AUDIT ATTRIBUTES AND FINANCIAL REPORTING QUALITY OF QUOTED COMMERCIAL BANKS IN NIGERIA

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ABSTRACT

This study examined the effect of audit attributes on the financial reporting quality of firms in the financial services sector of Nigerian economy. Ex post facto research design was adopted while secondary data were collected from the annual reports of the firms. 36 firms were selected for the study over a period of 2012 to 2021 financial years. Data collected were analysed using descriptive statistics, correlation analysis and panel regression estimation technique. The study revealed that audit tenure [with coefficient and P- value -0.014 (0.4)], has negative and no significant effect on financial reporting quality of the firms. Joint audit [with coefficient 0.91 and P-value 0.07] has positive and significant effect on reporting quality of Banks at 10% level of significant. Audit firm size [with coefficient and p-value of 0.138 (0.000)] has positive and statistical significant effect on the financial reporting quality of listed Banks in Nigeria Exchange Group at 1% level of significant. Furthermore, audit fees have -0.030 (0.14) negative but no significant effect on the financial reporting quality of financial service firms. Finally, industry specialised audit [with coefficient value -0.0599 and P-statistics of 0.085] has negative significant effect on financial reporting quality of the firms at 10% level of significant. The study recommends amongst others that Banks in Nigeria should consider audit firm size for the audit and assurance services engagement as the Big4 audit firm's performances have valid proof of providing improved quality of audit and financial reporting quality.

Keywords: Joint Audit, Audit Fee, Industry Specialised Audit, Audit Firm Size, Audit Tenure.

1.0 INTRODUCTION

Financial reporting is the basis of making informed business decisions capable of positively changing the investment and financial status of investors. The importance of quality financial reporting cannot be relegated; hence. Dijeh, Ofor and Odubuasi (2022) note that increased emphasis on quality financial reporting can be traced to early twenty first century, when rising cases of corporate failures were reported across the globe. Okolie and Izedonmi (2014) highlighted some of the corporate collapses to include African Petroleum, Uniliver Plc., Oceanic Bank, Cadbury Nigeria Plc. and Enron. These recurrent corporate failures raised mixed feelings on the reliability and credibility of the independent auditors who conducted the audit and provided unqualified reports for the firms, that collapsed in less than one year after the audit reports. Daferighe and George (2020) insisted that financial reporting must maintain high quality in order to be able to command the trust of investors, shareholders, regulators and other users of the financial statement.

Pertinently, the benefits of financial reporting quality cannot be overemphasized as it evokes the confidence of investors in the capital markets (Ozegbe & Jeroh, 2022). Expectedly, the lack of quality in financial reports eventually leads to corporate failures as has being witnessed across the globe in recent times (Daferighe & George, 2020).

Moreover, Corporate governance is instituted to monitor and examine the process of preparation of financial reports, in order to comply with accounting standards. That brings in the role of auditor attributes in enforcing quality audit in order to ensure quality financial reporting and reduced accounting scandals (Adeyemi & Akinniyi, 2011). In other words, quality audit enhances quality financial reporting. European Supreme Audit Institution, (EUROSAI) qualifies quality audit as the extent to which a set of inherent audit characteristics requirement are fulfilled (EUROSAI, 2004).

In relation to the inherent challenges that necessitated statutory requirement of financial statement audit, Dijeh, Ofor and Odubuasi (2022) reported that the company managers and preparers of financial reports have interest that are distinct from that of the shareholders. This makes the role of the independent auditor for restoring the quality of financial reports indispensable.

Audit attributes were suggested to be the factors that consolidate the quality of financial reporting (Farouk & Hassan, 2014). More so, DE Anglo (1981); Dechow and Dichev (2002) posit that the tool, that could enable the auditors discover and disclose the opportunistic behaviours of managers in the financial report is the attributes of the auditor. That is why investors, shareholders and other stakeholders consider external auditors as the most reliable mechanism for improving the quality of financial information. Unfortunately, the credibility of audited financial statements appears to have attracted mixed reactions following the rising spate of audit failures and corporate collapses of several companies across the world in recent times. Corporate scandals appear to occur not long after the external auditor issue unqualified audit reports on the financial statements of firms.

Corporate scandals and corporate collapses may be a pointer of failure by auditors and this calls for vigorous re-examination of the attributes of external auditors' instruments for improving the quality of financial statements. The study investigates the effect of the auditor attributes on the financial reporting quality of commercial Banks quoted on Nigeria Exchange Group limited.

Most studies used earnings manipulation with accrual earnings as proxy to measure financial reporting quality (Lamed, Okpanachi & Yahaya, 2022; Dijeh, Ofor & Odubuasi, 2022; Daferighe & George, 2020). Consequently, this study measured financial reporting quality with discretionary accruals and was estimated using Larcker and Richardson (2004) model.

Larcker and Richardson (2004) added the book-to-market ratio (BM) and cash flow from operations (CFO) to the Modified Jones Model to mitigate measurement errors associated with discretionary accruals. BM controls for expected growth in operation, while CFO controls for current operating performance.

2.0 LITERATURE REVIEW

2.1.1 Financial reporting quality

Financial reporting comprises the presentation of financial information and stewardship reports by the managements to the owners of the business. Nwanyanwu (2013) posits that financial report entails rendering financial statements to the stakeholders for financial decision making. Elbannan (2010) reported that financial reporting quality measures the degree or totality to which financial statements reveal the activities of an entity.

Previous studies have shown that measures of unexpected accruals are more likely to be misspecified for firms with extreme levels of performance (Dechow et al., 1995). Accordingly, Larcker and Richardson (2004) include current operating cash flows, CFO, as an additional independent variable. Larcker and Richardson (2004) argue that the model outperforms the modified Jones model. Since discretionary accruals equal total accruals minus estimated non-discretionary accruals, the estimated non-discretionary accruals of the cross-sectional modified Jones model with book-to-market ratio and cash flow from operations are estimated as follows: $TAt = \alpha + \beta 1\ \Delta Salest - \Delta RECt + \beta 2PPEt + \beta 3BMt + \beta 4\ CFOt + \varepsilon$ Where;BMt = is the market value / book value in year τ scaled by total assets at t −1 All variables are scaled by the average of total assets using assets from the start and end of the fiscal year.

2.1.2 Auditor attributes

Auditor attribute means those qualitative characteristics of audit firm that are capable of changing performance level of the auditor. Some of the audit firm attributes as indicated in literature are audit fee, audit tenure, auditor switching, auditor type, audit turnover (Dijeh, Ofor & Odubuasi, 2022; Lamed, Okpanachi, & Yahaya, 2022; Ogungbade, Adekoya & Olugbodi, 2021). The auditor attributes that are chosen for our present study are discussed hereunder.

2.1.3 Audit tenure

Audit tenure measures the number of years that an audit firm renders an audit assignment to a particular entity. The argument of the audit tenure arises because some group of researchers believed that long audit tenure breeds familiarity that will impede financial reporting quality (Chung & Kolhapur, 2003). Nonetheless, other schools of thought believe that long auditor tenure gives the audit firm the opportunity to understand the business of the clients well and to be able to weed out all misrepresentations in the financial statements (Ling & Nopmanee, 2015). Most of the studies in literature measure audit tenure as dummy variable where 1 is assigned when audit firm has served for three years, if less than three or more years, 0 is assigned (Dijeh et al., 2022).

2.1.4 Audit firm size

Audit firm size is a categorizing of the group of big sized audit firms known as Big4.Big4 Audit firm are assumed to have more capacity to generate excellent audit report because of sufficient resources at their disposal. In addition, DeAngelo (1981) noted that the audit firm size has more experience as well as possess financial independence to resist the influences of the client to compromise on their standards, as they often work to protect their integrity. Ogbeifun and Adeniran (2020) study indicate that audit firm size has statistical significant effect on the financial reporting quality of listed banks in Nigeria.

2.1.5 Audit fee

Audit fee refers to the payment made to the audit firm in return for carrying out audit assignments for the client. The fees paid by client could have an inestimable effect on the performance of the audit assignments of the audit firm (Dijeh, Ofor & Odubuasi, 2022). Some scholars believe that higher audit fees induce the audit firms to compromise on their responsibilities (Dijeh, Ofor & Odubuasi, 2022; Ogungbade, Adekoya & Olugbodi, 2021; Daferighe & George, 2020), while other groups of scholars uphold that high audit fees to audit firm enable them to put their best to use in delivering quality audit reports as being underpaid could make them accept tips which might erode their independence (Soltani, 2002; Becker, Jiambalvo & Subramanyam, 1998).

2.1.6 Joint audit

A situation where more than one independent audit firm jointly undertake an audit responsibility with intension of being jointly liable and sharing the fee entails a joint audit scenario with end result of producing one audit report. Dijeh, Ofor & Odubuasi (2022) opine that the audit firms in joint audit assignments would have to plan the audit together, execute the field work together and cross review the exercise.

2.1.7 Industry specialised audit

The classification under industry specialised audit is the expression of the impression that auditors who have carried out audit assignments on good number of firms within the same industry must have acquired special knowledge of that industry. Dijeh, Ofor and Odubuasi (2020) posit that all audit firm that has conducted audit exercise on about more than 20% of the firms in that industry must have gathered specific risks of the industry and would be referred to as industry specialist auditor. Ibrahim (2017) found that industry specialised audit has strong influence on earnings quality of consumer goods firms in Nigeria

2.2 Theory of auditor inspired confidence

This study is anchored on theory of auditor inspired confidence. Theory of auditor inspired confidence was propounded by Theodore Limperg in 1932. The theory of inspired confidence is also known as theory of rational expectations and was driven by mergers of several audit firms in the 1980s and 1990s which was prompted and influenced by the development of auditing in the Netherlands (Wallage, 1991).

The theory of inspired confidence requires auditors to perform their task in such a way that they do not betray expectation of a ‘rational outsider’, without arousing greater expectations than is justified by the audit.

The specific objectives of the study were to investigate the effect of; The auditor attributes considered includes Auditor Tenure, Audit fees, Audit firm size, Joint audit and Industry audit specialization.

The study proposes that there is no significant relationship between auditors’ attributes and the quality of financial reports of listed Banks in Nigeria.

2.3 Empirical review

Lamido, Okpanachi, and Yahaya (2022) examined the relationships between audit firm characteristics and financial reporting quality of listed consumer goods firms in Nigeria and found that audit rotation has positive and significant effect on financial reporting quality at 1%, but audit tenure and audit opinion have positive significant effect on financial reporting quality at 10%; while other variables have no significant effect.

Dijeh, Ofor and Odubuasi (2022) found that audit fee has negative and statistical significant effect on financial reporting quality of the insurance firms at 1%, when they investigated the effect of audit attributes on the financial reporting quality of Nigerian insurance from 2011 to 2020.

Ogungbade, Adekoya and Olugbodi (2021) used samples of eleven (11) money deposit banks listed on the Nigeria exchange limited from 2009 to 2018. Their analysis revealed that audit fees have statistical significant effect on the dependent variable at 5% level.

Namakavarani, Daryaei, Askarany and Askary (2021) investigated the role of internal information environment and political connections on audit committee characteristics and quality of financial information. Taking a sample of 558 firms listed on the Tehran stock exchange, Iran from 2011 to 2016 financial years. The study shows that a significant positive relationship between the audit committee and financial information quality characteristics in high-level political connections, as well as between financial knowledge and financial information quality.

Daferighe and George (2020) conducted investigation into audit firm attributes and financial reporting quality of quoted manufacturing firms in Nigeria that spanned from 2011 to 2015 financial year. The study result thereof indicates that only audit fee has statistical significant effect on the financial reporting quality of manufacturing firms quoted on the Nigerian stock exchange at 1% level.

Enyinna, Okotume, and Odubuasi (2023) determined audit quality on earnings management of firms in Nigeria where they conducted data analysis with descriptive statistics and regression analysis. They found that audit fee and Big4 audit firms have negative and statistical significant effect on earnings management while audit tenure and joint audit service have negative and no significant effect on earnings management of banks studied.

Kaawaase, Nairuba, Akankunda and Bananuka (2020) studied the relationships among the trio of corporate governance, internal audit quality and financial reporting quality of financial institutions in Uganda, using cross sectional research design that allowed the use of questionnaires as an instrument for data collection in the year 2019. Their results indicate that board role performance and board expertise, and internal audit quality have significant effect on financial reporting quality. But board independence has no significant effect on the financial reporting quality of the financial institutions sampled in Uganda.

Handayani and Ibrani (2020) investigated the effect of audit committee characteristics on earnings management and its impact on value of firms listed on the Indonesian stock exchange that span across 2016 to 2018 financial years and came with the finding that that the expertise of the audit committee in industry and accounting has insignificant effect on earnings management.

Akpan and Nsentip (2020) on their own examined audit committee attributes and qualitative financial reporting as it affects Nigerian banking sector. Their study covered 2009 to 2018 financial years where it applied Ex-post facto research design and collected data from annual reports of the 12 banks across the years. Result of regression estimation they conducted maintain that audit committee size and audit committee independence has positive significant effect on financial reporting quality.

Ogbeifun and Adeniran (2020) on their part assessed the relationship between audit quality attributes and financial reporting quality of some selected ten listed commercial banks in Nigeria wherein they proxies audit attributes using audit committee report, audit firm size, auditor's remuneration, audit committee's report and audit's report. They found that, audit firm size, audit committee report, auditor's report and auditor's remuneration have statistical significant effect on the quality of financial reporting of the Nigerian banks sampled.

Oyedokun, Okwuosa and Isah (2019) examined the effect of audit characteristics on financial reporting quality of listed consumer goods company listed on the Nigerian stock exchange. They employed ex-post facto research design and collected secondary data from the annual reports of the firms sampled covering 2009 to 2018 accounting years. Analysis was done with ordinary least square regression technique and the results show that audit type has positive and no significant effect on financial reporting quality, audit size has positive significant effect at

5% level, while audit tenure has negative and statistical significant effect on financial reporting quality at 1% level.

3.0 DATA AND METHOD

The study used *ex post facto* research design because the event had already occurred and the researcher had no intention of manipulating the data but use them as they are. The study population is the forty-nine (49) financial service firms listed on the financial service sector of Nigerian Exchange limited as at 31st December 2022. Judgmental sampling method was applied to select thirty-six firms that have consistently been in operation for the past five years, whose financial statements were readily available and accessible on the internet for those periods covered. Secondary data was sourced from the annual reports of the firms from 2012 to 2021 financial years. Descriptive statistics, correlation analysis and panel regression technique were used for data analysis. Fixed effect and random effect model of panel estimation was run and Hausman test was used to select the better model between fixed effect and random effect. Post regression test was conducted with Variance inflation factor (VIF) for multicollinearity; Heteroscedasticity for presence of an outlier or whether the residual of the error term is constant; Regression specification error test for omitted variable in the model. The validity of the models was tested with the help of F-test and P-value, R^2 measured the overall impact of the independent variables on the dependent variable, a test that assessed the goodness of fit of the model, while the significance of the individual independent variables were tested with t-test.

3.1 Model specification

The model of this study is specified using regression model adapted from the study by Dijeh et al. (2022), to which another variable industry specialised audit was added.

FRQ = f (BIG4, AUDITFEE, AUDITENURE, JOINTAUD, INDSPAUD)

The model is presented in econometric form as follows;

$FRQ_{it} = \beta_0 + \beta_1 BIG4_{it} + \beta_2 AUDITFEE_{it} + \beta_3 AUDITNURE_{it} + \beta_4 JOINTAUD_{it} + \beta_5 INDSPAUD_{it} + \varepsilon_{it}$ ------ equ (1)

Where;

FRQ = Financial reporting Quality of firm *i* in year *t*; BIG4 = Audit firm size *i* in year *t;* AUDITFEE = Audit fee of firm *i* in year *t;* AUDITENURE = Audit tenure of firm *i* in year *t;* JOINTAUD = Joint audit of firm *i* in year *t;* INDSPAUD = Industry specialised audit; ε_{it} = Stochastic variable; β_0 = Intercept/ Constant; $\beta_1, \beta_2, \beta_3, \beta_4,$ = Parameters or coefficients of determination

3.2 Variables Measurement

Variables/ specifications	Expected signs	Measurements	Authors
Financial reporting Quality (FRQ)		Proxies by discretionary accruals computed using Larcker and Richardson (2004)	Dijeh et al. (2022)
Audit firm size (BIG4)	+	Proxy with dichotomous variable "1" if the firm is audited by Big 4 audit firms. But if by non-Big 4 audit firms we assign "0".	Dijeh et al. (2022); Olthof (2017)
Audit fee (AUDITFEE)	+	The total amount of remuneration paid to the audit firm for audit work done as reported in the financial statement.	Rashid, Ibrahim and Othman (2012)
Audit tenure (AUDITENURE)	-	Number of years the auditor has audited the financial statement.	**Olthof (2017)**
Joint audit of firm (JOINTAUD)	+	Audit by two audit firms were assigned "1", otherwise "0"	Umaru (2014)
Industry specialised audit (INDSPAUD)	+	We used dichotomous variable where "1" is assigned if the audit firm had audited more than 20% of the firms in the industry otherwise we assign "0".	Ibrahim (2017)

Researcher's compilation (2023)

4.0 DATA ANALYSIS AND INTERPRETATION

Table 4.1 - Descriptive Statistics

stats	FRQ	BIG4	JOINTAUD	AUDTEN~E	AUDITFEE	INDSPAUD
mean	-.1477095	.6444444	.0333333	.6611111	.3731389	.7527778
p50	-.12	1	0	1	.22	1
max	.25	1	1	1	4.67	1
min	-.94	0	0	0	.04	0
sd	.1762123	.4793475	.1797553	.4739908	.4634416	.4319974
N	358	360	360	360	360	360

Source: Stata 14 output

From table 4.1 above, it is seen that the average financial reporting quality (FRQ) is -0.15, minimum of -0.94 and maximum of 0.25, with standard deviation of 0.18. The result shows that the financial reporting quality of the firms is highly varied as the standard deviation is higher than the mean value of the FRQ. The table shows that 64% of the audit firms that provided assurance services within the firm-year period were the large firm size (Big4) audit firms. The standard deviation of 0.48 shows that there is commonness on the degree of engaging Big4 auditors in that sector. More so, Audit tenure (AUDITENURE) has mean value of 0.66 which implies that, 66% of the external auditors have rendered services for more than three years to their clients in the financial service sector. And the standard deviation of 0.47 that is lower than the mean value signifies that it is a common practice among the financial service firms in Nigeria to have their external auditors spend more than three years rendering independent audit service to the sector. Joint audit (JOINTAUD) has a mean value of 0.033, signifying that only average of 3.3% had the sector engaged joint audit services. The standard deviation of 0.18 implies that wide variation exists on the application of joint audit services in the sector. The table shows that average of 74 external auditors of the sector (INDSPAUD) has audited more than 20% of the firms in the industry. Finally, audit fee (AUDITFEE) has mean value of 0.37, minimum of 0.04, maximum of 4.67 and standard deviation of 0.46. This figures show that on the average, the sector pays 37% of its revenue as audit service fee. The table shows that the least paid fee was 4% of the revenue while, the highest paid throughout the periods was 6% of the revenue.

Table 4.2 Normality test

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
FRQ	358	0.92074	19.760	7.063	0.00000
BIG4	360	0.99798	0.507	-1.608	0.94608
JOINTAUD	360	0.85791	35.603	8.459	0.00000
AUDTENURE	360	0.99738	0.658	-0.992	0.83945
AUDITFEE	360	0.55564	111.335	11.158	0.00000
INDSPAUD	360	0.99177	2.063	1.714	0.04322

Source: Stata 14 output

The normality test result in table 4.2 above provides that the FRQ, JOINTUAUD, INDSPAUD and AUDITFEE are not normally distributed since their probability is less than 5%. Meanwhile, the table shows that audit firm size (BIG4) and AUDITENURE are normally distributed since their probability is greater than 5%. Therefore, it becomes imperative that Spearman rank correlation will be applied on assessing the correlations among the variables.

Table 4.3 Correlation Matrix

	FRQ	BIG4	JOINTAUD	AUDTENURE	AUDITFEE	INDSPAUD
FRQ	1.0000					
BIG4	0.3081*	1.0000				
	0.0000					
JOINTAUD	0.0846	-0.1227*	1.0000			
	0.1102	0.0202				
AUDTENURE	0.0787	-0.0486	0.0357	1.0000		
	0.1370	0.3592	0.5011			
AUDITFEE	-0.0073	0.1896*	-0.1021	-0.0778	1.0000	
	0.8910	0.0003	0.0536	0.1416		
INDSPAUD	0.1773*	0.7688*	0.0693	-0.0639	0.1424*	1.0000
	0.0008	0.0000	0.1906	0.2280	0.0070	

Source: Stata 14 output

The correlation table above shows positive and low relationship between financial reporting quality and Big4 firms, which is significant at 1% level (FRQ/BIG4= 0.30). Again, the table shows that financial reporting quality and joint audit (FRQ/JOINTAUD=0.085) has positively and very low relationship. It also shows very low and positive relationship between financial reporting quality and audit tenure (FRQ/AUDITENURE=0.08). Audit fee has very low and negative correlation with financial reporting quality, audit tenure and joint audit. while, positive and low relationship was shown between audit fee and Big4 audit firms (AUDITFEE/ FRQ= -0.007; AUDITFEE/BIG4= 0.04; AUDITFEE/AUDITENURE= -0.10). It is noted that joint audit has positive and very low relationship with Audit firm size (JOINTAUD/BIG4= -0.12). Furthermore, the table discloses that audit tenure has positively very negative low relationship with Audit firm size (AUDITENURE/BIG4= -0.04) but has low relation with joint audit (AUDITENURE/JOINTAUD=0.50). However, we have no variables that have strong relation among themselves since no one has correlation coefficient of 0.8. But to put the doubt to rest, we used variance inflation factor to test for high correlation among the variables.

Table 4.4 Variance Inflation Factor

Variable	VIF	1/VIF
BIG4	2.66	0.376624
INDSPAUD	2.64	0.378996
JOINTAUD	1.09	0.915635
AUDITFEE	1.01	0.989373
AUDTENURE	1.01	0.992582
Mean VIF	1.68	

Source: Stata 14 output

From the above table 4.4, it is shown that the mean VIF is 1.68. It is however, the rule of VIF to place a benchmark mean of 10 for acceptance level. Hence it is assumed that any result that produces mean VIF above 10 has a case of high correlation among the independent variables. Since our result is 1.68 that is lower than the acceptable mean VIF of 10, we conclude that no presence of multicollinearity exist in our data.

Table 4.5 - Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of FRQ
chi2(1) = 13.08
Prob > chi2 = 0.0003

Source: Stata 14 output

Heteroscedasticity test has a decision rule that there is no heteroscedasticity if the probability value is greater than the critical value at 5% level. Table 4.5 indicates that the probability value of 0.0003 is smaller than the critical value of 0.05. Therefore, we conclude that heteroscedasticity exist. This assumption so breached will be repaired with random effect model of panel regression technique.

Table 4.6- Regression specification test

Ramsey RESET test using powers of the fitted values of FRQ
Ho: model has no omitted variables
F(3, 349) = 1.45
Prob > F = 0.2285

Source: Stata 14 output

The table 4.6 tested if there was omitted variable or whether the model was miss specified. The result shows that the probability is greater than 5%, which implies that there is no specification error.

4.1 Panel regression analysis

The study employed panel regression analysis to ascertain the cause and effect links between our explanatory variables and the dependent variable, as well as used this analysis for testing the formulated hypotheses. The summarized results of the panel regression analysis are presented in the table below.

Table 4.7 – Summary of Panel Regression Analysis

	FEM result	REM result
BIG4	0.0819 (0.031)**	0.1375 (0.000)***
JOINTAUD	0.054 (0.328)	0.0910 (0.079)*
AUDITENURE	0.0046 (0.791)	0.0144 (0.405)
AUDITFEE	0.0001 (0.995)	-0.0301 (0.137)
INDSPAUD	-0.0280 (0.470)	-0.0599 (0.085)*
R^2	0.31	0.42
F-stat and (Prob)	9.9 (0.038)**	23.74 (0.0002)***
Prob>Chi2 =		0.1276

Researcher's compilation 2023

Remarks: (1). *, **, *** means – statistical significance at 10%, 5% and 1% level respectively.

(2). Brackets () – represents P-values.

From the table 4.7 above, it was seen that F-statistics and its corresponding P-value were 9.9 (0.038) and, 23.74(0.0002) for fixed effect model and random effect model results respectively. This shows that our model remains valid for drawing inference using any of the panel data model since they are statistically significant at 5% and 1% levels respectively. The R-squares (coefficient of determinations) of the results were shown as 31% and 42% for fixed effect model result and random effect model result respectively. These values indicate that 31% and 42% accordingly of the financial reporting quality of financial service firms could be determined by the combination of the audit firm attribute in our model.

The probability of the Hausman Test is 0.1276, meaning that it is not significant, hence we accept null hypothesis that prefer random effect model against fixed effect model of panel regression estimation for testing our hypotheses.

4.2 Hypothesis testing

Hypothesis one – Audit tenure has no significant effect on the financial reporting quality of firms in financial service sector of Nigeria.

The result on table 4.7 shows that audit tenure has coefficient of 0.0144 that means that more tenure of external auditors above three years, increases the financial reporting quality of the financial service industry. The probability is higher than 5% critical level which implies that no significant association. Therefore, the study concludes that audit tenure has positive and no significant effect on financial reporting quality of firms in insurance sector. The result disagrees with the findings from the study by Lamido, Okpanachi, and Yahaya (2022), which maintains that audit tenure has positive and statistical significant effect on the financial reporting quality of listed consumer goods firms listed on the Nigerian stock exchange at 10% level.

Hypothesis two- Audit firm size has no significant effect on the financial reporting quality of firms in financial service sector of Nigeria.

The results on table 4.7 shows that audit firm size has positive effect on financial reporting quality with a coefficient of 0.137. More so, the probability value is 0.000 which is lesser than 0.05% critical level. Sequel to these findings we accept alternate hypothesis and conclude that audit firm size (Big4) has a positive statistical significant effect on financial reporting quality of firms listed on the financial service sector of Nigerian exchange group. The result nevertheless corroborates the finding by Ogbeifun and Adeniran (2020), that audit size has significant effect on listed commercial banks in Nigeria. Though, it contradicts the finding made by Dijeh, Ofor and Odubuasi (2022) that audit type measured by Big4 has positive and no significant effect on the financial reporting quality of insurance firms in Nigeria.

Hypothesis three – Audit fee has no significant effect on the financial reporting quality of firms in financial service sector of Nigeria economy.

The result shows that audit fee (AUDITFEE) has a coefficient -0.0301. And also has a probability value of 0.405 which is greater than critical value 0.05, the result suggest that audit fee has inverse no significant effect on financial reporting quality of the firms. The study convincingly chooses the hypothesis that posit audit fee has no significant effect on financial reporting quality of financial service sector in Nigeria. This result disagrees with the findings of Dijeh, Ofor and Odubuasi (2022) who found that audit fee has negative statistical significant effect on financial reporting quality of insurance sector at 1% level. It further contradicts the finding by Jayeola, Taofeek and Toluwalese (2015), which maintain that significant relationship exists between audit independence and earnings management in Nigerian banks

Hypothesis four - Joint audit has no significant effect on the financial reporting quality of firms in financial service sector of Nigeria.

The result in table 4.7 more so provides that has positive influence on the financial reporting quality of firms in financial service sector as indicated by positive coefficient of 0.0910. The corresponding probability value is 0.079, which means that joint audit has strong influence on ensuring quality financial reporting. Therefore, the study accepts the alternate hypothesis and conclude that joint audit has positive and statistical significant effect on financial service sector of Nigerian exchange group. The result disagrees with the finding by Enyinna, Okotume and Odubuasi (2023) that joint audit has negative and no significant effect on Nigerian firms.

Hypothesis five - Industry specialised audit has no significant effect on the financial reporting quality of firms in financial service sector of Nigeria.

Subsequently, the result shows that industry specialised audit has negative coefficient of -0.0599, which means that industry specialised audit and financial reporting quality goes on the inverse direction. The more the firms use specialised auditor, the lesser the quality of their financial reporting. The probability value p>/t/=0.085 shows that industry specialised audit has significant impact on financial reporting quality of firm in financial service sector at 10% level. Hence, the study accepts alternate hypothesis that maintains that industry specialised audit has significant effect on financial reporting quality of firms in financial service sector of Nigerian economy.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study has successfully completed the quest to ascertain the effect of certain audit firm attributes that can boast audit quality and how they influence financial reporting quality of firms listed under financial service sector of the Nigeria exchange group. The attributes considered are audit fee, Big4 audit firms, audit tenure and joint audit, and their influence on financial reporting quality which we measured with modified Jones model. Data from the annual reports were put to use which has been proved to be more reliable and the study span from 2012 to 2021 financial years. Ordinary least square regression estimation was used and the result confirmed some research outcome of most recent literature in insurance industry by Dijeh, Ofor and Odubuasi (2022). However, the study recommends that;

i. The firms within financial service sector should allow audit firms that are at their services to render assurance services beyond three years, as that would enable them understand the business better and improve the financial reporting quality.
ii. The shareholders should consider and insist on the use of Bg4 Audit firms for their firms' assurance services as their performances have empirical proof of improving the quality of financial reporting quality.
iii. The shareholders and the board of directors may move to change the audit firms whose service charge takes greater percentage of the revenue of the organisation.
iv. The shareholders should emphasize on the need for joint audit services because they help to institutionalise the quality of financial report of the sector.

v. The shareholders should consider the use of non-regular or new auditors for their audit services since the new auditors are more devoted to the assignment as to prove their efficiency.

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