatory auditor rotation aim to prevent complacency (Fagbemi, 2020; Dogo, 2024). Audit type matters: statutory audits legally protect stakeholders, whereas voluntary audits may vary in quality (Xu et al., 2021; Chen & Wu, 2023). Joint audits combine expertise and enhance credibility, though risks such as inefficiencies exist (Lobo et al., 2020; André et al., 2021). Audit tenure provides firm-specific knowledge but may compromise skepticism if excessively prolonged (Johnson, Khurana & Reynolds, 2021; Arrunada & Paz-Ares, 2018).

Audit quality is a multidimensional construct shaped by independence, firm size, tenure, fees, and specialization. Its strong link to financial reporting quality highlights its role in enhancing transparency, reducing information asymmetry, and fostering investor confidence (Aliyu & Mohammed, 2023; IFRS Foundation, 2022).

## **2.3 Theoretical Review**

### **2.3.1 The Lending Credibility Theory**

The Lending Credibility Theory provides the most appropriate theoretical foundation for this study, as it posits that the fundamental role of auditing is to enhance the credibility of financial statements (Olowookere et al., 2024). Given that management possesses superior knowledge of a firm's operations, independent auditors serve to validate financial reports, thereby making them more reliable for investors and reducing information asymmetry in capital markets (Owusu-Afriyie, 2024). The degree of credibility lent by auditors depends on audit firm characteristics and audit quality, including independence, professional competence, methodological rigor, and tenure (Olowookere et al., 2024). Auditor independence, in particular, safeguards objectivity and strengthens stakeholder confidence in financial disclosures (JBAE special issue, 2025).

The theory highlights the significance of audit firm size and specialization. Larger and reputable audit firms generally employ superior methodologies and quality control mechanisms, thereby providing greater assurance, although smaller firms may compensate with more focused engagement (IIARD, 2025). Joint audits are also supported within this framework, as the collaboration of multiple auditors enhances professional skepticism, reduces bias, and minimizes the risk of oversight (Maryam et al., 2024). Audit tenure is similarly relevant, as extended auditor–client relationships can deepen knowledge of a firm's operations, yet excessively long engagements may compromise independence and reduce professional skepticism (Limperg, 1932; Hayes et al., 2005).

The Lending Credibility Theory offers a rigorous basis for linking audit quality measured through independence, firm size, joint audits, and tenure with improvements in financial reporting quality. It supports the view that high-quality audits enhance the credibility of financial information, reduce information asymmetry, and foster transparency and investor confidence, particularly within Nigeria's insurance sector (Owusu-Afriyie, 2024).

## 2.4 Empirical Review

Abubakar and Abbas (2023) examined the influence of audit independence on financial reporting quality in a sample of 15 Nigerian insurance companies between 2016 and 2021. Audit independence was proxied by the ratio of non-audit fees to total audit fees, while financial reporting quality was measured using discretionary accruals under the Modified Jones model. Their fixed-effects regression results revealed that greater independence significantly reduces earnings manipulation, thereby enhancing transparency and reliability. The authors emphasized the regulatory importance of limiting non-audit services, although they acknowledged the limitations of the independence proxy and the relatively small sample size.

Ibrahim and Bello (2021) investigated the effect of auditor type on financial reporting quality in 12 Nigerian insurance companies over the period 2016–2021. Auditors were classified as either Big 4 or non-Big 4, and financial reporting quality was assessed through discretionary accruals. The results indicated that companies audited by Big 4 firms exhibited significantly higher reporting quality, reflecting stronger audit standards and greater professional expertise. Despite the limited sample size and study duration, the findings highlight the importance of auditor reputation and resources, while suggesting that regulatory agencies encourage the engagement of reputable firms.

Abdul and Suleiman (2020) analyzed the relationship between audit tenure and earnings management in 12 Nigerian insurance companies from 2013 to 2019. Audit tenure was measured as continuous years of auditor engagement, and discretionary accruals served as the proxy for earnings management. Their findings revealed a nonlinear effect: moderate tenure enhanced reporting quality through improved auditor knowledge, whereas prolonged tenure fostered earnings manipulation due to diminished independence. The study recommended regulatory limits on tenure length to balance the benefits of auditor familiarity with the risks of reduced professional skepticism.

Abdullahi and Eze (2020) studied the impact of joint audits on financial reporting quality in Nigerian insurance companies between 2015 and 2019. Using regression analysis, they established that joint audits significantly reduce earnings management and thereby enhance the credibility of financial statements. The improvement was attributed to the combined expertise and oversight of multiple auditors. While acknowledging potential cost implications and the lack of a cost–benefit analysis, the study concluded that the advantages of joint audits outweigh their drawbacks and recommended their adoption within the insurance sector.

Owolabi and Amosun (2020) evaluated the role of internal control systems in enhancing financial reporting quality in the Nigerian insurance industry, drawing on responses from 98 internal auditors and finance officers. Their regression analysis demonstrated that robust internal controls significantly strengthen the reliability of financial reporting, thereby underscoring the complementary role of internal governance in audit effectiveness. Although the study was limited by reliance on perceptions and the absence of long-term outcome measures, it contributes to the literature by highlighting the importance of non-financial dimensions of audit quality in reinforcing both internal and external audit practices.

### **3.0 METHODOLOGY**

#### **3.1 Research Design**

This study adopted an ex-post facto research design where historical data on audit quality and financial reporting quality was used in analyzing the effect of audit quality on financial reporting quality of listed insurance companies in Nigeria. The data used was extracted from the published annual reports and accounts of the sampled insurance companies.

#### **3.2 Population of the Study**

The population of this study covers all the 24 insurance companies quoted on the Nigerian Exchange Group (NGX) as at 31<sup>st</sup> December, 2023. The choice of insurance companies is because of the role it played as intermediary in the economy by way of spreading financial and other services, thereby facilitating investment opportunities.

#### **3.3 Sample Size and Sampling Technique**

The study employed a purposive sampling technique to select 18 insurance companies out of the 24 listed on the NGX, constituting the study's population. The selection was based on strict criteria: companies had to be listed on or before 31<sup>st</sup> December 2011, remain listed throughout the study period (2012–2023), and consistently publish annual financial reports. The year 2012 was chosen as the starting point because most insurance companies fully adopted IFRS reporting in 2011. Through this filtering process, only firms that met these conditions were included in the sample. Purposive sampling, a non-probability method based on the researcher's judgment, was considered appropriate to ensure the inclusion of firms with relevant data for analyzing audit independence and financial reporting quality.

#### **3.4 Technique of Data Analysis**

The data generated in the course of this study will be analyzed using different statistical techniques which will include: descriptive statistics, Pearson correlation, and multiple regressions.

### 3.5 Model Specification

The financial reporting quality of insurance companies was estimated as a function of qualitative characteristics of relevance (R), while audit firm characteristics by audit independence (AI), audit tenure (AT), audit type (ATY) and Joint audits (JA)

This can be deduced as;

$$FRQ = f(R) \text{-----(i)}$$

$$AQ = f(AI, ATY, AT, JA) \text{-----(ii)}$$

The econometric model was stated as:

$$FRQ_{it} = \beta_0_{it} + \beta_1 AI_{it} + \beta_2 ATY_{it} + \beta_3 AT_{it} + \beta_4 JA_{it} + e_{it} \text{-----(iii)}$$

Where: FRQ = Financial reporting quality (qualitative)

AI = Audit Independence

ATY = Audit Type

AT = Audit Tenure

JA = Joint Audits

R = Relevance

e = Error term

*it* = company *i* in year *t*

## 4.0 RESEARCH ANALYSIS AND FINDINGS

### 4.1 Descriptive Analysis

**Table Error! No text of specified style in document..1: Descriptive Statistics**

| Variables | Mean    | Standard Deviation | Skewness | Kurtosis |
|-----------|---------|--------------------|----------|----------|
| FRQ       | 14.339  | 2.203              | -0.04    | -0.28    |
| AI        | 2.1340  | 0.3483             | 0.44     | 0.12     |
| ATY       | 0.6770  | 0.4680             | -0.76    | -1.43    |
| JA        | 0.03265 | 0.17786            | 5.27     | 25.90    |
| AT        | 0.7680  | 0.4224             | -1.27    | -0.38    |

**Source:** Extraction from Minitab output

Table 4.1 shows that the collected data are normally distributed across all the variables as indicated by mean of 14.339, 2.1340, 0.6770, 0.03265 and 0.7680 for FRQ, AI, ATY, JA, and AT respectively. The standard deviation of 2.203, 0.3483, 0.4680, 0.17786 and 0.4224 for FRQ, AI, ATY, JA and AT respectively shows that there is a moderate dispersion between the collected data and the data are concentrated at the centre. The concentration of data at the centre is also visible in the -0 and +0 skewness value which indicates that the data is neither skewed much to the right nor much to the left. This trend of data is replicated in almost all the variables selected for the study and it could be concluded that the collected data are normally distributed across the variable.

Conclusively, the analysed data from descriptive statistics has shown a fair distribution, variation and concentration of the collected data that will aid the acceptability and reliability of the study findings as the collected did not shows a significant sign of defect in its collection process and the nature of the data.

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### 2: Correlation Result

| Variables | FRQ   | AI    | ATY   | JA    | AT    |
|-----------|-------|-------|-------|-------|-------|
| FRQ       | 1.000 |       |       |       |       |
| AI        | 0.372 | 1.000 |       |       |       |
| ATY       | 0.016 |       | 1.000 |       |       |
| JA        | 0.425 | 0.095 | 0.027 | 1.000 |       |
| AT        | 0.000 | 0.018 | 0.248 |       | 1.000 |

|    |       |       |       |        |       |
|----|-------|-------|-------|--------|-------|
| AT |       | 0.097 |       |        | 1.000 |
|    | 0.115 | 0.032 | 0.034 | -0.014 |       |
|    | 0.006 |       | 0.231 | 0.744  |       |

**Source:** extraction from Minitab output

Significant at 1% and 5% level of significance respectively.

The correlation results in Table 4.2 reveal a positive, strong, and significant relationship between financial reporting quality (FRQ) and all explanatory variables—audit independence (AI), audit type (ATY), joint audits (JA), and audit tenure (AT). Audit independence showed a significant positive correlation with FRQ, while audit type recorded a coefficient of 0.425, indicating that changes in auditor type correspond with changes in reporting quality. Similarly, joint audits demonstrated a positive coefficient of 0.153, suggesting that even slight engagement in joint audits improves reporting quality. Audit tenure also correlated positively with FRQ (0.115), as did the control variable, audit committee independence (0.122). Collectively, these results confirm that increases in the independent variables significantly enhance financial reporting quality. Furthermore, correlations among the independent variables were insignificant ( $p > 0.05$ ), ruling out multicollinearity. Notably, audit type, joint audits, and tenure each showed weak but positive relationships with audit independence, while joint audits correlated positively with most variables except audit tenure, which exhibited a slight negative association.

**Table Error! No text of specified style in document..3: Regression for FRQ; VIF and Durbin-Watson result**

| Predictor         | Standardized Coefficients | t-value | Sig.    | VIF   |
|-------------------|---------------------------|---------|---------|-------|
| Constant (FRQ)    | 1.8592                    | 3.66    | 0.000** |       |
| AI                | 1.43275                   | 25.13   | 0.0030* | 1.268 |
| ATY               | -0.2079                   | -2.30   | 0.023*  | 1.557 |
| JA                | 0.1560                    | 3.46    | 0.000** | 1.045 |
| AT                | 0.1715                    | 2.15    | 0.018*  | 1.077 |
| Adjusted R-Square | 0.579                     |         |         |       |
| Durbin-Watson     | 1.986                     |         |         |       |
| F-value           | 0.000                     |         |         |       |

significant at 1 and 5% level of significance

**Source:** Minitab Computation (2023)

The multiple regression results in Table 4.3 show that audit quality significantly influences the financial reporting quality (FRQ) of listed insurance companies in Nigeria. The adjusted  $R^2$  value of 0.579 indicates that audit quality variables jointly explain over 57% of variations in FRQ, confirming the model's fitness.

Diagnostic tests revealed no issues of autocorrelation (Durbin-Watson = 1.986) or multicollinearity ( $VIF < 5$ ). The findings demonstrate that audit independence has a positive and significant effect on FRQ ( $\beta = 1.43275$ ,  $p = 0.030$ ), consistent with prior studies emphasizing independence as a key determinant of audit diligence (Amahalu & Obi, 2020; Semiu & Johnson, 2021). Conversely, audit type negatively and significantly impacts FRQ ( $\beta = -0.2079$ ), corroborating studies such as Okile et al. (2023). Joint audits positively and significantly improve FRQ ( $\beta = 0.1560$ ,  $p = 0.000$ ), supporting arguments that they enhance error detection, auditor independence, and competence (Okaro et al., 2020; Carcello & Nagy, 2019; Deng et al., 2024). Similarly, audit tenure positively and significantly affects FRQ ( $\beta = 0.1715$ ,  $p = 0.018$ ), aligning with the learning curve theory that longer tenures improve audit quality (Simon & Francis, 2018), though contrasting with views that long associations threaten independence (SOX, 2002; IFAC, 2015). Collectively, the results underscore that audit independence, joint audits, and tenure strengthen financial reporting quality, while audit type exerts a negative effect.

## 4.2 Discussion of Findings

This study examined the effect of audit quality on the financial reporting quality (FRQ) of listed insurance companies in Nigeria and found that all four null hypotheses were rejected, indicating that auditor independence, audit type, joint audits, and audit tenure each have a statistically significant impact on FRQ.

The positive relationship between audit independence and FRQ supports Aondover (2025), who emphasized that independent auditors enhance reliability through due diligence and objectivity. In contrast, audit type showed a negative effect, consistent with Tunde and Femi (2023), who argued that larger audit firms may exercise less diligence compared to smaller firms seeking to build reputation.

Findings also revealed that joint audits positively affect FRQ, aligning with Abdullahi and Eze (2020), who noted that such audits improve error detection and reduce delays. Similarly, audit tenure demonstrated a positive impact, confirming Bello and Yakubu (2025), who highlighted that longer engagements improve auditors' understanding of client operations. However, excessive tenure may reduce skepticism and effectiveness, as cautioned by Aondover (2025).

Overall, the results underscore the crucial role of audit quality in strengthening the credibility and reliability of financial reporting in Nigeria's insurance sector. While independence, tenure, and joint audits improve reporting quality, the negative influence of audit type suggests the need for careful evaluation of firm size in assessing audit quality.

## 5.0 CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusion

This study examined the impact of audit quality on the financial reporting quality of listed insurance companies in Nigeria and found that all four audit quality dimensions independence, audit type, joint audits, and tenure significantly influence reporting outcomes. Audit independence and joint audits positively

enhance financial reporting quality by promoting objectivity, diligence, and error detection, while longer audit tenures improve auditor familiarity with client operations, though with the caution of potential complacency. Conversely, audit type showed a negative effect, suggesting that the size and structure of audit firms can influence diligence and effectiveness. Overall, the findings underscore the need for regulatory frameworks and governance practices that strengthen auditor independence, encourage joint audits, and balance tenure length to improve transparency, investor confidence, and sustainable growth in Nigeria's insurance sector.

## 5.2 Recommendations

The findings which emanated from the analyzed data paved way for the following practical and policy recommendations that will go a long way in addressing key problems relating to financial reporting quality as being determined by audit quality.

- i. Independence of external auditors should be monitored and enhancing mechanism by relevant agencies should put in place. On the same vein strong economic bonding of auditor and their client should be discouraged through formulating an audit fee model with compliance enforcement strategy.
- ii. Regulators and Management of organizations especially insurance companies should work toward strengthen small audit firm and also ensure switching from one big audit firm to another is discouraged as it will bring sanity into the Nigerian audit market.
- iii. Joint audit should be encouraged by regulators especially Financial Reporting Council of Nigeria which will encourage cross ventilation of experience and due diligence in performing audit services. This will foster comprehensive and rigorous review of financial statements of companies and this will lead to high quality of financial reports.
- iv. Change in auditors should be observed and monitored by relevant agencies and management of companies especially audit committee should discourage the unending audit tenure in their respective companies. The study indicates that a long audit tenure does not translate to increased financial reporting quality and this will reduce avoid over familiarity of auditors with client as it will cause non comprehensive review financial statement.

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