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**AUDIT ATTRIBUTES AND FINANCIAL REPORTING  
QUALITY AMONG LISTED NON-FINANCIAL FIRMS  
IN NIGERIA**

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**Preliminary communication**

**Abstract**

*This study is set up with the purpose of examining the effects of audit attributes on financial reporting quality of quoted Nigeria non-financial firms. The study also reviewed the moderating effect of external audit quality on the connection between internal audit characteristics and the quality of financial reporting (FRQ). Longitudinal panel research design was used in this study. The population of the study comprises of 112 non-financial firms quoted on the Nigeria Exchange Group (NGX). The study make use of secondary data obtained from 72 listed non-financial firms in Nigeria over the period covering 2013 - 2020. Analysis of the data collected for the study was done using panel regression, correlation analysis and descriptive statistics. The results revealed that AC meetings and AC gender diversity has significant positive impact on the FRQ report while AC*

*independence and AC size have no significant influence. In addition, the study found significant moderating effect of audit report lag on the link between AC meeting and FRQ, as well as on the link between AC gender diversity and FRQ implying that audit report timeliness strengthens the positive and significant impact of AC meetings and gender diversity on FRQ. The study concluded that audit quality attributes are significant in improving the FRQ of the listed non-financial firms in Nigeria. Hence, the study recommends that regulators and decision makers of the firms should ensure higher female representation in the AC. Also, AC of the firms in Nigerian non-financial sector should be encouraged to meet regularly.*

**Keywords:** *Audit fees, Audit committee meeting, External Audit, Financial report quality, Internal Audit*

**JEL:** M42

## 1. INTRODUCTION

According to Heil (2002), ensuring high-quality financial reporting is a significant challenge in modern audit practice. This is because various internal and external stakeholders have a vested interest in the precision and dependability of financial information (Heil, 2012). Companies are now obligated to disclose comprehensive financial and non-financial data, with investors being the primary beneficiaries of such transparency. Aliyu, Musa, and Zachariah (2015) argue that a thorough audit can uncover material errors and misstatements in financial reports. It is also believed that the reliability of the financial reporting procedure depends on the performance of independent auditors (Dantas & Otavio, 2015). As a result, the quality of audit services rendered by audit firms has garnered significant attention from scholars and policymakers, particularly due to prevalent monetary scandals that have been to some extent credited to the role of auditors (Chersan, 2019). Theoretically, Jensen and Meckling (1976) suggest that the misrepresentation of accounting information stems from agency problems, which rise from conflicts of interest amongst self-interested management (agents) and shareholders (principals). In their pursuit of self-interest, agents often

However, several audit characteristics, including audit price, audit timeliness, audit tenure and audit size significantly influence the timeliness and quality of firms financial reporting (FR). There are differing viewpoints on the influence of audit fees on FR timeliness, but it is still acknowledged that audit price plays a crucial character in this aspect. When clients pay a higher price, auditors dedicate

more effort to complete the audit process promptly (Egbunike & Asuzu, 2020). According to an empirical study by Alim, Trisni, and Lilik (2007), audit quality is directly linked to auditor independence. There is also ongoing debate regarding whether audit fees affect the quality of audit. Some studies recommend that greater audit fees incentivize audit firms to deliver better quality audits, while others argue that higher fees enable audit firms to cover up misappropriation committed by management in order to maintain their reputation. Consequently, there is no consensus on how audit firm characteristics impact the quality of FR. Moreover, in the Nigerian perspective, most studies examining the influence of audit attributes and FRQ have largely overlooked the interactive effect of audit quality and audit report timeliness on FRQ.

### **1.1. Statement of the problem**

Moreover, the challenges faced by modern businesses and companies are continuously increasing. This global trend has led to the abrupt collapse of various businesses over the years, including Enron Corporation, Worldcom, and Parmalat. Nigeria has also witnessed such failures, as demonstrated by the downfall of Cadbury Plc, resulting in a loss of N13 billion to N15 billion. Numerous other firms in Nigeria have been delisted due to their inability to effectively manage internal and external risks. Examples include the Ceramics Manufacturing Company Plc in 2008, Lennards Nig Plc in 2015, UTC in 2017, Afrik Pharmaceutical Plc in 2018, Skye Bank Plc, and Fortis Micro Finance Bank in 2019, among others. In a similar vein, in 2017, Stanbic IBTC Holding Ltd and Flour Mills Nigeria were sanctioned by the Nigerian Stock Exchange (NSE) for their failure to disclose price-related risks in their annual reports and accounts (NSE, 2018). The underlying problem, for instance, is often attributed to various attributes of audit firms, such as their short-term or long-term tenure, as well as three- or nine-year terms, which remain subjects of debate among scholars.

According to Adelaja (2009), auditors must possess independence and objectivity to effectively carry out their responsibilities. However, O'Connor (2006) highlighted that ensuring the independence of external auditors has become an extremely challenging issue in the financial world, given the recent corporate scandals that have emerged globally. There has been an argument advocating for increased incentives to auditors as a avenue to limit earnings misstatements and enhance the quality of financial reporting. Audit committees (AC) play a crucial role in overseeing and supervising the financial reports and disclosures of corporate firms. They monitor the selection of accounting principles and policies, as well as the internal control systems implemented by management. In Nigeria, regulatory bodies have implemented various corporate governance reforms to

bring stability to the auditing sector within the country's corporate environment. These reforms include mandatory audit rotation, minimum AC size, and minimum meeting frequency for the AC, among others. Despite these regulatory interventions, the Nigerian corporate environment still grapples with challenges of financial misstatements and fraudulent management accounting practices, which have led to the failure of certain firms in the country, as exemplified by the case of Skye Bank (Shehu, 2011). Given that both theoretical and empirical literature have highlighted the prominence of audit firms and AC in enhancing the credibility of financial reporting, it is essential to empirically investigate the role of internal and external audit attributes in promoting credible and fraud-free FR in Nigeria. The outcomes of this research will be valuable to non-financial firms' management, auditors, accountants, and shareholders in Nigeria. Furthermore, it will provide quoted non-financial organizations in Nigeria with a clearer understanding of the effectiveness of internal audit committees in identifying opportunistic behavior by management.

Furthermore, numerous researchers in both developed and developing nations, including Arowoshegbe et al. (2017), Abdillah (2019), Eghosa (2022), and Muhammad (2020), have conducted studies on the impact of audit attributes on FRQ. However, only a few of these studies have simultaneously examined both internal and external audit attributes. This study aims to fill this gap by not only investigating the influence of internal audit attributes on FRQ but also exploring the interactive effect of external audit attributes on the connection between internal audit features and FRQ.

## 1.2. Objectives of the study

The broad objective of this study is to examine the effect of audit attributes on financial reporting quality of quoted Nigeria non-financial firms. The specific objectives are to:

- ◆ investigate the effects of internal audit attributes on the financial reporting quality of quoted non-financial firms in Nigeria and
- ◆ evaluate the interactive effects of external audit attributes on the relationship between internal audit attributes and financial reporting quality of quoted non-financial firms in Nigeria?

## 1.3. The research hypotheses are as follows:

$H_{01}$ : Internal audit attributes has no significant effect on financial reporting quality of quoted non-financial firms in Nigeria.

H<sub>02</sub>: External audit attributes do not affect the connection between internal audit attributes and financial reporting quality of listed non-financial firms in Nigeria.

## **2. LITERATURE REVIEW**

### **2.1. Conceptual Review**

#### **Financial Reporting Quality**

Financial reporting involves presenting an organization's financial statements in a manner that facilitates understanding for users of accounting information (Nwanyanwu, 2013). Additionally, according to Obazee (2005), financial reporting serves as a means of communicating financial information and acts as an identification tool for stewardship. Various measures of FRQ have been proposed in the literature. Dechow, Myers, and Shakespeare (2010), as cited by Umaru (2014), classified earnings quality or financial reporting quality into three categories: external indicators of earnings misstatements, earnings properties, and investor reaction to earnings. Deschow et al. (2010) emphasized that earnings features include aspects such as earnings persistence, smoothness, beating of target expectations, discretionary accruals derived from accrual modeling, and timely recognition of losses. In this study, FRQ is measured using discretionary accruals. Other researchers who have also utilized discretionary accruals as a measure of FRQ include Dijeh et al. (2022), Hussaini and Gugong (2015), and Olthof (2017).

#### **External Audit Attributes**

There are various external audit attributes, including audit firm size, audit fees, audit tenure, and audit report timeliness. Audit firm size is a characteristic that has the potential to impact the quality FRQ (Dechow & Ge, 2006). Typically, a firm's size is determined by its asset base (Saheed, 2013). However, larger audit firms face a higher risk of litigation compared to smaller firms, which may necessitate a greater level of independence and due diligence in conducting audit, leading to delays in financial reporting (Abernathy et al., 2017). According to the literature, larger corporations are assumed to have well-established internal control and accounting departments, as well as the financial resources to hire experts who can boost the process of financial reporting (Chalaki, Didar & Riahnezhad, 2012). Audit fee refers to the payment made to an auditor for the audit services rendered, which involves expressing an opinion on the financial reports prepared by the management. Raigopal et al. (2021) highlighted in their study that higher audit fees can potentially compromise the auditors' independence and may also influence the decision to continue the audit engagement beyond the agreed-upon

five-year period. Higher audit fees can also impact audit switching and the auditor's judgement on the financial statements.

Also, audit tenure is the duration of the affiliation between an external auditor and a firm as their client. A long tenure implies that the auditor has been associated with the client for an extended period. In such cases, the audit process can be accomplished more efficiently and speedily because the auditor is already familiar with the client's operations and the nature of their business (Dao & Pham, 2014).

Furthermore, the promptness of audited annual financial reports is regarded as a crucial factor in determining the value of information provided to several stakeholders, including regulatory and professional authorities, as noted by Soltani (2002). Abdillah et al. (2019) argue that the timeliness of audit reports is influenced by both management and statutory auditors. It can be seen as a collaborative effort involving the management, auditors, and regulatory bodies. Egbosa et al. (2022) revealed in their study that financial reporting delays can be attributed to higher audit fees, indicating potential challenges in completing the audit process in a timely manner, possibly due to weak internal controls that increase the audit workload. In this study, external audit traits are represented by audit firm size, audit tenure, and audit report timeliness.

### **Internal Audit Attributes**

There exist various characteristics associated with internal audits, including the size, frequency, independence, and diversity of the AC. The audit committee plays a crucial role in effectively supervision and evaluating the performance of management. Adeyemi, Okpala, and Dabor (2012) suggest that frequent meetings of the audit committee provide ample opportunities to discuss pertinent company matters. Beasley et al. (2009) argue that these meetings are not mere formalities but significant sessions that align with an agency perspective. Furthermore, a larger audit committee is considered valuable as it enhances the quality of FR by leveraging the diverse skills, expertise, and experience of its members. The size of the AC is an essential factor in overseeing corporate disclosure practices (Persons, 2009). A larger committee is more effective as it comprises members with varied expertise and knowledge, permitting more unswerving monitoring of financial practices (Hamdan & Mushtaha, 2011).

However, it is vital for the AC to maintain its independence in order to effectively monitor the actions of firms. The independence of the AC is necessary for it to fulfill its financial management responsibilities appropriately. Without independence, the actions of the audit committee may be compromised, hindering its ability to carry out its duties effectively. Therefore, the AC independence serves as a proactive driving force for ensuring high-quality financial reporting. Moreover,

according to Hambrick, et al. (2008), the diversity of the AC has an influence on the accuracy of a firm's assertions. The application of agency theory suggests that these differences in the qualities of the AC can influence the quality of a firm's financial reporting. The senior executives, who form the top management team in an organization, play a significant role in establishing the organization's key objectives and outcomes. Hambrick, et al. (2008) have connected personal characteristics of senior executives, such as their geographic location, tenure, and gender, to the quality of FR. Gender diversity within an AC is an important aspect to consider. Having a balanced representation of women on the committee enhances the overall functioning of the organization, as it is believed that female perspectives complement those of their male counterparts. While there is limited evidence directly linking gender to fraud, it is argued that men generally exhibit higher levels of overconfidence in management processes compared to women. Consequently, men are more prone to engaging in fraudulent activities than their female counterparts (Schrand & Zechman, 2012). It is worth noting that this study uses proxy variables, such as audit committee size, meeting frequency, independence, and diversity, to represent internal audit attributes.

### **Audit Attributes and financial reporting quality**

Saheed (2013) states that large audit firms have effective information systems in place, enabling them to monitor and manage both financial and non-financial data in order to achieve strategic, tactical, and operational objectives. In contrast, the study conducted by Egbosa et al. (2022) reveals an inverse connection between audit firm size and FR timeliness. Their findings suggest that larger audit firms, which prioritize independence and seek to curtail litigation risk, may be liable for delays in FR. However, Daferighe and George (2020) discovered that the size of the audit firm does not have a significant association with the quality of financial reporting.

More so, although, Dao & Pham (2014) opined that a positive connection exists between short term audit tenure and financial reports delay, yet no agreement exist on the determinant of timeliness reporting. Past studies failed to provide avenues to reduce delay in financial report presentation. According to a study by Egbosa et al. (2022), it is suggested that a long tenure of the audit fail to have a significant influence in reducing financial reporting delays or improving quality. Additionally, Shakhathreh et al. (2020) found that delays in audit reports have adverse and noteworthy impact on the quality of FR. Similarly, Aggreh (2019) reported a negative and significant influence on FRQ.

In addition, Xie, et al. (2003) found an inverse connection between the frequency of AC meetings and a firm's discretionary accruals. While the literature suggests

that AC meetings can enhance the quality of FR, there is no consensus among empirical studies regarding this matter. Furthermore, Anthony et al. (2017) suggested a robust link between AC diversity and FRQ. Gender diversity within an AC is also regarded as a significant characteristic. Additionally, the independence of the AC is seen as a proactive driving force for ensuring high-quality FR (Garcia et al., 2012).

## **2.2. Theoretical Framework**

This particular study is anchored on agency theory. Proposed by Stephen Ross and Barry Mitnick in 1973, agency theory aims to elucidate and address conflicts that arise between business managers and owners, and how auditing can mitigate these conflicts. The theory suggests that both internal and external auditors, through their monitoring capabilities, have the potential to curb opportunistic behavior by corporate management. It assumes that auditors, as agents, possess more information than the principals (management), resulting in a power imbalance that makes it challenging for principals to observe the activities of agents (Olagunju & Adenle, 2022). From the viewpoint of agency theory, several factors, including audit tenure as depicted in this study, have a significant influence on FRQ. This implies that stakeholders should critically assess their actions and influence on the perception of FRQ. Auditing provides assurance to shareholders, stakeholders, creditors and so on, thereby augmenting self-assurance in the quality of FR.

## **2.3. Empirical Review**

### **Internal Audit Attributes and Financial Reporting Quality**

Sitienei (2022) reviewed the connection between AC traits and FRQ amongst quoted firms in Kenya manufacturing sector. The study period covers 9 years' period from 2010-2018. Findings from the study revealed that AC expertise failed to have a significant connection with FRQ. The FRQ is measured with accrual quality and discretionary accruals. The size of the AC and FRQ using discretionary accrual shows a positive likewise a significant influence. Whereas no significant connection exists between AC size and accrual quality. AC independence is statistically significant to discretionary accrual and accrual quality. Also AC meeting failed to have significant connection with discretionary accruals and accruals quality.

Twaha et al. (2021) examined the influence of internal audit quality, corporate governance on FRQ of financial firms. The sample size of the study is 62 financial



institution Data were gathered utilising structured questionnaire. The outcome of the study detect that in-house audit quality is significantly related with FRQ.

Huang, et al. (2011) studied market reactions to the gender of audit committee directors using data from publicly traded foreign companies in the United States. Owing to their ethical and conservative qualities, female members of the audit committee, according to the study, can facilitate effective corporate governance. The study discovered that appointing female audit committee members resulted in significantly higher cumulative abnormal returns than appointing male audit committee members. Anthony et al. (2017) submitted that audit committee diversity has a strong link with financial reporting quality.

### **External Audit Attributes and Financial Reporting Quality**

Egbosa et al. (2022) studied the effect of audit characteristics on FR timeliness in Nigeria non-listed firms. The study used 450 firm-year observations from a period ranging from 2011 to 2020. OLS Method of analysis was adopted in this study. Their findings revealed that the price and size of audit are affected positively by FR timeliness, meanwhile the tenure of audit has a negative and insignificant connection with financial reporting timeliness.

Daferighe and George (2020) in their study reviewed the effect of audit attributes on FRQ of Nigeria quoted firms in the manufacturing sector. The study population encompass 22 quoted consumer goods firms was and 16 firms were sampled from the 22 firms. The study period covers 2011-2015. Multiple regression was adopted as the method of data analysis. Outcomes from the research revealed that auditors' fees have the tendency to significantly influence FRQ, whereas the size of the audit firm and audit report timeliness failed to have a significant influence on FRQ.

Kaklar, Kangarlouei and Motavassel (2012) failed to find evidence sensitivity of quality of audit to audit firm rotation in study of firms quoted on Tehran Stock Exchange. Ikpantan and Daferighe (2019) also failed to find significant influence of audit tenure on FRQ in a study of ten Nigerian listed DMBs.

### **3. METHODOLOGY**

The effect of audit attributes on the FRQ of non-financial firms quoted on the Nigeria Exchange Group (NGX) was reviewed in this study. Longitudinal panel research design was utilized for this study. The study utilized secondary data gotten from the annual report of the selected firms, the study population comprises of 112 listed non-financial firms and 72 non-financial firms were purposively

from the population. The period of study ranges from 2013-2020. Panel Regression was utilized to analysed the data gathered for this study, Hausman specification tests were adopted to arrive at the most efficient of the techniques of panel regression.

Table 1. Measurement of Variables

<b>Variables</b>	<b>Type of Variable</b>	<b>Variable Labels</b>	<b>Measurement</b>
Financial Reporting Quality	Dependent	FRQ	Inverse of Absolute Discretionary Accrual (DAC) from modified jones model
Audit Firm Tenure	Independent	ATN	Measured as a Dichotomous Variable which equals 1 when audit firm spend 3 years or below and 0 if a single audit firm is consistently retained for more than three years
Audit firm Size	Independent	AFSZ	This is set to be equal to one (1) if companies auditor shows that it is audited by one of the “Big Four” audit firms. otherwise zero (0)
Audit Report Timeliness	Independent	ART	The extent of time from a firm’s fiscal year end to the date of the auditor report
Audit Committee size	Independent	ACS	The number of members sitting in the firm AC
Audit committee independent	Independent	ACIN	The proportion of AC members outside the board
Audit committee Gender Diversity	Independent	ACD	Proportion of female on the a AC
Audit committee meeting	Independent	AMET	The no. of times AC meet in a accounting year
Age of the firm	Control	FA	No. of years since a firm was listed on the Nigeria Stock Exchange
Firm size	Control	FSZ	Natural log of market capitalization

Authors Compilation (2023)

### 3.2. Model specification

#### Objective 1 (Internal Audit attributes and FRQ)

This model is in line with extant literature that focused on similar issue (Tanko & Shiyabola, 2019), the model for achieving objective 1 of the study are stated as follows:

$$FRQ = f(ACS, ACIN, AMET, ACD, A, FSZ) \quad (3.1)$$

$$FRQ_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACIN_{it} + \beta_3 AMET_{it} + \beta_4 ACD_{it} + \beta_5 A_{it} + \beta_6 FSZ_{it} + \mu_{it} \quad (3.2)$$

#### Objective 2 (Interactive Effect of External Audit Attributes on the Connection between Internal Audit Attributes and FRQ)

This model take insight from the study of Alrassas and Kamardin (2015), the model to achieve objective 2 of the study is specified as follows:

$$FRQ_{it} = \beta_0 + \sum_{k=1}^4 \beta_k ACA_{it} + \sum_{r=1}^4 \alpha_r AFA_{it} + \sum_{q=1}^4 \delta_q ACA_{it} * AFA_{it} + \beta_5 FIRA_{it} + \beta_6 FSZ_{it} + \mu_{it} \quad (3.3)$$

Where:

$ACA_{it}$  = the vector of audit committee attributes

$AFA_{it}$  = vector of audit firm attributes

## 4. RESULTS AND DISCUSSION

### 4.1. Result of the Findings

The descriptive statistics tables revealed that mean of discretionary accrual (FRQ) for the period covered is 0.075 with a standard deviation of 0.102. AUDF (audit fees) and BIG4 has a standard dev. and mean values of (0.588, 4.091) and (0.495, 0.576) responsively. ARL and ATN has mean and standard dev. values of (11.22.469, 83.449) and (0.76, 0.427) respectively. However, the internal audit characteristics revealed that ACIN, ACS, ACMET and ACD has mean and standard dev, values of (46.259, 12.696), (5.497, 1.013), (3.922, 0.838) and (11.27, 13.963) respectively. The control variables also show the FA and FS mean and median values of (27.361, 13.434) and (7.127, 0.845) correspondingly.

Table 2. Summary of Descriptive Statistics

<b>Variable</b>	<b>Obs.</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>
FRQP	576	-.075	.102	-1.109	0
AUDF	576	4.091	.588	2.602	5.795
BIG4	576	.576	.495	0	1
ARL	576	112.469	83.449	28	934
ATN	576	.76	.427	0	1
ACIN	576	46.259	12.696	0	100
ACS	576	5.497	1.013	2	9
AMET	576	3.922	.838	1	10
ACD	576	11.271	13.963	0	66.667
FA	576	27.361	13.434	3	55
FS	576	7.127	.845	5.239	9.241

Source: Author's Computation, 2023

The findings presented in Table 3 indicate several relationships between different variables and financial reporting quality (FRQ). A positive connection of 0.030 is observed between FRQ and AUDF. Similarly, there is a weak positive association between AUDF and FRQ. Alternatively, a weak negative connection-0.034 was found between ATN and FRQ. Furthermore, a weak negative connection of -0.197 is observed between FRQ and Audit Report Lag (ARL). Moving on to other variables, the correlation analysis in Table 4.2 reveals a positive connection of 0.002 between FRQ and ACS. In addition, weak negative association of -0.067 exists between ACMET and FRQ. The presence of weak inverse relationship of 0.045 exist between ACD and FRQ. While a weak positive connection of 0.001 exists between FRQ and ACIN. A weak direct relationship of 0.84 exist between FA and FRQ while the correlation coefficient of 0.084 implies that weak positive association exists between FS and FRQ of quoted non-financial organisations in Nigeria.

Table 3. Estimated Correlation Coefficients among the Variables

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1)	1.000										
FRQ (2)	0.048	1.000									
AUDF (3)	0.030	0.568	1.000								
BIG4 (4)	-0.197	-0.151	-0.077	1.000							
ARL (5)	-0.034	-0.038	0.013	0.044	1.000						
ATN (6)	0.000	0.086	0.072	-0.076	0.013	1.000					
ACIN (7)	0.002	0.584	0.299	-0.079	-0.018	0.020	1.000				
ACS (8)	-0.067	0.317	0.134	-0.124	-0.062	0.011	0.247	1.000			
ACMET (9)	-0.045	0.096	0.150	0.015	-0.082	-0.021	0.088	0.043	1.000		
ACD (10)	0.084	0.205	0.150	-0.086	-0.072	0.023	0.190	0.096	0.070	1.000	
FA (11)	0.084	0.869	0.395	-0.137	-0.041	0.074	0.566	0.308	0.105	0.096	1.000
FS											

Source: Author’s Computation, 2023

Table 4. Summary of Diagnostic Tests

Test	Results	Remarks
Breusch-Pagan	Chi2 = 482.86 Prob > Chi2 = 0.000	Existence of Heteroscedasticity at 10 per cent
Wooldridge test for serial correlation	F stat = 0.208 Prob > Chi2 = 0.0546	No serial correlation

Source: Author’s Computation, 2023

## Presentation and Analysis of Panel Regression Results

### Internal audit attributes and FRQ

Based on the outcomes in column 1 of table 5, it was discovered that AC size has a positive effect on FRQ, as indicated by the coeff. of 0.00154. However, the corresponding P-value of 0.733 suggests that this positive impact is not significant at conventional levels. Similarly, when using the full model (column 5), the outcomes indicate that AC size has a positive but non-significant influence on FRQ, with a coeff. and P-value of 0.00314.

The results in column 2, demonstrate the estimated influence of AC meeting and control variables on FRQ. The estimated coefficient of 0.0106, accompanied by a P-value of 0.0521, specifies that AC meeting has a significant positive influence on FRQ. This finding is further supported by the full model results in column 5, where the estimated coeff. of 0.0120 and P-value of 0.0253 show a noteworthy positive impact of AC meeting on FRQ. In other words, a higher frequency of AC meetings is connected with higher quality FR produced by the firm.

The study also discovered that there is an insignificant positive influence of AC gender diversity on FRQ, as indicated by the estimated coeff. and P-value of 0.000546 and 0.116, respectively, in column 3 of Table 4.4 (where  $0.116 > 0.1$ ). However, the estimated coefficient of 0.00059 and P-value of 0.0480 affirm that AC gender diversity has a significant positive influence on FRQ. This suggests that as the representation of females on the AC increases, FRQ also improves.

Furthermore, the estimated results reveal that AC independence, with coeff. and P-value of -0.00024 and 0.332, respectively, in column 4 of Table 4.4, has a negative but non-significant effect on FRQ. Similar findings were observed for AC independence in column 5 of Table 4.4, where it had a coeff. of -0.00034 and a p-value of 0.178. Therefore, the existence of autonomous members on the AC fail to affect the quality of the audit significantly.

Regarding the control variables, the estimated coeff. of 0.0773 and associated P-value of 0.0469 indicate that FS has a positive and significant effect on the FRQ of Nigerian quoted non-financial firms. On the contrary, in column 5 of Table 4.4, the estimated coeff. of 0.0002 and consistent p-value of 0.909 reveal that FA has a positive but non-significant effect on the FRQ.

Table 5. Estimated Panel Regression Results for Model 1 (Objective 1)

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Audit Committ Size	Audit Committ Meeting	Audit Committee Diversity	Audit Committi- tee Inde- pendence	Full Model
ACS	0.00154 (0.733)				0.00314 (0.526)
ACMET		0.0106* (0.0521)			0.0120** (0.0253)
ACD			0.000456 (0.116)		0.000589** (0.0480)
ACID				-0.000238 (0.332)	-0.000338 (0.178)
FS	0.0703* (0.0845)	0.0778* (0.0519)	0.0156* (0.0586)	0.0151* (0.0663)	0.0773** (0.0469)
FA	-0.000635 (0.737)	-0.000185 (0.918)	0.000613 (0.246)	0.000589 (0.255)	0.000211 (0.909)
Constant	-0.567** (0.0278)	-0.583** (0.0190)	-0.198*** (0.00410)	-0.188*** (0.00668)	-0.580** (0.0173)
Observations	576	576	576	576	576
Numb. of PID	72	72	72	72	72
Firm Effect	YES	YES	YES	YES	YES
Hausman P value	0.1329	0.1454	0.2249	0.1990	0.2997

Robust pvalue enclosed in brackets \* p<0.1; \*\* p<0.05; \*\*\* p<0.01,

Source: Author's Computation 2023

## Presentation and Analysis of Panel Regression Results for Objective 2

The second objective of the study is to examine the moderating effect of external audit attributes on the connection between the AC traits and FRQ of quoted non-financial firms in Nigeria. The results obtained using are summarized in Table 6. Examining the results in column 1 of Table 6, the coefficient of the interactive effect between audit report timeliness and AC independence is 0.0000017, representing a positive moderating effect of audit report timeliness on FRQ. However, the supplementary p-value of 0.730 reveals that this positive impact is not significant. Therefore, the outcomes revealed that audit report timeliness, as an important external audit attribute, does not moderate the connection between AC independence and FRQ significantly.

The column 2 of Table 6 shows the estimated interactive coefficient of 0.00039 indicates the interactive influence of audit report timeliness on the connection between AC meetings and FRQ. The corresponding P-value of 0.000 suggests that this positive moderating effect of audit report timeliness is significant at a 1 percent level ( $0.000 < 0.01$ ). Therefore, the study provides evidence that audit report lag strongly moderates the influence of AC meetings on FRQ. Overall, the results highlight the varying moderating effects of external audit attributes, specifically audit report timeliness, on the connection between AC characteristics and FRQ in quoted non-financial firms in Nigeria.

Furthermore, the estimated coeff. of -0.0000899 with a P-value of 0.0610 indicates that audit report timeliness has a negative and significant interactive effect on the connection between AC size and FRQ. This suggests that audit report timeliness cannot reverse the negative influence of AC size on the FRQ of quoted non-financial firms in Nigeria.

Regarding the moderating effect of audit report timeliness on the association between AC gender diversity and FRQ, the results reveal an estimated coeff. of 0.000016 with a p-value of 0.0000. This infers that there is significant positive moderating effect of audit report timeliness on the relationship between AC gender diversity and FRQ at a 1 percent level of significance. Specifically, the findings demonstrate that audit report timeliness strengthens the positive effect of AC gender diversity on the FRQ of quoted non-financial firms in Nigeria.



Table 6. Estimated Panel Regression Results for Model 2

VARIABLES	(1)	(2)	(3)	(4)
ARTL	0.000110 (0.644)	-0.00118*** (7.07e-10)	0.000628*** (0.00892)	-3.76e-06 (0.952)
ACID	-0.000141 (0.818)			
ATLACID	1.73e-06 (0.730)			
AMET		0.0306*** (4.82e-05)		
ATLAAMET		0.000390*** (0.000)		
ADCS			-0.0115 (0.129)	
ATLADCS			-8.99e-05* (0.0610)	
ACD				0.00137*** (0.00487)
ATLACD				1.62e-05*** (1.76e-06)
FA	0.000454 (0.424)	0.000310 (0.528)	0.000534 (0.348)	0.000260 (0.640)
FS	0.0125 (0.174)	0.0145* (0.0703)	0.0133 (0.175)	0.0127 (0.156)
Constant	-0.149** (0.0416)	-0.271*** (9.14e-06)	-0.106 (0.129)	-0.168*** (0.00969)
Observations	576	576	576	576
Firm Effect	YES	YES	YES	YES
Hausman P value	0.2737	0.2736	0.3741	0.3757

Robust pvalue enclosed in brackets \* p<0.1; \*\* p<0.05; \*\*\* p<0.01,

Source: Author's Computation 2023

## **4.2. Discussion of Findings on Audit Committee (AC) Attributes (Internal audit attributes) and Financial Reporting Quality (FRQ)**

The outcomes from the panel regression analysis presented in the preceding section indicate that the size of the AC failed to have a significant influence on FRQ. This finding contradicts both the initial expectation and the proposition put forth by the resource-dependent theory, which proposes that a larger AC size should result in the availability of more valuable resources and enhanced monitoring capabilities for the audit committee. This discovery is contrary to the results reported in several studies, such as Ahmad-Zaluki and Wan-Hussin (2010); Garcia, Barbadillo, and Perez (2010) conducted in Spain, as well as Tanko and Shiyanbola (2019) conducted in Nigeria, which revealed a significant positive connection between AC size and FRQ. However, this finding aligns with the conclusions reached in other studies, including Moses, Ofurum, and Egbe (2016) and Twaha et al. (2021) in their investigations of Nigerian banks, as well as Toh (2013) in their study.

The study did not find a significant effect of AC independence on FRQ. This finding contradicts the expectation based on the framework of agency theory, which proposes that a more independent committee should lead to effective monitoring of management activities and result in higher quality FR. This finding goes against the results reported in several other empirical studies, such as Eriebel and Izemol (2016), Garcia et al. (2012), and Yunos (2011), which found a significant positive effect of AC independence on FRQ. However, this finding is in line with the conclusions of Garcia et al. (2010), and Sitienei (2022), who also fail to find a significant influence of AC independence on FRQ.

More so, the study found a noteworthy positive impact of AC meetings on FRQ, indicating that more regular meetings of the AC lead to higher FRQ. This may be attributed to the fact that increased meeting activity allows the committee to thoroughly scrutinize the financial statements of the firm, thereby improving the quality of the financial report. This finding aligns with the initial expectation of the study and is consistent with the results of previous empirical literature, such as Eriebel and Izemol (2016), Garcia et al. (2010), Saleh et al. (2007), and Yusof (2010), which reported a positive and significant influence of AC meetings on FRQ. However, it does not align with other studies that found a significant negative impact of the AC on FRQ (Saleh et al., 2007; Yusof, 2010).

Moreover, the outcomes of the study indicate that AC gender diversity has a significant positive influence on the FRQ of listed non-financial firms in Nigeria. This result aligns with the initial expectation of the study and is in line with the findings of previous research, including Sun, Liu, and Lan (2011) and Anthony et

al. (2017). However, it opposes the outcomes of Salleh, Hashim, and Mohamad (2012) in Malaysia, who did not find a significant impact of AC gender diversity on FRQ.

### **4.3. Discussion of Findings on the Moderating Effect of Audit Firm Attributes on the Relationship between Audit Committee Attributes and FRQ**

The results pertaining to the moderating effect of audit firm attributes are centered around the influence of audit report timeliness, which has been identified as a crucial attribute impacting financial reporting quality. The findings indicate that audit report timeliness does not have a significant moderating influence on the connection between AC size and FRQ. Similarly, no significant moderating effect is observed for AC independence when considering the impact of audit report timeliness. In contrast, positive and significant moderating effects of audit report timeliness are identified in the relationship between AC meeting and FRQ, as well as between AC gender diversity and FRQ. These results imply that the timely issuance of audit reports helps reinforce the positive impact of audit committee meetings and AC gender diversity on the FRQ of Nigerian listed non-financial firms. These findings align with the research conducted by Masmoudi (2021), who reported a similar moderating role of audit quality in the link between AC traits and FRQ among firms quoted on the Amsterdam Stock Exchange.

## **5. CONCLUSION AND RECOMMENDATION**

This study investigates the effects of various audit attributes on the financial reporting quality (FRQ) of non-financial companies quoted in Nigeria. The researchers utilized modified Jones accruals models to measure FRQ. The results of the study specified that the time taken for the audit report to be issued had a significant influence on FRQ. Nevertheless, no substantial evidence was found to support the influence of audit firm size and audit tenure on FRQ. On the contrary, audit fees were found to have a negative and significant influence. Overall, the study concluded that the attributes related to audit quality play a significant role in enhancing the FRQ of non-financial companies listed in Nigeria during the study period. Furthermore, the results demonstrated that the occurrence of AC meetings and gender diversity within the AC had a significantly positive impact on FRQ. However, there was no significant evidence to suggest that AC size and AC independence had an influence on FRQ. These findings conclude that specific attributes of the AC can contribute to shaping the quality of financial reports among non-financial corporations operating in Nigeria. Consequently, the study

recommends several actions based on these conclusions. Regulators and authorities should strive for greater representation of women in ACs, and they should also enforce a deadline for submitting audited financial statements. Additionally, regulators of companies are advised to closely monitor the fees paid to auditors to ensure that the independence of the audit firm is not compromised. Finally, it is recommended that audit committees in the Nigerian non-financial sector be encouraged to hold regular meetings.

## 6. LIMITATIONS AND GUIDELINES FOR FUTURE RESEARCH

Every studies are characterized with one limitations or the other though such should affect the generalization of the study. One of the limitations of this study has to do with the measure of financial reporting quality. There are several accruals based models for measuring financial reporting quality out of which the study used the model of Kothari et al. (2005). Using any of the other proxies may produce results different from that attributed to the Kothari et al. accrual model in the study. In addition, the study is based on static panel regression with the assumption of no persistency in the behaviour of the financial reporting quality. Introducing dynamics may have produced results different from the reported findings in this study. In spite of the existence of the limitation however, the conclusion derived from the study are valid as the results passed various diagnostic tests. Following from the limitations of the study highlighted in the preceding section, it is recommended that further studies should make use of other accrual models as measure of financial reporting quality while attempting to study the relationship between audit attributes and financial reporting quality. Equally, further studies can extend the scope of the study by not only relying on the static panel regression method but also introduce dynamic into the analysis by using panel system generalized method of moment (GMM) technique.

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## **KARAKTERISTIKE REVIZIJE I KVALITETA FINANCIJSKOG IZVJEŠTAVANJA MEĐU LISTANIM NEFINANCIJSKIM TVRTKAMA U NIGERIJU**

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### **Prethodno priopćenje**

#### **Sažetak**

*Ovaj rad ima za cilj ispitivanje učinaka karakteristika revizije na kvalitetu financijskog izvještavanja listanih nigerijskih nefinancijskih tvrtki. U radu se provjerava učinak moderiranja kvalitete vanjske revizije na vezu između značajki unutarnje revizije i kvalitete financijskog izvješćivanja (FRQ). U ovom istraživanju korišten je longitudinalni panel istraživanja. Uzorak se sastoji od 112 nefinancijskih tvrtki listanih nigerijskoj burzi (Nigeria Exchange Group (NGX)). U radu se koriste sekundarni podaci dobiveni od 72 navedene nefinancijske tvrtke u Nigeriji tijekom razdoblja od 2013. do 2020. godine. Analiza podataka prikupljenih za istraživanje provedena je pomoću panel regresije, korelacijske analize i deskriptivne statistike. Rezultati su pokazali kako sastanci AC-a i rodna raznolikost AC-a imaju značajan pozitivan učinak na kvalitetu financijskog izvještavanja,*

*dok neovisnost AC-a i veličina nemaju značajan utjecaj. Osim toga, u radu je utvrđen moderirajući učinak zaostajanja u revizijskom izvješću na vezu između sastanka AC-a i kvalitete financijskog izvještavanja, kao i na vezu između rodne raznolikosti AC-a i kvalitete financijskog izvještavanja, što upućuje na to kako pravovremenost revizijskog izvještavanja jača pozitivan i znatan učinak sastanka AC-a i rodne raznolikosti na kvalitetu financijskog izvještavanja.. U radu je zaključeno kako su karakteristike kvalitete revizije značajne za poboljšanje kvalitete financijskog izvještavanja listanih nefinancijskih društava u Nigeriji. Stoga se u radu preporučuje da regulatori i donositelji odluka poduzeća osiguraju veću zastupljenost žena u AC-u. Također, AC tvrtki u nigerijskom nefinancijskom sektoru treba poticati na redovite sastanke.*

**Ključne riječi:** *naknade za reviziju, sjednica odbora za reviziju, vanjska revizija, kvaliteta financijskog izvješća, unutarnja revizija*

**JEL:** M42