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**IMPACT OF AUDIT INDEPENDENCE, AUDIT FIRM SIZE ON FINANCIAL
REPORTING QUALITY OF LISTED FINANCIAL SERVICES FIRM IN NIGERIA**

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Abstract

The study investigated the impact of audit independence, audit firm size on financial reporting quality of listed financial services firms in Nigeria. Ex-post facts research design was utilized for the study. The source of data for the study is secondary and was collected through annual reports of the listed financial services firms, purposive sampling technique was used and data collected were analyzed using (ordinary least square robust (OLS). Findings of the study revealed that audit independence, audit firm size showing significant impact on financial reporting quality. The study, based on the research findings concluded that audit independence with positive impact play a vital role in assuring and promoting the audience of shareholders and potential investors on financial statement, by demonstrating stronger oversight and strategic decision which enhances the credibility and transparency of financial reports. Also concluded that firms audited by more larger or more reputable firms typical associated with stronger regulated compliance and professional expertise tend to produce higher quality

financial reports. It recommends among others that regulatory authorities should continue to enforce strict audit independence standards to ensure there are no conflicts of interest that could influence the auditors work.

Keywords: audit independence, audit firm size and financial reporting quality.

Introduction

Financial reporting quality is an essential aspect of financial reporting that provides decision and useful information, which is relevant and faithfully represents the economic reality of a company's activities during the reporting period as well as the company's financial condition at the end of the period. The objective of financial reporting is to provide high quality financial information about economic entities that is useful for economic decision. International Accounting Standard Board (IASB) stated that a key prerequisite for quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information which comprised of relevance, faithful representation, understandability, comparability, verifiability and timeliness (IASB 2008). The quality of financial reporting has always been an issue of concern among regulatory bodies, shareholders, auditing and the accounting profession. This is due to the fact that financial reporting has been a principal means of communicating the results of transactions and events which transpired within the organization to the outsiders (Adebayo & Adebisi, 2018). Furthermore, Soyemi and Olawale (2019) are of the opinion that such information may be used in assessing the economic performance and condition of a business as well as a guide in making economic decisions and monitoring of management actions .

Financial reporting quality is an important aspect of sound corporate governance practice and quality financial accounting practice, on the other hand, it helps to ensure that financial information as disclosed in the financial statement is relevant, reliable and trustworthy (Bako, 2018). It is important that financial report should be of high quality as no investors will be willing to invest in companies associated with low or poor quality financial reports (Al-Qadasi & Al-Jaifi, 2022). Thus, high-quality financial reporting is needed by companies to build and maintain loyalty, trust with investors and other stakeholders, to enable the firm's access capital easily and cheaply, also make prudent decision as well. Therefore, Financial Reporting quality is very essential for businesses and investors globally as this provides investors with more accurate financial information about a company's financial position (Mesabah & Ramadan, 2022; Moridu, 2023; Osadchy, Akhmetshin, & Amirova, 2018).

However, companies that maintain high quality financial reporting standards are more likely to attract institutional investors and have access to cheaper capital because they tend to rely on financial statements to assess or evaluate a company's profitability, liquidity and solvency (Roychowdhury, Shroff, & Verdi, 2019). Therefore, quality financial reporting will ensure that financial statements are free from errors and omissions and reflect the underlying economic reality of a company's operations by aiding them in decision making about buying or selling securities, thus, minimize information asymmetry between companies and investors (Aigienohuwa & Ezejiofor, 2021). Besides, poor financial reporting quality on the one hand can have negative consequences for businesses and the investors. Roychowdhury *et al.* (2019) have shown that poor financial quality can lead to inaccurate valuations of assets and liabilities, which can result in incorrect pricing of securities. It can also erode investor confidence, leading to a decline in stock prices and increased volatility in the financial markets.

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For instance, in first bank Nigeria limited, in 2021 the central bank of Nigeria removed the board of directors and appointed new directors as a result of failure of the banks to comply with the regulatory directives and financial reporting practices (Central Bank of Nigeria 2021). Also in 2020 the central bank of Nigeria revoked the operating license of 42 micro finance banks due to non compliance with regulatory requirements including inaccurate financial reporting. Additionally the case of Access bank Plc in 2019, the bank was fined #20 million naira by Nigeria stock exchange for failing to file its financial statement on time, which resulted to lack of transparency, credibility and timely information for investors (punch, 2019). More so, we have the issue of Heritage bank Plc in 2024 the central bank of Nigeria revoked the operating license of the bank due to the persistent financial inability to improve its financial performance (CBN press release 2024). In 2025, central bank of Nigeria revoked the operating license of two banks Aso savings and loan plc and Union home savings and loan due to non compliance with regulatory requirement (CBN press release 2025).

Audit firm attributes has been perceived to improve financial reporting quality. For instance, the level of audit independence, audit firm size, are crucial external auditors characteristics often linked to the quality and reliability of financial reporting. Therefore, this study laid emphasis on Audit independence and audit firm size on financial reporting. Specifically, the independence of the auditor, in both fact and appearance, is foundational to the credibility of the financial statements (Wakil, Alifiah, & Tijjani, 2019). It shows that an independent auditor assures that financial statements are accurate, complete, and free of material misstatements. It helps to provide a foundation for high-quality financial reporting that increases public confidence in auditing. To be independent, the auditor must be intellectually honest and free from any obligation to or interest in the client. When auditors maintain their independence, they are more inclined to offer impartial assessments of financial statements which in turn, contributes to the trustworthiness and credibility of the financial reporting process (Faboyede, Mukoro, Ogunniyi, & Atanda, 2022).

Audit firm size has also been linked as a powerful indicator when evaluating audit quality and financial reporting quality. Larger audit firms are believed to have more resources, expertise, and reputation, which may positively influence financial reporting quality. Studies suggest that larger audit firms tend to employ more experienced and knowledgeable auditors, utilize advanced technology and quality control systems, and have access to a broader range of industry expertise. These factors can contribute to higher audit quality and, consequently, better financial reporting quality (Che, Hope, & Langli, 2020).

Despite the various regulatory and supervisory bodies in accounting and auditing professions, which laid strong emphasis on audited financial statements of enterprises in order to assure the quality of financial report as a way of protecting and defending the interests of investors and other stakeholders. There are still financial reporting issues in Nigeria that call for concern in terms of the apparent inaccuracies of financial reports and the non-compliance with relevant accounting standards and regulations which erode investors confidence, incorrect pricing of securities, decline in stock prices and increased volatility in the financial markets which lead to negative consequences for businesses and investors as a result of poor financial reporting quality (Kantudu & Alhassan, 2022).

In addition, some financial services firms have suffered similar issues which resulted to the firms having reputational challenges as a result of weak financial reporting quality. For instance, in first bank Nigeria limited, in 2021 the central bank of Nigeria removed the board of directors and appointed new directors as a result of failure of the banks to comply with the regulatory directives and financial reporting practices (Central Bank of Nigeria 2021). Also in 2020 the central bank of Nigeria revoked the operating license of 42 micro finance banks due to non compliance with regulatory requirements including inaccurate financial reporting. Additionally the case of Access bank Plc in 2019, the bank was fined #20 million naira by Nigeria stock exchange for failing to file its financial statement on time, which resulted to lack of transparency, credibility and timely information for investors (punch, 2019), all because of poor financial reporting issues. Furthermore, the central bank of Nigeria in 2024 revoked the operating license of Heritage bank due to the persistent inability to improve its financial performance (CBN press release 2024).). In 2025, central bank of Nigeria revoked the operating license of two banks Aso savings and loan plc and union home savins and loan due to non compliance with regulatory requirement (CBN Press release 2025).

These issues highlighted above tend to underscore the necessity for financial services firms in Nigeria to prioritize financial reporting quality in order to maintain the trust of investors and stakeholders. This could be a way to avoid regulatory sanctions and the reputational problem through strict compliance with accounting standard and timely information disclosure. This study therefore examines the effect of audit firm attributes on financial reporting quality of listed financial services firms in Nigeria given the sector contribution to the development and growth of the economy.

In recent times, several Nigerian scholars have investigated the link between audit firm attributes and the quality of financial reporting in various sectors. These include: Ayinla, Aliyu, and Abdullah (2022), Dijeh *et al.* (2022), Lamido *et al.* (2022), Sanni, Abdulazeez, and Mudathir (2021), Asiriwuwa, Adeyemi, Uwuigbe, Uwuigbe, Ozordi, Erin, and Omoike (2021), Daferighe (2019); Soyemi and Olawale (2019), Odubuasi, Amahi, and Kainene (2018). These studies covered selected manufacturing firms, deposit money banks, consumer goods firms, non-financial firms and insurance firms in Nigeria. But the present study however, will focus on comprehensive entire listed financial services firms as a result of aforementioned financial reporting issues still lingering in the sector of the Nigerian economy. Therefore, this study aims to contribute to existence literatures by filling this sectoral gap created by previous studies.

Also, it has been found in the extant literatures reviewed that some of the studies were conducted in a different country while this study is in Nigeria which has an economic and political difference with those countries and so this constitutes an environmental gap that the study filled .Again, some of the studies periods stopped at 2022, this study on the other hand extending the scope to 2024 which form a period gap that was filled in this study. Furthermore, the most recent issues associated to apparent inaccuracies of financial reports and non compliance with relevant accounting standards and regulations that have led to some firms to attendant reputational problems among Nigerian listed financial services firms (First bank 2021, Access bank 2019 and Heritage bank 2024, Aso savings and loan plc and Union home savings and loans plc 2025) will form the practical gap of the study. This is important as it enables the

research to present more current issues connected to the financial reporting quality among listed financial services firms in Nigeria.

2. LITERATURE REVIEW

Financial Reporting Quality

Financial reporting has been defined in several ways by different scholars. Financial reporting quality could be define as the accurate and transparent presentation of an organization's financial statements, devoid of any errors or misrepresentations that will enable stakeholders to make informed business decisions based on the true and fair financial performance of the organization (Aroyewun & Gwamna, 2022). More so, financial reporting quality refers to the financial disclosure statements integrated into an organization's annual financial statements. These statements provide information about the organization's financial status, fostering greater investors confidence in making reliable decisions about their investments (Theophilus A. & Egun, 2021). Gholami, Mansouri, and Yazdifar (2021) defined financial reporting as the process of disseminating financial statements and other information disclosed by a business unit to third parties; such as shareholders, creditors, customers, governmental organizations and the general public. Undoubtedly, the most important element of financial reporting is the usefulness of financial reporting. Financial reports must possess attributes of relevance, reliability and understandability to fulfill their purpose effectively.

Amah and Ekwe (2021) characterized financial reporting as the faithfulness of information communicated within both the financial and non-financial reporting procedures. Furthermore, in the view of Olanlokun and Sholola (2019), financial reporting quality represents a document that conveys information concerning an entity's financial performance, financial position, and changes in its financial position to end users, aiding them in making economic decision. For the purpose of this study, it can be conceptualize as the precision, clarity and comprehensiveness of the financial data disclosed in a company's financial statement. It encompasses the provision of dependable information that is transparent and complete, serving as a valuable resource for investors, creditors and other stakeholders in their decision making processes.

However, financial reporting quality has been measured in several ways by several authors. Specifically, previous studies such as (Aifuwa & Embele, 2019; Ayinla *et al.*, 2022; Bala *et al.*, 2018a; Ekundayo, Olanisebe, & Adeyemo, 2018; Ibrahim & Abubakar, 2019; Kantudu & Alhassan, 2022; Lamido *et al.*, 2022; Ogungbade, Adekoya, & Olugbodi, 2021; Otuya, 2019) have adopted discretionary accrual to measure the quality of financial reporting. Abbas (2023); Adekanmi, Adeoye, and Isinkaye (2021); Alhaji and Danjuma (2018); Eleimat, Ebbini, Aryan, and Al-Hawary (2023); Musa and Sani (2018) also adopted qualitative characteristics relevance, faithful representation, understandability, comparability and timeliness to measure financial reporting quality.

More so, studies by Kariuki and Oluoch (2020) measured financial reporting quality as $\text{Ratio} = \frac{\text{(Total number of financial reporting made)}}{\text{(Total financial reporting)}}$. Solanke (2019) measured financial reporting with faithful representation, Rogo (2022) measured financial reporting quality by using loan loss provision. For the purpose of this study, loan loss provision will be adopted to measure the quality of financial reporting in line with the view of (Aroyewun & Gwamna, 2022; Rogo, 2022).

Audit Independence

According to Oziegbe and Odien (2022) audit independence could be define as the auditor's capacity to conduct their audit duties based on their own judgment, devoid of any unwarranted influences or prejudices. The cornerstones of this independence are integrity and objectivity. It is not only essential for an auditor to maintain independence but also crucial that they appear independent while performing their responsibilities. This appearance of independence should be evident throughout the entire audit process, starting from the planning phase, continuing through the execution of the audit, and culminating in the reporting stage. Under no circumstances should the auditor's judgment be swayed or influenced. In simpler terms, the auditor must remain untainted by external or internal pressures throughout their work and deliver their opinion without any trace of bias. More so, audit independence is define as the ability of an auditor to perform an objective and unbiased audit of a company's financial statements, free from any conflicts of interest or undue influence from management or other parties (Meuwissen, 2019). It is a critical component of the audit process as it ensures that the auditor's opinion on the financial statements is credible and reliable.

Also, auditor independence can be described as the balanced of an auditor's mental fortitude when rendering judgments throughout the audit process and subsequently revealing the results of the audit. Any compromise to the independence of an auditor increases the probability of the auditor being perceived as deficient in objectivity (Otuya, 2019). Auditor independence is an attitude of mind characterized by integrity and objective approach to professional task. It represents a mental state wherein the auditor can offer an opinion on financial reporting matters devoid of bias or external pressures (Nwanyanwu, 2017). This study will define audit independence as the impartiality and objectivity of an auditor in conducting an audit, free from conflicts of interest and bias. It is crucial of ensuring the quality and reliability of financial reporting, protecting investors, promoting transparency and accountability and maintaining public confidence in the financial reporting process.

Previous studies have measured audit independence in different ways. Abbas (2023) and Oziegbe and Odien (2022) measured audit independence by the proportion of audit fees to the audit firms revenue. Amore (2022), used a ratio of non-executive to the executive directors of the sampled industry, also Lamido *et al.* (2022) put it at the ratio of non-audit services fees to total fees paid to the audit firm in each fiscal year. Lawrence and Joy (2022) measured audit independence as logarithms of the audit fees paid by the company. Ahmed and Alfred Anthony (2020); Jeroh and Ozegbe (2022) measured audit independence as the ratio of audit fees to the company's revenue. However, this study will adapt the ratio of audit fees to the company's revenue as a proxy for audit independence in line with (Ahmed & Alfred Anthony, 2020; Jeroh & Ozegbe, 2022).

Audit Firm Size

Audit Firm Size is define as the size of the audit firms in terms of whether they are being audited by one of the big four audit firm or not (Solanke, 2019). Audit firm size refers to the scale used to classify the size of public accounting firm. The size of an audit firm are classified according to their sizes as follows: the big four international firms, national firm, regional and local firm and small local firm with distribution determined by the total revenue, partner count, professional count and office count (Suseno & Nofianti, 2018). More so, auditor size can be

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determined by the assets held by the audit firm, market share of the auditor and the total workforce of the auditor (Musah, 2017) . The size of auditee has a direct impact on the auditors' work, and the time spent in the auditing process. For the purpose of this study audit firm size refers to the size of the audit firm conducting the audit of a company's financial statements. The size is divided into big or small audit firms. This is also known as the Big-4 or the non-Big-4 audit firms. The Big-4 audit firms are large audit firms with international presence while the non-Big-4 is small audit firms with only national or local presence.

However, prior studies have measured audit firm size in difference ways and by several authors such as (Abdul-Ganiyy *et al.*, 2021; Lamido *et al.*, 2022; Lawrence & Joy, 2022; Mesabah & Ramadan, 2022; Musa & Sani, 2018; Qawqzeh, Endut, Rashid, & Dakhlalh, 2020; Solanke, 2019) have measured audit firm size as "1" if measured by big4 and "0" by non-big4. This study will adopt (Lamido *et al.*, 2022; Musa & Sani, 2018) to measure it audit firm size as "1" if audited by big4 and "0" by non-big4.

Audit independence and financial reporting quality

Numerous studies have examined the relationship between audit independence and financial reporting quality as studied by Abbas (2023); Aliu (2018); Otuya (2019) where they posed similar views by examining the effect of auditors' independence on financial reporting quality utilizing secondary data as a source of data collection. The differential in the study of Abbas (2023) indentify insurance companies as base for his study using thirteen insurance companies listed in the Nigeria Stock Exchange for the period 2008-2016, analyzing data by utilizing descriptive statistics, Pearson correlation and multiple regression. While Otuya (2019) is of the opinion that forty two (42) out of eighty two (82) quoted manufacturing firms were selected using censoring sampling techniques making a total of two hundred and ten (210) observations adopting descriptive and correlation statistics as tool of analysis while regression was used to examine the relationship thereby indicating that independence of auditor has a significant effect in decreasing discretionary accruals which by extension improves on the quality of financial reporting.

However, Aliu (2018) differs his research by postulating that the effect of auditor's independence on audit quality of listed oil and gas companies in Nigeria over a period of ten (10) years (from 2007 to 2016) sampling nine (9) out of the fourteen (14) companies listed in the downstream sector of the Nigeria Stock Exchange selected using purposive sampling technique. Also, the panel data were analyzed using descriptive statistics, correlation matrix and binary logic regression technique thereby showing that there is a significant positive relationship between auditor's independence and audit quality, while the control variable of company size and leverage showed positive and negative relationship with audit quality respectively. Base on the above studies by Abbas (2023) the work was conducted but the number of years used was too scanty, in Aliu (2018) the sample size was inadequate and by Otuya (2019) the time frame was too backward.

Previous studies have examined the relationship between audit firm characteristics and financial reporting quality in Nigeria. Among the studies on these are Amore (2022); Lamido *et al.* (2022); Lawrence and Joy (2022) where they have similar opinion by investigating the impact of auditors' independence on financial reporting quality using ex-post facto research design to explain their variables, secondary data as a source of data collection and agency theory for

their theories. The discrepancy in the study of Lamido *et al.* (2022) which used consumer goods for his study using twelve (12) out of the twenty-one (21) listed in the Nigeria Stock Exchange for the period 2006-2020, analyzing data by utilizing multiple regression and financial reporting quality proxy by Kothari (2005) and discretionary accrual, also audit rotation, audit tenure, audit opinion, audit independence and audit quality were used as independent variables for his study. While Lawrence and Joy (2022) is of the view that fifteen (15) consumer goods listed on the Nigeria Stock Exchange for the period of 2015-2019 were used in his study. Two model the Jones and the modified Jones are used as proxy for financial reporting quality while audit firm size, audit independence and company size as independent variables. E views 10+ was used to analyzed data. Both the two model result to a negative and significant influence on financial reporting quality as a result of auditors in this industry are compromising their independence and highly correlated with company size.

More so, Amore (2022) differs his research by investigating the impact of audit characteristics on performance of listed consumer goods in Nigeria over a period of nine (9) years (from 2011 to 2020) sampling ten (10) consumer goods listed on the Nigeria Stock Exchange . Descriptive and inferential statistics were used for data analysis while multiple regression was used to examined the relationship which result to audit independence showing non–significant relationship, return on assets proxy for profitability was the dependent variable while audit firm size, audit fees, audit tenure and audit independence as independent variables. Stakeholder theory, contingency theory and lending credibility theory were also used in the study. Also audit firm size indicate a positive and significant result, audit fees negative and audit tenure significant but with negative impact. Following from the above studies by Lamido *et al.* (2022) the time frame used in the study was too wide, in Lawrence and Joy (2022) the model adopted for the study was not proper while in Amore (2022) the theory used was too much.

Several studies by Ahmed and Alfred Anthony (2020); Oziegbe and Odien (2022); Prabowo and Suhartini (2021) have shown empirical evidence positively by investigating the characteristics of audit independence on audit quality using the same dependent variable. Disparity in the study of Ahmed and Alfred Anthony (2020) purposive sampling techniques was used for selecting seven (7) out of twenty –two (22) deposit money banks (DMBs) listed on the Nigerian stock exchange for a period of nine (9) years from 2010 to 2019. Data were extracted through secondary source and the analysis of data was done using descriptive statistics, correlation matrix and panel regression technique. STATA 13 was used to run the analyses which revealed audit independence positively related to audit quality. Audit independence, audit firm rotation, audit tenure and audit fees are independent variables while audit quality as dependent variable. Descriptive, historical research design and stakeholder theory was also used in the study. Whereas Oziegbe and Odien (2022) opinion was that ex –post facto research design was adopted and ten (10) pharmaceutical companies listed on the Nigerian Exchange Group was used as the population and sample size of the study, two independent variables audit independence and tenure was used with control variables of firm size and firm age while audit quality was proxy by big4 and non big4 firms as dependent variable. Secondary source of data was adopted and data were analyzed using the panel regression techniques which results indicate a positive and significant effect on audit quality.

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Also Prabowo and Suhartini (2021) study examined the impact of audit independence and integrity on audit quality in Surabaya Indonesia, quantitative research method and Agency theory was used in the study. Data was collected through a questionnaire distributed to auditors at public Accounting Firms in Surabaya and 36 respondents were involved by using simple random sampling technique .The data were analyzed using Smart PLS which results showed that auditor independence positively affect audit quality. The implication of this research is that when determining high audit quality, independent auditors should at least increase their independence and integrity so that the resulting audit reports are of high quality and can be a reference for decision makers which are also consistence in Nigeria. The work conducted in this particular area by Ahmed and Alfred Anthony (2020) and Otuya (2019) the sample size used in their study were not enough to give a larger observation that will lead to significant result. While in Prabowo and Suhartini (2021) study the method of data collection was not adequate.

A number of studies have assessed the relationship between audit quality and financial performance of listed companies in Nigeria. For instance studies by Ado, Rashid, Mustapha, and Ademola (2020); Jeroh and Ozegbe (2022); Ugwunta, Ugwuanyi, and Ngwa (2018) examined the impact of audit independence on financial performance of listed companies on the Nigerian stock market by using similar secondary source of data and agency theory for their theory. In Ado *et al.* (2020) opined employed 84 companies listed on the Nigerian Stock Exchange with 756 samples for the period of nine years which is from 2010 to 2018 based on panel data approach. Furthermore, the research used secondary approach to retrieve data from Thompson Reuters DataStream as well as the financial statement of the listed companies and multiple regressions to examine the model. Audit fees, audit firm size ,audit independence were used as independent variables and firm size, firm age as control variables while financial performance proxy by return on asset as dependent variable. The results reveal that auditor independence is also seen to be positive and statistically significantly related to the ROA while audit fee shows a positively and insignificant relationship with ROA and auditor size displays a significant positive relationship with ROA.

Thus, in different view by Jeroh and Ozegbe (2022) examined audit quality attributes as possible determinants of companies financial performance by adopting panel least square technique, descriptive analysis and relevant diagnostics tests as part of the tools used in analyzing the data collected. Ten (10) out of the twenty-one (21) quoted industrial goods listed on Nigerian Exchange Group for a period of 10years (2011 to 2020) were selected as the sample size through purposive sampling techniques, audit quality proxy by statutory audit service, audit tenure, audit firm size and audit independence as independent variables while financial performance proxy by return on asset as dependent variable. The analysis results indicate that audit independence exerts significant negative influence on return on asset.

While study by Ugwunta *et al.* (2018) investigate the effect of audit quality on share prices of Nigerian oil and gas firms using the regression and covariance analyses. The Panel Least Squares (PLS) was applied to the series of data with stock price as dependent variable and audit quality as independent variable comprising of composition of audit, auditor type, auditor independence and tenure with control variables of firm size and firm age. The population of the study consists of all the firms classified under the oil and gas sector of the Nigerian Stock

Exchange and the result reveal that audit independence have a positive and significant relationship with market price of shares while audit tenure has a negative relationship. The implication of the findings is that audit quality will enhance reported earning and hence the share market prices. In line with all the researchers conducted in this area by different authors Ado *et al.* (2020); Jeroh and Ozegbe (2022); Ugwunta *et al.* (2018) the sample size used in their study were not enough to give a larger observation that will lead to significant result. Hence, based on the above discussion we hypothesized that:

Ho₁ Audit independence has no significant effect on financial reporting quality of listed financial services firms in Nigeria.

Audit Firm Size and Financial Reporting Quality

A lot of studies have examined the relationship between audit firm size and financial reporting quality, studies by Musa and Sani (2018); Sanni *et al.* (2021); Solanke (2019) with similar findings indicating positive relationship between audit firm size and financial reporting quality. The dissent in the study of Musa and Sani (2018) examined the impact of audit firm size on financial reporting quality using insurance companies as base to his study, adopted non-survey research design and data were collected from the annual reports and accounts of thirteen sampled Insurance companies out of thirty-three listed insurance companies on Nigerian Stock Exchange for the period of eight years (2008 to 2015) descriptive statistics, Pearson correlation and multiple regressions (Ordinary Least Square) was used for analysis. Financial reporting quality was measured using qualitative characteristics which represent the dependent variable while audit firm size was proxy by big 4 firm as independent variable. The study found that audit firm size has a positive and significant impact on financial reporting quality. The study recommends that non-big4 accounting firm should invest more resources in technology and staff training, especially in specialized businesses (Insurance), so as to enable them to compete with other accounting firms in auditing.

While in Solanke (2019) view, assessed the effect of audit firm characteristics on financial reporting quality of deposit money banks in Nigeria. Secondary data was explored, 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 deposit money banks for the period 2012 to 2018. The study adopted correlation research design to investigate the relationships as well as the effects of the audit firm characteristics on the financial reporting quality of banks in Nigeria. Financial reporting quality represent the dependent variable while audit firm size, audit fees and joint audit represent the independent variable. The finding reveals that audit firm size and audit fees has significant positive effect on financial reporting quality of banks in Nigeria while joint audit has no significant effect on financial reporting quality of banks in Nigeria. The study recommended Shareholders of deposit money banks in Nigeria should ensure that big size audit firms like the "big four" is the leading auditor of their banks to guarantee higher financial reporting quality and also directors of deposit money banks in Nigeria should maintain the service of their auditor regardless of the magnitude of audit fee to guarantee higher audit quality that can translate to higher financial reporting quality.

Thus, in another way Sanni *et al.* (2021) adopted cross sectional descriptive design and data were extracted through primary source by using questionnaire Taro Yamani method was used,

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simple random sampling was used to select twenty –six (26) out of the twenty –eight (28) listed manufacturing firms in Nigeria which respondents to a total number of 78 questionnaires were administered. The data collected from the survey was analyzed with the aid of the Partial Least Square Structural Equation Model regression technique. Results of the study show that firm tenure and size have a positive and significant relationship with auditor independence. Control variable, provision of non-audit assurance services also has a positive and significant relationship with independence while audit fees, showed a positive but insignificant relationship with auditor independence. Based on these findings, the study concludes that audit firm tenure, rendering of non-assurance audit services impairs independence while audit firm size enhances it. From the various studies conducted by Musa and Sani (2018) the sampling techniques used was not adequate, in Sanni *et al.* (2021) study there was no time frame used and also in Solanke (2019) no theory was used in the study.

Previous studies by Alsmairat, Yusoff, Ali, and Ghazalat (2019); Soyemi and Olawale (2019); Ugwu, Aikpitanyi, and Idemudia (2020) have assessed the relationship between audit firm size and financial reporting quality with similar finding indicating a positive and significant relationship. In Nigeria Soyemi and Olawale (2019) differentiate his research by identifying manufacturing firms as base for his study using twenty-five (25) nonfinancial firm listed on the Nigeria stock exchange from 2009 to 2016 for the sample size, adopted ex –post facto research design and used longitudinal balanced panel data from secondary sources data were analyzed using multiple regression and audit firm size, firm Tangibility, profitability and growth represent the independent variable while financial reporting quality represent dependent variable. The study recommended that large firms tend to produce high quality financial reports; this should be encouraged among firms. While in Jordan, Alsmairat *et al.* (2019) examined the effect of audit tenure and audit firm size on audit quality using primary source of data, two –hundred (200) out of the four hundred and nineteen(419) registered Jordanian auditors were used as the sample size the study was carried out through a survey method and partial least squares structural equation modeling was used for analysis which result to a positive and significant relationship.

More so , Ugwu *et al.* (2020) difference his research by investigating the effect of audit quality on financial performance of all the fifteen (15) deposit money banks listed in Nigeria from 2011-2017. Independent variables used are audit firm size, joint audit and audit fee, while ROA, proxy for financial performance, is the dependent variable. Secondary data were used, which were extracted from the financial statements of the listed DMBs. The study employed correlation and ex-post facto research designs and multiple regressions were used for data analysis. The study revealed significant and positive relationship between audit firm size and ROA, negative and significant relationship between joint audit and ROA and negative and insignificant relationship between audit fee and ROA. Therefore, the study also recommends that since audit firm size positively and significantly affects firm performance. Smaller audit firm should be encouraged as they are likely to carry out a more thorough audit assignment, because most of the DMBs engaged the service of the bigger audit firm. Well the work conducted by various authors such as Alsmairat *et al.* (2019) the methodology adopted was not proper, while in Soyemi and Olawale (2019) no theory was used in the study and Ugwu *et al.* (2020) study the number of years used was too backward.

Prior studies have investigate the relationship between audit firm size and financial reporting quality, studies by Suryani, Winarningsi, Avianti, Sofia, and Dewi (2023); Suseno and Nofianti (2018); Yayangida, Ahmed, Nyor, and Yahaya (2023) with similar findings indicating a non significant relationship between audit firm size and financial reporting quality. The similarity in the study of Suryani *et al.* (2023) employed explanatory research design to investigate the effect of audit firm size and tenure of KAP on the detection of financial statement fraud, sample one hundred and forty (140) manufacturing companies listed on the Indonesia stock exchange for the period of one (1) year (2014-2015).Data were source through secondary source and analysis using descriptive analysis and multiple regression by using SPSS version 20.This research finds that the size of the audit firm and the tenure of the audit did not significantly affect the indications of fraudulent financial statements. In contrary, Suseno and Nofianti (2018) adopted a quantitative approach to examine the impact of audit quality on reputation of public accounting firms. Data were gathered from questionnaire survey and seventy-three (73) public accounting firms was used as the sample size, path analysis method was used for hypothesis testing. Result found that reputation of public accounting firm was significantly affected by audit quality and audit quality was significantly affect audit firm size.

While study by Yayangida *et al.* (2023) examines the effect of audit firm size on financial reporting quality of 30 Nigerian listed non-financial services firms moderated by audit committee independence. Utilizing secondary source of data for the period of 11 years from 2011 to 2021, descriptive statistics, correlation analysis, and regression analysis was used for data analysis. The findings show that audit firm size is significantly associated with financial reporting quality when moderated by audit committee independence. In view of the various studies by Suryani *et al.* (2023) the scope of the study used was too small as one year is not enough to give large observation that will yield significant result, Suseno and Nofianti (2018) study no theory was used and in Yayangida *et al.* (2023) study the work was conducted but the sample size was not wide enough. Hence, based on the above discussion we hypothesized that:

Ho₂ Audit firm size has no significant effect on financial reporting quality of listed financial services firms in Nigeria.

Underpinning Theory

Agency Theory

Agency theory was introduced by Meckling and Jensen in 1976, examines the relationship between shareholders (principals) and managers (agents) in a company. The theory emphasizes that principals hire managers to act in their best interests and achieve a common goal (Bosse & Phillips, 2016). However, delegating duties to managers grants them discretion in decision-making, which can lead to increased costs. In the context of financial reporting, managers with discretion may disclose information that benefits them but harms shareholders and the overall organization. Such disclosure breaches the contract between principals and managers, resulting in conflicts of interest within the firm and with its creditors (Armour, Hansmann, & Kraakman, 2017).

Audit firm characteristics play a significant role in addressing conflicts arising from agency theory. De Angelo (1981) suggests that audit firms with a strong reputation are less prone to colluding with management or participating in fraudulent activities. This can effectively reduce the conflict between shareholders and management, as shareholders can have more

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confidence in the independence and reliability of the audit firm's work. Audit independence, specialization, tenure, size and foreign exposure can all play a role in reducing the costs associated with agency conflicts and improving the performance of financial reporting quality.

To guarantee the credibility of financial reporting, audit independence plays a crucial role. The International Federation of Accountants (IFAC) emphasizes the significance of audit independence in upholding public confidence in financial reporting (IFAC, 2014). By preventing auditors from being influenced by management or other parties, independence helps mitigate agency conflicts that may arise. Furthermore, audit fees can contribute to the mitigation of agency costs. Research by Francis et al. (2015) indicates that higher audit fees are linked to enhance audit quality, which, in turn, helps minimize agency conflicts by providing shareholders with more trustworthy information.

More so, audit firm size play a vital role in reducing agency problem and boosting financial reporting quality by giving greater independence and more effective monitoring of financial activities. Because of their size, resources and experience they are able to conduct reliable audits that promote transparency, accountability and guarantee accurate financial disclosures by management. This leads to improved financial reporting quality, which benefits shareholders by giving them a more trustworthy and transparent view of the company's financial condition, eliminating information asymmetry and aligning management interest with those of the owners to reducing agency conflicts (Sanni *et al.*, 2021; Yayangida *et al.*, 2023).

Research Methodology

Ex-post facto research design was utilized for the study to investigate the relationships between audit independence, audit firm size on financial reporting quality of listed financial services firms in Nigeria. The study population consists of 46 listed financial services firms on the Nigeria Exchange Group as at December 2023. Data was source through secondary and collected through annual reports of listed financial services firms. Purposive sampling technique was used, the sample size is 30 that meet up with filtering criteria. Data were analyzed using Ordinary least square robust (OLS).

Measurement of Variable

Financial reporting quality was measured using (Loan loss provision) adopted from Aroyewun and Gwamna (2022); Rogo (2022) to measure its dependent variable. Specifically, audit independence adopted from Abba (2023); Oziegbe and Odien (2022) were used to measure as proportion of audit fees to the firm’s revenue. Audit firm size was measured using firm size as “1” if audited by big4 and “0” by non big 4 in line with view of Lamido *et al.* (2022); Musa and Sani (2018).

Table 3.1:

Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
FRQ	180	16.83	4.70	5.5	30.06	0.14	2.71
AUIND	180	1.01	0.02	0.97	1.06	0.47	2.34
AFS	180	0.61	0.49	0	1	-0.43	1.19

Source: Researchers collation using Strata 17.0, 2025.

Notes: FRQ=Financial reporting quality, AUIND=Audit independence, AFS=Audit firm size.

The descriptive statistics for all the variables employed in this study, including the dependent variable Financial Reporting Quality (FRQ) and the independent variables that capture audit independence, and audit firm size. This analysis explores the means, standard deviations, minimum, maximum, skewness and kurtosis values for each variable, offering insights into the distribution and variability of audit firm attributes and financial reporting quality across listed financial services firms in Nigeria.

The results indicate that the variables exhibit acceptable statistical properties. The mean value of financial reporting quality (FRQ) 16.83 with a standard deviation of 4.70 suggests moderate variation across firms. The skewness and kurtosis values are within normal thresholds (0.14 for skewness and 2.71 for kurtosis) indicating approximate normality of the dataset. Audit independence (AUIND) clusters closely around its mean (1.01) showing limited dispersion. , while audit firm size (AFS) is binary variable with slight skewness of (-0.43) and kurtosis of (1.19) with a mean of (0.61) respectively. Overall, the data are suitable for panel regression analysis.

The audit independence (AUIND) has a mean of approximately 1.01 with a standard deviation of (0.02), indicating significant variability. The minimum and maximum values range from 0.97 to 1.06, reflecting variability of financial reporting quality among the sampled firms. Similarly, audit firm size (AFS) is a dummy variable (Big 4 = 1, otherwise = 0) and has a mean value of 0.61, indicating that the majority of firms in the sample are audited by Big 4 firms. The minimum and maximum value range from 0 to 1 with a standard deviation of 0.49. These descriptive insights lay the foundation for further inferential analysis and suggest substantial variation across firms in audit practices and financial reporting quality.

Table 3.2:

Correlation analysis on impact of audit independence and audit firm size on financial reporting quality of listed financial services firms in Nigeria.

Variables	FRQ	AUIND	AFS	VIF
FRQ	1.0000			1.02
AUIND	0.0891	1.0000		1.01
AFS	0.1855	-0.0564	1.0000	1.04

Source: Researchers collation using strata 17.0, 2025.

Note: FRQ=Financial reporting quality, AUIND= Audit independence, AFS=Audit firm size.

The correlation results presented in Table 3.2 Show the degree and direction of relationship between audit independence and audit firm size on financial reporting quality of the sampled financial service firms in Nigeria. Correlation coefficients on the main diagonal are 1.0000 because each variable has a perfect positive linear relationship with itself.

Audit independence has a strong correlation with financial reporting quality as reveal by the coefficient of 0.0891 which is significant at 7% level. Audit firm size has a positive correlation on financial reporting quality with coefficient of 18.55% respectively. The correlation among the independent variables show that audit independence is negatively correlated with audit firm size (-0.0564) respectively. While audit firm size is positively correlated.

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The suitability of the study data was confirmed by performing normality, multicollinearity and heteroskedasticity tests. The normality test reveal normal p-plot of the regression standardized residual indicates a good fit and does not suggest the presence of any significant outliers among the regression standardized residuals. The result of multicollinearity test indicates a variance inflation factor (VIF) of minimum 1.01 and maximum of 1.04 (see Table 3.2). Since the mean VIF is less than 10, it is clear that there is absence of multicollinearity between the independence variables of the study.

Regression Analysis

Table 3.3

Regression analysis of audit independence and audit firm size on financial reporting quality of listed financial service firms in Nigeria.

FRQ	Coefficient (β)	Robust Standard Error	t-statistic	p-value	95% conf interval	
AUIND	29.99	16.02	1.87	0.063	-1.61	61.60
AFS	1.60	0.68	2.35	0.020	0.26	2.94
CONS	-22.88	17.12	-1.34	0.183	-56.67	10.90

Source: Researchers collation using Strata 17.0, 2025.

Notes: FRQ=Financial reporting quality, AUIND=Audit independence and AFS= Audit firm size.

The regression analysis in table above provides valuable insights into the effect of audit independence, audit firm size and financial reporting quality (FRQ) for listed financial service firms in Nigeria. Audit independence is found to have a positive and significant relationship ($\beta=29.99$, $p < 0.10$) with FRQ. This suggests that the credibility of financial reporting is achieved through the contribution of an auditor. Recent studies such as Abbas (2023) confirm this, indicating that audit independence play vital role in assuring and promoting the confidence of shareholders and potential investors on financial statement. Similarly, the relationship between audit firm size and financial reporting quality is also positively significant ($\beta=1.60$, $p < 0.05$) indicating that big audit firm size positively impacts FRQ in financial services firms. This suggests that firms audited by larger or more reputable firms typically associated with stronger regulatory compliance and professional expertise tend to produce higher-quality financial reports. This is consistent with the findings from Soyemi and Olawale (2019); Yayangida *et al.* (2023) who demonstrate that firms with large size such as big4 have higher tendency to have high financial reporting quality due to their experts and enough resources.

Hypothesis Testing

Relationship	Beta value	Standard Error	T-statistics	p-value	decision
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Audit & FRQ	29.99	16.02	1.87	0.063	Rejected
A.FS & FRQ	1.60	0.68	2.35	0.020	Rejected

Source: researchers collation 2025.

Evident from the findings hypothesis one which asserts that Audit has to significant positive effect in FRQ was rejected ($\beta = 29.99$, $T = 1.87$, $P < 0.10$. And hypothesis two which asserts that audit firm size has no significant relationship on TRQ was rejected ($\beta 1.60$, $T = 2.35$, P - value of 0.020). Therefore, it is evident that audit independence and audit firm size has a significant impact on financial reporting quality among listed financial services firms in Nigeria.

Discussion of findings

Audit independence is found to have a positive and significant relationship ($\beta=29.99$, $p < 0.10$) with FRQ. This suggests that the credibility of financial reporting is achieved through the contribution of an auditor, indicating that audit independence play vital role in assuring and promoting the confidence of shareholders and potential investors on financial statement. The relationship between audit firm size and financial reporting quality is also positively significant ($\beta=1.60$, $p < 0.05$) indicating that big audit firm size positively impacts FRQ in financial services firms. This suggests that firms audited by larger or more reputable firms typically associated with stronger regulatory compliance and professional expertise tend to produce higher-quality financial reports.

Conclusion and Recommendation

Based on the findings of this study, it is concluded that audit independence significantly influence financial reporting quality among listed financial service firms, showing a positive impact indicating that firms with more audit independence play a vital role in assuring and promoting the confidence of shareholders and potential investors on financial statement, through demonstrating stronger oversight and strategic decisions which enhances the credibility and transparency of financial reports. Audit firm size has a positive significant influence on financial reporting quality .It is concluded that big audit firm size positively impacts FRQ in financial services firms. This suggests that firms audited by larger or more reputable firms typically associated with stronger regulatory compliance and professional expertise tend to produce higher-quality financial reports.

Limitations and suggestions for Future Research

While the study contributes significantly, it also has limitations. Primarily, the study focused on listed financial services firms in Nigeria which may limits the applicability of the results to unlisted financial services firms. Future studies should consider extending the scope beyond listed financial services firms to include unlisted firms which will enhance the generalizations of findings. Furthermore, the current study is confined to only quantitative approach focusing on statistical associations and causality inference which limits the ability to explore the underlying reasons, motivations or contextual factors driving the observed relationships. Future studies

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should try using qualitative insights from interviews or case studies could complement the findings by providing a deeper understanding of financial reporting quality.

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