EFFECT OF AUDIT FIRM CHARACTERISTICS ON FINANCIAL REPORTING QUALITY IN NON-FINANCIAL INSTITUTION IN NIGERIA

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Abstract: **This study investigated the effect of audit firm characteristics on the financial reporting quality of non-financial institutions in Nigeria for the periods 2014-2018. To achieve this objective an explanatory research design was adopted to gather historical data from the annual financial statement of the selected non-financial financial for the periods in questions. In addition, from the 106 non-financial institutions firms in Nigeria stratified under seven segment of; Oil & Gas, Consumer Services, Consumer Goods, Basic Materials, Technology, Health Care and industries. A purposive sampling of 32 non-financial institutions were selected for the study. This comprised of 10% industry each from each stratum. Both descriptive and inferential statistics of Panel Regression analysis (in random effect) were adopted for the study. The result of the study revealed that audit firms characteristics had significant positive effect on the financial reporting quality of the selected non-financial institutions. It was concluded that audit firm independence, audit firm tenure, audit firm size, joint audit and audit fees were significant and positively related to the quality of financial reporting.**

Keywords: **Audit firm characteristics, Audit firm independence, Audit firm tenure, financial reporting quality.**

1. BACKGROUND TO THE STUDY

The heavy reliance placed on accounting information has provided an incentive for managers to manipulate earnings to their own advantage (Kothori, 2000 and Bello, 2010). This manipulation that is not supposed to go unchecked by auditors has often led to the eventual collapse of firms of various sizes and even called to question, the integrity of auditors of audit firms. Auditors on their part are expected to be independent and objective in the discharge of their responsibilities (Adelaja, 2009).The report of external auditors in corporate financial statement is seen as providing key assurance and protecting the interest of shareholders (Gallegos, 2004).It has beenobserved that one of the problems in the financial reporting environment today is lack of auditor independence which has resulted in recent corporate scandals (O'Connor 2006). (Beatties and Fearnley, 2002) observed that after the collapse of Enron it was generally believed that rendering of non-audit services compromised the independence of external auditors.

The issue of lack of independence of auditors in clients' relationship could encourage misstatements in financial statements of an organization .Long auditor tenure could also cause the auditor to give an unqualified opinion in financial statements instead of a qualified opinion as a result of familiarity. Concentration of audit assignment in the hands of the

large size audit firms could lower the quality of financial reporting. Thus, the controversy bothering on whether or not audit firm characteristics influence the financial reporting quality of non-financial institutions in Nigeria is the gap the study intends to fill. Therefore, the study aims to investigate the effect of audit firms' characteristics on the financial reporting quality of non-financial institutions in Nigeria. Also, in order to empirically investigate this objective, the paper is divided into five sections namely; background to the study, literature review, methodology, results and discussion and conclusion and recommendation.

2. LITERATURE REVIEW

Conceptual Review

The meaning attaches to word enable one to understanding what the word/words connote in relation to a particular context. Thus, the section of the paper deals with the definition and meaning of concepts/words that are related to the study.

Financial Reporting Quality

The main objective of financial reporting is to provide information concerning economic entity, primarily financial in nature, useful for economic decision making (IASB, 2008; Van Beest2009). Financial reporting provides information about the management's stewardship; the entity's assets, liabilities, equity, income and expenses (including gains and losses), contributions by and distributions to owners as well as cash flows (Van Beest, 2009). This information is usually in the form of annual financial statements such as the statement of financial position; the income statement or statement of comprehensive income; statement of cash flows and statement of changes in equity as well as notes to the accounts (IASB, 2008, 2010). To enhance reliability and confidence in the minds of the users, these reports are subjected to scrutiny by external auditors. However, the spate of financial scandals in recent times has casted serious doubt on the quality of audited financial reports circulating in our corporate environment. Thus, the concept of quality financial reporting has commanded considerable research interest around the world.

Proxies of Financial Reporting Quality

To assess the quality of financial reporting, various measurement models have been used in prior researches. Some of these include: (i) accrual models (Jones, 1991; Dechow, Sloan & Sweeney, 1995); (ii) value relevance model (Choi, Collins & Johnson W.B. 1997; Barth, Beaver & Landsman, 2001; Nicholas & Wahlen, 2004); (iii) specific elements in annual reports (Beretta& Bozzolan, 2004; Hirst 2004); (iv) qualitative characteristics model (Jones and Blanchet, 2000; Schipper & Vincent, 2003; Barth, Landsman & Lang, 2008; Van der Meulen, Gaeremynck, & Willekens, 2007; Van Beest 2009).

Accrual Model:

This model uses the level of earnings management as a proxy for the quality of financial reporting. It measures the extent of earnings management under existing rules and legislation.

Value Relevance Model

This model examines the relationship between stock returns and earnings figures in order to measure the relevance and reliability of financial reporting information. The model measures the quality of financial reporting information by focusing on the association between accounting figures and stock-market reactions (Choi, Collins & Johnson, 1997; Barth, Beaver & Landsman, 2001; Nichols & Wahlen, 2004

The Qualitative Characteristics Model

This represents the most recent model for assessing the quality of financial reporting. The model examines the level of decision usefulness of financial reporting information by operationalising the qualitative characteristics of financial reports. Jonas and Blanchet (2000) pioneered the use of this model in assessing the quality of financial reporting.

Audit Firm Characteristics

Audit characteristics are Independence of an auditor, audit tenure, audit fees, joint audit and audit firm size which researcher based is work on. Auditors are intermediaries between the management of a firm and external parties having

interests in the firm (Porter, Simon, and Hatherley, 1996). According to them, auditors have a duty to form and express an opinion as to whether or not the financial statements prepared by the management show a true and fair view of the entity's financial position and performance. These characteristics are explained below.

Audit Firm Tenure

Audit firm tenure is linked with auditor's technical ability and objectivity in identify misstatements and errors and reporting about them in his report. It has been argued before that short audit tenure affect auditors'' ability to identify misstatements and errors while long tenures affect auditors'' objectivity and independence. Raghunandan (2002) found out that audits performed by audit firms with a short term relationship with clients had more audit failures than those performed with audit firms which had long term audit tenures.

Auditor Independence

According to Dictionary of International Accounting Terms (2001) auditor independence infers a state of impartiality required of auditors who should have no personal or financial involvement with a client. Louwers (2007) expresses independence as a mental attitude and physical appearance which portrays the auditor as being uninfluenced by others in judgment and decision. This can be sustained by avoiding financial connection that makes it appear that the wealth of the auditor depends on the outcome of the audit and management connections that makes the auditor appear as if he is involved in management decisions

Audit Fees

An audit fee is the amount charged by the auditor for an audit process performed for the accounts of an enterprise (Walid, 2012). Companies are statutorily required to have their accounts audited by an external auditor without compromising the quality of audit, it is expected that they would want the fees they pay to be reasonable. According to Jusoh (2013) the reputation of most audit firms and the quality of their audit services are often related to the amount paid for the audit functions. According to Okolie (2014) higher audit fees are reflected in higher costs resulting from greater audit quality.

Joint Audit

Recent literatures have encouraged joint auditors approach in encouraging objective financial reporting. Some scholars are of the view that the appointment joint auditors to a firm will enhance its financial earnings. An interesting feature of (voluntary) joint audits is that they create more variation in auditor choice and thereby potentially in the level of earnings quality than under the traditional Big 4/non-Big 4 dichotomy. Specifically, based on DeAngelo's (1981) framework, audits performed by two Big 4 audit firms produce the highest-quality financial report, while the lowest level of quality occurs when a single non-Big 4 audit firm is responsible for the audit engagement.

Pairings of Big 4 and non-Big 4 audit firms, single Big 4 auditors and pairs of non-big audit firms would then fall between these two extreme classes (Francis et al. 2009; and Zerni 2010). As all joint audit pairs in our sample comprise either two Big 4 audit firms or a Big 4 and a non-Big 4 audit firm, joint audits are always perceived to be of higher quality report than audits by single Big 4 auditors according to DeAngelo's (1981) framework

Audit Firm Size

The most common and well researched indicator of audit characteristics is whether an audit firm is one of the "Big 4" (DeFond and Francis, 2005; and Carcello, 2005). The motivation for such a hypothesis varies from study to study. DeAngelo (1981) suggests that since these larger audit firms are not as financially dependent on the fees from any one client, they are less likely to be subject to pressure from clients to "look the other way" in the event of discovering accounting irregularities.

Audit Quality

Audit quality several studies provided definitions of audit quality with diverse ideas. These definitions can be classified into two approaches, namely: 1) the probability that auditors detect and report misstatements, and 2) the level compliance with auditing standards (DeFond and Zhang, 2014; Tritscher, 2013), which will be discussed next. Following the first approach, researcher defines audit quality based on the quality of financial statements (Tritscher, 2013). DeAngelo (1981) defined audit quality as 'the market-assessed joint probability that given an auditor will both discover a breach in the

client's accounting system, and report the breach' Audit quality depends on both the probability that auditors detect misstatements and on whether auditor's report such misstatements (DeAngelo, 1981; Palmrose, 2004). Low audit quality occurs when audited financial reports contain misstatements that are not detected and reported by the auditor. Thus, audit quality is associated with the quality of audited financial reports as higher audit quality provides greater assurance of high financial reporting quality (DeFond and Zhang, 2014). With regard to the second approach, DeFond and Zhang (2014) suggested that auditors have responsibilities to comply with generally accepted auditing standards to ensure high audit quality.

Theoretical Review

This section focuses on the review of theories that are related to the study.

Agency theory

Eilifsen and Messier, (2000) argue that the demand for auditing arises from the auditor's monitoring role in the principal-agent relationship. According to agency theory, an agency relationship is a contract under which one or more principals engage an agent to perform some service on the principals' behalf and delegate some decision-making authority to the agent (Jenson and Meckling, 1976). As such when there are conflicts between the interests of the principal and the agent, the agent may not act in the best interests of the principal. In order to avoid or minimize such divergences from his or her interests, the principal can establish monitoring systems. The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the principals, specifically, the existing and potential stockholders, by providing reasonable assurance that management's financial statements are free from material misstatements (Watts and Zimmerman, 1986).

Legitimacy theory

This study also draws from the legitimacy theory. Management always wants to be seen to be meeting up to expectations so as to be able to justify their existence as those who are worthy of keeping charge of other peoples' resources. To successfully do this, they employ a lot of manipulations so as to present financial statements that appear to present growing, profitable and sustainable entities. Thus, the audit comes in very handy so as to ensure that what the management presents in their financial statements as performance, faithfully and fairly represents what they actually portend to represent.

Stakeholder theory

The stakeholder theory is a natural extension of the agency theory. The theory holds that every entity involves the interactions of more than the principals and their agents. Such relationships will also involve the interaction of everyone with a stake in the affairs of the entity: the host community, creditors, bankers, government and others. This means that there is greater information demand on the entity; this therefore places greater demands on the auditor to ensure the representativeness of the financial statements (Freeman, 1984; Jones and Wicks, 1999; Donaldson and Preston, 1995; Jones, 1995).

Empirical Review

Booker (2011) asserted that audit tenure with a short period enhances the independence of auditor having a significant positive association with financial reporting quality. Isenmila and Elijah (2012) asserted how Nigerian corporate companies engaged in earnings management (fraudulent financial reporting) through the negligence of audit tenure that is posing threats and adverse effect on investors' confidence and credibility of public financials to the society at large.

Wines (1994) study the relationship between non-audit services and auditor independence in relation to financial reporting quality in Australia. He finds that, non-audit fees are related to a reduced likelihood of qualification. Based on that, the study concludes that non-audit services impair auditor independence and financial reporting quality in return.

Frankel, Johnson and Nelson (2002) investigate the association between non-audit services (using non-audit fees), audit fees and earnings management via discretionary accruals and the likelihood of firms meeting earnings benchmarks to draw inferences on auditor independence. They studied a sample of US firms and found a positive relationship between non-audit fees and small earnings surprises and the magnitude of discretionary accruals. Their result on total audit fees indicates that there is no association between total audit fees and earnings management. Also, audit fees are significantly

negatively associated with earnings management, signifying that auditor independence is compromised when clients pay high non-audit fees relative to total fees. They conclude that clients are more likely to manage earnings via accruals if they also pay their auditors high amount of non-audit fees.

Francis and Ke, (2003); Reynolds, and Francis, (2004) found that audit fee does have a negative relationship with earnings quality, and thus improve the quality of financial reporting. On the other hand, Gul et al., (2003) examines the relationship between audit fees and discretionary accruals in a sample of Australian and firms, their results show a positive association between financial reporting quality (discretionary accruals) and audit fees. They dispute the belief that audit fees erode independence. Audit fees are also used as a measure of audit quality; the perceptions of some researchers behind these studies is that audit fees reflect additional audit effort which leads to a higher level of audit quality

3. METHODOLOGY

The study adopted exploratory research design. Exploratory research design gives insight into a given subject and relates it to the existing knowledge (Cooper and Schindler, 2013). The design enabled the study to explore the association or relationship between financial reporting quality and investigated characteristics of audit firms. The population of this study consists of one hundred and six (106) listed Non-Financial Firms at the Nigeria Stock Exchange (NSE). According to the official website of the Nigerian Stock Exchange, these companies are stratified into seven segments: Oil & Gas, Consumer Services, Consumer Goods, Basic Materials, Technology, Health Care and industries. The stratified sampling technique was used to select sample from the official list of the Nigeria Stock Exchange as it has already structured the companies into strata. The reason for the choice of the stratified sampling techniques is to ensure adequate or proportional representation of the different strata that make up the population. From the industrial classifications, a purposive sampling technique was used to select 32 sampled companies, 30% of companies from each sector. The criteria for the selection of the sample are: (i) that they are listed in the Nigeria Stock Exchange as 31st December 2018. (ii) That they are fairly traded on the Nigeria Stock Exchange. (iii) That each class of the industrial classification was included in the sample size. For the purpose of this study, secondary data was used, while the sources of the data include the financial statements (statement of comprehensive income, Statement of financial position, statement of cash flows and non-financial information) of the sampled non-financial firms for the period 2014 to 2018. In line with the research paradigm underpinning this study and in consistent with the objectives of this study, Panel Regression analysis was employed. The choice of regression as the tool of analysis in this study was informed by the fact that, the technique was effective in estimating the effect of one variable on another. In addition, since the data were time series observation, diagnostic test of unit root and Johansen co-integration test shall be used to ensure that the data were stationary (free from spurious value) and check the number of co-integration equations that existed among the variables of the study apart from the descriptive statistics that was used to meaningfully describe the data collected for the study.

Model Specification and Measurement of Variables

The model for this study is explicitly expressed as;

$FRQit = \beta_0 + \beta_1 AFEESit + \beta_2 AFIit + \beta_3 ATNRit + \beta_4 BIG4it + \beta_5 JAit + \mu_t$ ………………….. 3.1

Where,

α = is the intercept

β_1-β_5 = are the parameters estimate or coefficients in the equation

i,t = firm i, time t

FRQit = Financial Reporting Quality- Accruals/Earnings quality (natural log of absolute residuals)

AFEESit = Audit fees (natural log of total audit fees)

AFIit = Audit firm independence

ATNRit=Audit Tenure

BIG4it = Big four audit firm

JAit = Joint auditors/firms

μ = error term

Table 3.1: Variables Definitions and Measurements

Variables	Definition/Measurements
Financial Reporting Quality	Defined as accruals and earnings quality. Measured as residuals from the modified Dechow and Dechev (2002) change in working capital accrual model.
Audit Firm Independence	Defined as a state of objectivity and absence of any managerial influence, by personal or financial involvement with a client. Measured by dichotomy ('1' provided the audit firm perform other services other than statutory audit and '0' otherwise)
Audit Tenure	Period or duration taken by the same audit firm adopted by the company.
Joint Audit	Defined as statutory audit by more than one audit firm. Measured by dichotomy ('1' provided the company is being audited by more than one audit firm and '0' otherwise).
Audit Firm Size	Defined as the largest global audit firm (Deloitte, pwc, Ernst & Young and KPMG). Measured by dichotomy ('1' provided the company is being audited by any of the big4 audit firm and '0' otherwise).

Source: Researcher's Field work, 2021

4. RESULT AND DISCUSSION

Table 1: Descriptive results computed for the parameters of the Study

Statistics	FRQ	AFEES	AFI	ATNR	AFS	JA
Mean	4.485125	6.052188	0.543750	2.381250	0.612500	0.493750
Median	3.285000	5.670000	1.000000	2.000000	1.000000	0.000000
maximum	26.78000	9.670000	1.000000	7.000000	1.000000	1.000000
Minimum	0.340000	4.000000	0.000000	1.000000	0.000000	0.000000
Stan. Deviation	4.006819	1.492372	0.499646	1.491578	0.488709	0.501531
Skewness	2.338901	0.829097	-0.175674	1.098015	-0.461842	0.025002
Kurtosis	10.66362	2.719212	1.030861	3.483441	1.213298	1.000625
Jarque-Bera	537.4195	18.85632	26.67302	33.70841	26.96997	26.66667
Probability	0.000000	0.000080	0.000002	0.000000	0.000001	0.000002
Sum	717.6200	968.3500	87.00000	381.0000	98.00000	79.00000
Sum Sq Deviation	717.6200	354.1207	39.69375	353.7438	37.97500	39.99375
Observation	160	160	160	160	160	160

Source: Researcher's computation, 2021 (E-view 9)

The result in table 1 revealed that all the audit firm characteristics of audit fees, audit firm independence, audit tenure, audit firm size and joint audit could exert serious influence on the quality of the financial reporting in the selected non-financial institutions. This inferred was based on the fact that the p-value of the Jerque-Bera statistics computed for the variables were less than the critical value of 5%. For instance, the fees paid to audit firm could determine the firm contribution to the quality of the prepared financial statement. This was because failure of a firm not to pay the required audit fees implied that the firm might not get the best service from the auditor.

Diagnostics Tests

In using Panel regression either fixed or random or both, it was necessary to adjudge the nature of data used for the analysis. In doing this, the data must first be freed from the present of unit root. This indicated that they must be stationary either at a constant level or at different level before proceeding to obtain the actual panel results. This section, of the study focused on the assessment of the nature of data used for the study using both the panel unit root of Philip Perron (PP) and Johansen co-integration tests.

Unit Root Test

In order to be able to estimate the Panel Regression the variables of the study must be free from unit root problem. This indicated that they must be stationary. Therefore, the result of the Philip- Perron test used to free the variables of the study from unit root was presented in table 2

Table 2: Unit Root Result

Variables	Level		1st Difference		Order of Integration
	PP-Stat	P-value	PP-Stat	P-value	
FRQ	-4.93780	0.0000	-	-	**I(0)**
AFEES	0.96431	0.8326	-5.02702	0.0000	**I(1)**
AFI	-0.64314	0.2601	-3.36678	0.0004	**I(1)**
ATNR	-1.67780	0.0645	-9.78341	0.0000	**I(1)**
AFS	-0.00767	0.4969	-8.59162	0.0000	**I(1)**
JA	-0.06753	0.4567	-9.98857	0.0000	I(1)

Source: Researcher's Computation, 2020

Table 4.3 presented the results of the unit root test computed for the variables of the study. Looking at the result from the table, it might be asserted that all the variables of the study were free from the unit root problem at their first difference except financial reporting quality that was freed from the unit root at level. The implication of this was that audit fees, audit tenure, audit firm independence, audit firm size and joint audit were stationary at their first difference. This implied that they were free from the problem of unit root at integration of order one (I(1)). This inferred was based on the fact that the p-values of the Philip- Perron computed for the variable at their first difference was less that the critical value of 5%. Moreover, it was found that financial reporting quality was stationary at level, I (0). On this basis of this result, it was reasonable to assert that the variables of audit firm characteristics such as audit tenure, audit fees, audit size, joint audit and audit independence could exert a considerable influence on financial reporting quality not in the short run but in the long run period of the selected listed firms.

Co-integration Test Result

There was need to assert the significance of the level of long run relationship among the panel variables once it had been confirmed that these variables were free from unit root problem. This sub section dealt with testing for the existence of long run relationship among the variables of the study as presented in table 3.

Table 3: Panel Co-integration Result

Kao Residual Cointegration Test
Series: FRQ AFEES AFI ATNR AFS JA
Date: 12/02/19 Time: 11:43
Sample: 2014 2018
Included observations: 160
Null Hypothesis: No cointegration
Trend assumption: No deterministic trend
User-specified lag length: 1
Newey-West automatic bandwidth selection and Bartlett kernel

	t-Statistic	Prob.
ADF	80.000435	0.00000

Residual variance	14.47577	
HAC variance	11.42837	

Source: Researcher's computation, 2020

Table 3 presented the result of the Kao Residual co-integration obtained for the tested variables. From the table, it was discovered that there was a co-integration equation among the variables of the study. This inferred was premised on the fact that the p-value of ADF –statistics computed of 0.00000 was less than the critical value of 5%. This resultantly revealed that all the variables of the study were related with financial reporting quality in the long run. The implication of this was that audit firm characteristics had a substantial influenced on financial reporting quality in the long run.

Therefore, audit fees, audit tenure, audit firm size, audit firm independence and joint audit had exerted a considerable influence on financial reporting quality in the long run. The existence of a long run co-integration equation among the audit firm characteristics revealed that the random effect estimate must be used to achieve the set objectives of the study.

Table 4: Panel Pooled Results

Dependent variable= Financial Reporting Quality (FRQ)

Variable	Coefficient	Standard Error	T-calculated	P-value
C	-0.969092	1.278176	-0.758184	0.4495
AFEES	**0.983082**	**0.267393**	**3.676539**	**0.0003**
AFI	**4.655083**	**0.595770**	**7.813557**	**0.0000**
ATNR	**0.962669**	**0.231964**	**4.150079**	**0.0000**
AFS	**0.893931**	**0.752464**	**1.188005**	**0.2367**
JA	**3.140286**	**0.750503**	**4.184240**	**0.0000**
	OTHER	**TEST**	**STATISTICS**	
R-squared	0.893423		Mean dependent var	4.485125
Adjusted R-squared	0.881260		S.D. dependent var	4.006819
S.E. of regression	7.098767		Akaike info criterion	5.466528
Sum squared resid	214.895		Schwarz criterion	5.581847
Log likelihood	-31.34216		Hannan-Quinn criter.	5.513355
F-statistic	77.428828		Durbin-Watson stat	1.708009
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2021 (E-view 9)

AFEES= Audit Fees

**AFI= Audit Firm Independence

**ATNR= Audit Tenure

**AFS= Audit Firm Size

**JA= Joint Audit

Table 4 presented the results of the panel pooled estimate computed to achieve the objectives of the study. Looking at the result from the table, it was found that the p-value of the t-statistics calculated for audit fees of 0.0003 was less than the critical value of 5%. This showed that the null hypothesis which stated that audit fees was not significance on the financial reporting quality was rejected. It was saved to assert that audit fees was significance on the financial reporting quality of the selected listed firms. The quality of the financial reporting might be related to the ability of a firm to be able to fulfill its obligation to its auditor. Failure of an organization to pay the auditor the statutory audit fees might discourage the auditor to do his work has expected of him. Auditors were human being that lived on rewards from their efforts. Therefore, depriving the audit firm the required audit fees might cause the audit firm to terminate the audit contract unexpectedly and this could affect the financial statement quality. Therefore, it was not true that the quality of the financial reporting was not influenced by the audit fees, the regression coefficient obtained for this test variable of 0.98 was positive with significant t-statistics value of 3.68 and hence, it was reasonable to infer that a 1% increase in audit fees might lead to 0.98% improvement in the financial reporting quality. The sign of this variable was in conformity with a priori expectation for the variable.

Moreover, the result in the table indicated that the p-value of the t-statistics computed for audit firm independence of 0.0000 was less than the critical value of 5%. This showed that the null hypothesis which stated that audit firm independence was not significance on financial reporting quality was rejected. It was reasonable to state that audit firm independence was significance on the financial reporting quality. The independence of audit firms was an important ingredient in determining the quality of the financial reporting. Once an audit firm stayed clear of the business and affairs ot its client firms by maintaining a high standard of ethical and professional conduct, definitely its independence was ensued and this resultantly translated to better quality of financial reporting. The independence of audit firm ensured that auditors were objective in their appraisal and investigation of the financial report prepared by the director of a firm. The objectivity of the auditors helped to these auditors to make informed opinion to depict accurately the financial position of

an organization at any given period of time. The regression coefficient obtained for this test item of 4.66 with significance t-statistics value of 7.81 confirmed the existence of a positive relationship between audit firm independence and financial reporting quality. Therefore, a unit increase in the audit firm independence might lead to 4.66% improvement in the financial reporting quality. The sign of this variable was in tandem with a priori expectation for the parameter and hence, audit firm independence could be a determinant of financial reporting quality in the selected listed firm.

Furthermore, it was found that the p-value of t-statistics computed for audit tenure of 0.0000 was less than the critical value of 5%. This showed that audit tenure was significance on financial reporting quality. The tenure of auditor might make or mar the quality of the financial reporting. The higher the audit tenure, the higher the possibility of auditor independence being eroded in a company. This was because if the audit tenure was too long the unscrupulous auditors might develop vested interest in the company thereby impaired the audit firm independence and consequently affected the quality of the financial reporting. Audit tenure according to Funmilayo and Uchenna (2017) should not be too long in order not to affect the objectivity of the audit firm. The regression coefficient obtained for this test item was 0.96 with significance t-statistics value of 4.16. This indicated that there was a significance positive relationship between audit tenure and the quality of financial reporting. Therefore, a 1% increase in the quality of financial reporting was a pointer to the fact that the tenure of the audit firm had reduced by 0.96%. The sign of this variable was in conformity with a priori expectation for the variable and hence, audit tenure could exert a considerable influence on financial reporting quality in the listed firms.

It was discovered that audit firm size was not significance on the financial reporting quality of the selected firm. This inferred was premised on the fact that the p-value of the t-statistics computed for the test item of 0.2367 was greater than the critical value of 5%. This implied that audit firm size was not related to financial reporting quality. The size of the audit firm might not determine the quality of the financial reporting. More so, whether an audit firm was large or part of the big four audit or small had nothing to do with the quality of financial reporting. The ability of an audit firm to show enough competency, and had sufficient staff that were professional qualified and had the right auditing experience went a long way to determine the financial reporting quality of a firm. An audit firm would be able to make informed opinion concerning the audited financial statement if it had appropriate auditors that knew their jobs in place and vice-versa. The regression coefficient computed for this test was 0.89 and positive with an insignificant t-statistics value of 1.19. This showed that there was a positive relationship between audit firm size and financial reporting quality of the listed firms. Therefore, a 1% increase in audit firm size might lead to 0.89% improvement in the financial reporting quality.

Resultantly, it was discovered that the p-value of the t-statistics computed for joint audit of 0.0000 was less than the critical value of 5%. This implied that joint audit was significance on the quality of the financial reporting. The coming together of two or more audit firms to audit the account of a firm could enhance the quality of the financial reporting. This was because the audit firm sufficient experiences and professional competency would be deployed during the course of the audit assignment thereby enhancing the financial reporting quality. With the right professional exposure deployed by these audit firms a better opinion that showed accurately appropriate financial state of a firm would be ensued. Joint audit ensued that the audit assignment was completed as at when due. In joint auditing, the opinion of one audit firm might not be absolute until the other audit firm had affirmed this opinion. It was called joint audit in the sense that both audit firms engaged must jointly expressed their opinion concerning the audited financial report. The regression coefficient computed for this test variable of 3.14 was positive with significance t-statistics value of 4.18. This indicated that there was a significance positive relationship between joint audit and financial reporting quality and hence, a 1% increase in joint audit might lead to 3.14% improvement in financial reporting quality. The sign of this variable was in conformity with a priori expectation for the variable. Thus, joint audit could be a determinant of financial reporting quality.

The p-value of the F-statistics computed for this test of 0.00000 was less than the critical value of 5%. This implied that the joint null hypothesis which stated that audit firm characteristics was not significance on the financial reporting quality was rejected. It was saved to assert that audit firm characteristics were sufficiently significant on the financial reporting quality of the selected listed firms. The coefficient of determination (R^2) Computed for this test of 0.8934 showed that approximately 87.34% of financial reporting quality was due to audit firm characteristics the results of the Schwarz information criterion, Akaike Information criterion, and Hannan-Quinn criterion revealed that audit firm characteristics of audit fees, audit firm independence, audit tenure and joint audit exerted positive influenced on the financial reporting quality of the selected firms. Durbin-Watson statistics computed for this test of 1.708009showed no auto correlation among the variables of the study. Therefore, audit form characteristics were good predictor variables for financial reporting quality.

5.   CONCLUSION AND RECOMMENDATION

Conclusion

The finding of the study had revealed that audit firm characteristics had a significant influence on the quality of financial reporting in the selected non-financial institutions. Specifically, it might be concluded that audit firms size was not significant on the quality of the financial reporting in the selected companies. Also, audit fees, audit firm independence, audit tenure and joint audit were found to influence greatly the quality of the financial reporting in the selected non-financial institutions. In particular, it was discovered that audit firm characteristics indicators were positively related to the quality of the financial reporting in the selected non-financial institutions. The implication of this was that a 1% increase in any of this variable might lead to a more than a unit increase in the quality of the financial reporting. Thus, audit firms characteristics and quality of the financial reporting were directly related.

Recommendation

The following recommendations are made for the study.

- There is need for firms in Nigeria particularly their shareholders to ensure that audit fees are paid promptly. This is necessary in order to avoid a situation whereby auditors enter into unholy alliance with unscrupulous management for financial gain that may have serious repercussion on the financial reporting quality.

- The independence of the audit firm must continually maintain in order to enhance the quality of the audit firm opinion concerning the prepared financial statement by the management. This the audit firm can achieve by ensuring that they do not interfere with the business of their client because doing so may lead to loss of independence.

- Audit tenure must not be too long. This is necessary in order to avoid unnecessary interfering of the audit firm with the business of its client. The shareholders of these firms must ensure that audit tenure was relatively short in order to protect the independence of the auditor.

- The study recommend that the management of the listed non-financial firm in Nigeria should encourage joint audit so as to aid the ability of audit firms to meaningfully carryout in depth analysis of the prepared financial statement of an entity before arriving at any informed opinion.

- The study also recommends that since audit firm size does not sufficiently significant on financial reporting quality of listed non-financial firms then is not necessary.

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