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Audit Independence and Financial Reporting Quality: A Study of Listed Non-Financial Firms in Nigeria

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ABSTRACT

The study ascertained the effect of audit independence on the financial reporting quality of listed non-financial firms in Nigeria. To achieve the objective above, the study specifically determined the effect of audit fees, audit tenure, audit rotation and non-audit service on the quality of accruals of listed non-financial firms in Nigeria. *Ex-Post Facto* research design was deployed in the study while the population and sample size are 75 listed non-financial firms and 23 listed non-financial firms, respectively. Data were collected from the annual reports of the purposive sample over a ten year period 2012 to 2021. Both descriptive and inferential analyses were carried out in the study. Ordinary Least Squares were used to estimate in the regression coefficients with which the null hypotheses were tested at 5% significance level. The findings revealed that: audit fees have a positive but non-significant effect on the quality of accruals; audit tenure has a positive but non-significant effect on the quality of accruals; audit rotation has a significant positive effect on the quality of accruals; and performance of non-audit service has a positive but non-significant effect on the quality of accruals of listed non-financial firms in Nigeria at 5% alpha level. The study recommends that non-financial firms should always implement mandatory audit rotation policies to reduce the risks of familiarity, bias, and conflict of interest.

1. INTRODUCTION

Over the years, a number of empirical studies in the fields of finance, accounting and business management have been dedicated to the study of the factors influencing the quality of financial reporting of companies. During the past decade, a number of corporate scandals and failures that demonstrated a lack of high-quality financial reporting have sparked research interest in this topic. Much of the research to date has shown that audit independence, which is strongly correlated with audit quality, is one of the most important factors that can affect the quality of financial reporting. Huge researches have been done in this direction such as (Agbaje, Sadiq, Adesoji and Oyindamola, 2021; Owolabi, Afolayan and Oluwatobi 2021; Sunday, 2019; Daniel, 2019; Izedonmi, 2000, Ayowale; Sulaiman, 2019).

Auditor independence receives a lot of attention from researchers, regulators and public observers. This has been described as having a significant impact on audit quality. Several reasons have been advanced of the critical importance of auditor independence for audit quality, and this has fueled a years-long debate among academics, regulators, and market observers on how best to protect auditors and mitigate the concerns of users of financial statements (Yakubu and Williams, 2020).

An audit is the collection and evaluation of information to determine and report on conformity between information and established criteria. Independence of the auditor is a state of mind characterized by the objectivity and honesty of the auditor; Therefore, independence is essential for the credibility of an audit report (Agbaje, Adesoji, & Oyindamola, 2021). The quality of financial reporting is an important issue not only for end users but for the entire economy, as it affects financial decisions that can have a significant impact (Ahmed, 2018). Various regulatory and professional bodies such as the International Auditing and Assurance Standards Board (IAASB) are also aware of quality control and ACCA members' professional codes of conduct. For example, some countries such as the United States prohibit auditors from providing both audit and non-audit services, while other countries such as Italy and Saudi Arabia prohibit all non-audit services except tax services (Hudaib 2003 as cited in Owolabi, Afolayan, Oluwatobi, 2020). . . Thus, the relationship between auditor independence and financial reporting quality has been a concern of interest groups for some time, especially since the Enron affair.

On the other hand, researchers such as Oladipupo and Emife (2016); Babatolu, Aigienohuwa and Uniamikogbo (2016) believe that auditor tenure is one of the most important factors affecting auditor independence, which also negatively affects the quality of financial reporting. The provision of non-audit services has a greater impact on the autonomy of the auditor, because if the auditor includes both audits and non-audit services for a particular client; this can lead to a conflict of interest and undermine the autonomy of the auditor, which affects the quality of reporting. Therefore, the above fact led to the fact that auditors cannot give an impartial and professional opinion on the audited work, which does not allow the public to trust the correctness of the results and the honesty of the accounting profession. It also endangers the integrity of financial markets and the reliability of information. Investors would not be willing to extend capital to companies knowing that the audited information was provided by an auditor who is not independent. Also, banks would not be willing to give loans because they fear that the auditor has given a biased audit report.

The subject of this study has been investigated in previous studies such as (Aliyu and Alhassan, 2022; Agbaje et al 2021; Ahmed, Shehu, Rashida 2022; Aondoakaa, Kwaghfan1, Achika, 2020; Ezuwore, Elias, 2020; Williams, 2020;; Ezuwore, Elias, 2020; Williams, 2020) ; Sunday, 2019; Stella and Daniel, 2019; Aliu, Okpanachi, Mohammed 2018; Amran, Shaari, Bala, 2018; Loveday, 2017). However, to the best of the researcher's knowledge, current recent studies do not include auditor status (Big4 firm or not) as a moderating variable in controlling the effect of audit independence on financial reporting quality. This research fills this perceived gap in the literature and thus acknowledges the limits of knowledge. The broad objective of the study is to ascertain the effect of audit independence on the financial reporting quality of listed non-financial firms in Nigeria. The specific objectives are to:

1. Find out the effect of audit rotation on the quality of accruals of listed non-financial firms in Nigeria.
2. Ascertain the effect of performance of non-audit service on the quality of accruals of listed non-financial firms in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Audit independence

Auditor independence can be defined as the unbiased mental attitude of the auditor in making decisions during the audit and financial reporting process. Independence here does not mean isolation but an attitude, they are free to interact with anyone but not influence them during the review process. From a philosophical point of view, the Consultative Council of Accounting Authorities (CCAB) sees independence as an attitude characterized by honesty and an objective approach to professional duties.

The Code of Ethics defines the avoidance of the appearance of independence regarding facts and circumstances that are so important that a reasonable and informed third party, weighing all the particular facts and circumstances, could reasonably conclude that the integrity, objectivity or professional skepticism of the company or member of the audit team was compromised. Both forms together are necessary to achieve the goals of independence. An independent auditor can "in fact" make independent judgments, even when a lack of independence is perceived or when the auditor has been compromised by company management. Apparent independence also reduces the auditor's chances of acting other than independently, which subsequently increases the credibility of the audit report. Independence allows the external auditor to report material misstatements in the company's accounting records due to possible errors or fraud, if discovered.

Audit Firm Rotation

Auditor/audit firm rotation is the change of auditor of a company after a period stipulated by law. Fierdha, Gunawan, and Purnamasari (2015) argue that audit rotation is the rotation of auditors performed by the client firm. Pramaswaradana and Astika (2017) argued that the purpose of audit rotation in audit firms is to avoid close relationships between clients and auditors. Every company is required by law to appoint an auditor(s). Section 357 of the Companies and Allied Matters Act (CAMA) requires every company to appoint an auditor or auditors at each annual general meeting if approved by 75% or three-quarters of the members present and voting at the general meeting. Auditors appointed at the regular general meeting perform their duties until the next regular general meeting. The 2014 Code of Corporate Governance for Public Companies of the Securities and Exchange Commission (SEC Code) also limits the appointment of auditors for public companies. Section 33 of the SEC Code provides:

Companies must rotate the audit firms acting as external auditors. The external audit firms cannot continue to act as Auditors once appointed for a period of 10 (ten) consecutive years. The external firm which was replaced after 10 years cannot be re-appointed until 7 years after their disengagement. Companies must also require external audit firms to rotate the audit partners assigned to undertake the external audit of the Company from time to time to guarantee independence.

Non-Audit Service

Non-audit services are any professional services provided by a qualified auditor in the course of an audit engagement that are not related to the audit or the review of the entity's financial statements. This usually includes: • tax services – including tax regulations, tax advice and tax planning; • IT services - including IT and other control audits; • Corporate financial services - including due diligence and transaction support. However, significant revenue from non-audit services can create a conflict of interest because it undermines public opinion about the quality of financial reporting audits. This has a greater impact on the auditor's autonomy because if the auditor covers both special client audits and non-audit services; this can lead to a conflict of interest and damage the auditor's independence. Consequently, this creates yet another debate in the audit field as to whether an audit firm can maintain both its independence and objectivity by providing both audit services and non-audit services (Owolabi, Afolayan, & Oluwatobi, 2020). Quality of financial reporting

The quality of financial reporting refers to the quality of the information contained in the financial reports, including the notes. High-quality reporting provides useful information for relevant decision-making, which impartially reflects the financial reality of the company's activities during the reporting period. Qualitative reporting describes the financial position of the company at the end of the reporting period. The quality of financial reporting can vary significantly from company to company. Quality reports contain information that is relevant, complete, neutral and accurate and allows for evaluation. However, the worst quality reports contain subjective and fabricated information. If the quality of financial reporting is weak, the evaluations and the outcome of the evaluation are at risk. Therefore, the information presented is not useful for evaluating the company's performance. Generally, it affects the investment decisions of the company. According to Dandago and Rufai (2014), the quality of financial reporting is achieved through the process of identifying and managing the actions necessary to achieve the quality objectives of the audit work, the quality of financial reporting results from the quality of the entire financial report. . , and it refers to the volume of publication of the annual report, which shows the financial performance and position of the company (Oladejo, 2022). Financial reporting quality is defined as the veracity of the information conveyed through the financial reporting process (Martinez, 2015). Financial reporting should therefore provide information that helps investors, creditors and other users predict the amounts and timing of a company's future cash flows (Waweru and Riro, 2013, cited in Utibemfon, 2022). In this study, financial reporting quality is measured by accrual quality.

Accruals Quality

The quality of transitions refers to the extent to which accruals, which are non-accusatory adjustments made to a company's financial statements to match income and expenses to the appropriate period, accurately reflect the underlying economic events they measure. High accrual quality is usually associated with more accurate financial statements and lower risk for future earnings surprises. High performing companies usually have strong internal control and financial reporting systems and transparent and consistent accounting policies. Conversely, low accrual quality may indicate that a company is using accounting to manipulate results or that its financial reporting systems are weak. This can raise concerns about the reliability of the company's financial statements and increase the risk of future earnings surprises. Investors and analysts often use various metrics, such as accrual ratios and accrual quality scores, to assess the quality of a company's accruals and identify potential red flags in financial reporting. This proxy for financial reporting quality was measured using the modified Jones model.

Empirical Review

In their study, Oyetunji, Atanda and Adekanmbi (2022) assessed the impact of auditor independence on the reliability of financial statements of savings banks in Nigeria with particular emphasis on its importance to current and potential users. The study used regression analysis and pure error statistics to determine the importance of auditors' independence in their reporting. A retrospective study design was used. The sample size is within a five-year range of banks listed on the stock exchange from 2015 to 2019. Although the regression result shows that the independence of the auditors is central to their report, the pure error statistic also confirmed the importance of the independence of the auditors through its result 0.00, which is below the standard of 0.05, indicating that there was no autocorrelation and the independence of the auditor is significant. The study therefore suggests that it is important for Nigerian companies to pay the necessary audit fees to select a firm audit firm among others. Augustin, Theresa and Chukwuemeka (2021) in their study investigated the relationship between audit attributes and financial reporting quality of listed companies in the insurance sector of the Nigerian economy. The study had five objectives, which include audit type, audit period, joint audit, area-specific audit, and audit fee on financial reporting quality measured by the modified Jones model with consideration periods. The use of a retrospective research design was introduced, which required the collection of secondary data from the annual reports of 22 insurance companies selected for the sample of financial years 2011-2020. The data were analyzed using statistical tools such as descriptive statistics, correlation analysis, fixed effect and random effect model tests, where the Hausman test was used to select the best of these two models as a prerequisite for conducting panel data regression analysis. The empirical result obtained from this suggests that the type of audit has a positive and non-significant effect on the quality of financial reporting. An additional result shows that audit fee has an inverse statistically significant effect on financial reporting quality at the 1% level. At the same time, audit, joint audit and field-based audit have a negative but not significant effect on the quality of financial reporting of listed insurance companies. In research recommendations stemming from e.g. according to the findings, regulators should confirm that audit firms rely on professional benchmarking for each audit engagement, with a view to possible competitive compromises or audit fee reductions. from the point of view of the customers, it would weaken the quality of the financial reporting of the sector. Agbaje et al (2021) investigated the effect of auditor independence on financial reporting quality of savings banks in Nigeria and the dependent variable on financial reporting quality; Audit fee, audit firm size and audit meeting as independent variables, debt ratio as control variable. The sample period covered six (6) years (2013-2018) and the data was obtained from the audited annual reports of ten (10) selected savings banks. The results of the study revealed that the audit fee, audit meeting and debt ratio are positive, but the effect on the quality of financial reporting is insignificant. The size of the audit community is negative and has no significant effect on the quality of financial reporting. The report recommends directing and reorienting audit committee members to ensure a significant impact on the quality of financial reporting. In their study, Ezuwore, Elias and Igwebuike (2020) investigated the relationship between external auditor independence and the reliability of audited financial statements in Nigeria. In particular, the study aims to find out whether (i) there is a significant relationship between external auditor integrity and the reliability of audited financial statements in Nigeria and (ii) an objective approach to the external audit process is significantly related to auditor reliability. audited financial statements in Nigeria. A research design was used, while the Chi-square technique was used to analyze the data. The data used for this paper was collected through a well-structured questionnaire collected from 150 users of audited financial statements in Enugu State. The findings of the study show that there is a significant relationship between the integrity of the external auditor and the reliability of the audited financial statements in Nigeria. The study also finds that an objective approach to the external audit process is significantly related to the credibility of audited financial statements in Nigeria. It recommends strengthening the independence of auditors through various initiatives such as shortening the tenure of auditors, regular rotation of auditors and appropriate audit fees. In his study, Otuya (2019) investigated the relationship between auditor independence and the quality of corporate financial reporting in Nigeria. The study was based on agency theory and adopted a content analysis research design. The information was collected from the 2013-2017 annual reports of listed companies. Descriptive and correlational statistics were used as tools of analysis, while relationships between the variables identified in the study were studied as regressions.

The results of the study show that audit incentives, audit tenure, and audit client size have a significant positive relationship with financial reporting quality. The study also finds that audit reporting delay has a positive but insignificant correlation with financial reporting quality, while auditor status, such as one of the big four audit firms, has a significant negative relationship with financial reporting quality. The study notes that longer auditor tenure and higher incentives encourage auditor independence, which also improves the quality of financial reporting. The study recommends that audit firms charge reasonable fees to ensure that engagement staff are adequately remunerated as this promotes independence. The study further recommends that the Financial Reporting Council (FRC) of Nigeria and other regulatory bodies should increase the statutory professional requirement of three years to extend the tenure of auditors. Ayowale (2019) investigated the independence and reliability of the audit of financial reporting in the banking sector in Nigeria. The study used a descriptive survey. Purposive sampling was used to select 250 accounting and auditing department employees from Guarantee Trust Bank, First Bank of Nigeria, Polaris Bank, Zenith Bank and Diamond Bank, Lagos State, Nigeria. Fifty (50) respondents were selected from each of the five banks to represent the sample size. Descriptive statistics including descriptive analysis such as frequencies, percentages, means and standard deviations were used to analyze the survey responses. The results showed that; The independence of the auditor has a significant impact on the comprehensibility of financial statements in the Nigerian banking sector. The study also reveals that auditor independence has a positive and significant effect on the relevance of financial statements in the Nigerian banking sector. Correlation analysis shows that auditor independence is positively related to correct presentation of financial statements. According to the results, it was concluded that the independence of the auditors is an important part of the reliability of the financial statements, and different economic factors affect the fees of the auditor, such as the size and complexity of the audit work. The study recommended that auditors not provide other consulting services to audit clients. Auditors should be rotated to improve their independence; Peer reviews should be implemented to ensure that inspections are conducted with the utmost professionalism and mutual respect. Every joint stock company must form an audit committee to evaluate the audit work done. Aliu, kpanachi and Mohammed (2018) investigated the impact of auditor independence on audit quality of listed oil and gas companies in Nigeria over a period of ten (10) years (2007-2016). The sample size consists of nine (9) out of fourteen (14) companies listed in the sub-sector of the Nigerian Stock Exchange and selected through purposive sampling method. The study uses secondary data obtained from the audited annual accounts of the sampled companies. Descriptive statistics, correlation matrix and binary logit regression techniques were used to analyze the panel data. The results show that there is a significant positive relationship between auditor independence and audit quality, while the control variable of company size and financial leverage showed a positive and negative relationship with audit quality. The report recommends regulating and disclosing all components of pricing and accounting of the audit to give the public an idea of the auditor's financial dependence on the client and whether the fee is in line with the complexity of the audit engagement. Adabeneg and Majiyebo (2022) examine whether audit fees and independence affect audit quality in the context of poor governance in Nigeria. The study used a sample of 12 listed industrial manufacturing companies of the Nigerian Exchange Group from 2006 to 2020, resulting in 180 observations. Consistent with signaling theory, we conclude that audit fees and audit independence are determinants and are more likely to lead to higher audit quality. These findings offer a promising future for stakeholders to better understand the trade-off between audit fees and independence, on the one hand, and audit quality, on the other. However, the results are limited to companies in the industry as the selected sector is open to discussion as others are worthy of investigation. The methods and model chosen may also have influenced the results; One could consider using a wider set of variables that can act as proxies. Lambe, orbunde and Yohanna (2021) investigated the impact of audit engagement on the financial reporting quality of a listed industrial manufacturing company in Nigeria over a ten (10) year period from 2011 to 2020. The study adopted a retrospective research design and secondary data obtained from the Nigerian Stock Exchange was used as the source of information for this study. The panel regression analysis technique was used to analyze the research data. The result showed that the audit period has a positive and significant effect on free accruals, which is used as a measure of financial reporting quality. The study finds that audit tenure has a significant positive impact on financial reporting quality and significantly reduces voluntary accruals of listed industrial manufacturing firms in Nigeria. The study therefore advises stakeholders and decision makers interested in the services of external auditors of listed companies in Nigeria to evaluate and determine the tenure of auditors based on efficiency, effectiveness and output and not only on other considerations. This is because high "profits" are not necessarily related to auditor qualification and financial reporting quality of listed industrial manufacturing companies in Nigeria. Hussain, Afza, and Hasnah (2018) investigate the relationship between audit fees and financial reporting quality of listed companies in Nigeria. . We use 88 listed companies in Nigeria between 2012 and 2016. The information is obtained from the annual reports of listed companies and Thompson Reuters Data Stream. The performance model was used to describe the quality of financial reporting. Multiple regression was used in the estimation model. The study shows that higher audit fees are associated with lower levels of discretionary charges and thus imply a better quality of financial reporting. The result also supports the resource dependence theory, according to which a higher proportion of financial experts in the board reduces the degree of accounting manipulation. The study provides investors, policy makers and regulators with an understanding of the key role audit fees play in reducing accounting manipulation and improving the quality of financial reporting in listed companies in Nigeria. Nwanyanwu (2017) investigated the impact of audit quality practices on financial reporting in Nigeria using audit firm evidence. Information was collected through a questionnaire. Univariate, bivariate and multivariate analyzes were performed using descriptive statistics, Pearson's product moment coefficient and stepwise multiple regression. The findings show a statistically significant positive strong relationship between measures of audit quality (auditor independence, technical training and qualifications, and engagement effectiveness) and financial reporting (measured by financial statement reliability). The greatest explanatory power of the variations in the reliability of the financial audit is the independence of the auditor, 47.9%. In addition, the regression model using only auditor independence gives the highest value for financial statement reliability. Considering technical training and qualifications and completion of engagement, auditor independence is a primary audit quality for financial reporting. Auditors must adhere to the ethics of independence to achieve the credibility and reliability required of financial statements.

3. METHODOLOGY

Research Design

This study uses an Ex-Post Facto research design to determine the impact of audit independence on financial reporting quality of listed non-financial companies in Nigeria. Ex post facto research is a type of observational research that assesses the relationship between an outcome and possible causes after the outcome has already occurred. It is also called a retrospective study because it looks back in time to determine factors that may have contributed to a particular outcome. This makes it suitable for this study because financial reporting quality and audit independence have already been realized between 2012 and 2021, and the study goes back in time to examine their relationship.

Population of the Study

The study aims to analyze all non-financial companies that are listed on the Nigerian Exchange Group (NGX). As of December 31st, 2021, the NGX Daily Stock Listing showed that there are 75 such companies that are traded on the NGX. These firms can be found in Appendix I of the report.

Sample Size and Sampling Technique

Purposive sampling technique was deployed in choosing the sample size. This approach involves selecting members of the population based on certain attributes. The three attributes used in this study were that the non-financial company must be part of either the consumer goods or industrial goods industries, have been listed since the 2012 accounting period, and have submitted complete annual reports to the Nigerian Exchange Group from 2012 to 2021. The 23 companies that met these requirements are outlined in Appendix II of the report.

Method of Data Collection

Secondary data were collected from the annual reports and financial statements of listed non-financial firms in Nigeria for a period of 10 years (2012-2021). The data will be obtained from the Nigerian Exchange Group (NGX) website and other relevant sources.

Method of Data Analysis

The data collected are analyzed using descriptive statistics to summarize the data and inferential statistics such as Ordinary Least Square regression analysis to determine the relationship between the dependent and independent variables. The regression analysis was used to test the specific objectives of the study.

Model Specification

The regression model testing the hypotheses of the study is stated below:

$ACQ_{it} = \beta_0 + \beta_1 AUDR_{it} + \beta_2 PNAS_{it} + \varepsilon_{it}$ ____________________eqn (i)

In the above model, there is a need for moderation since the audit fee paid may be determined by the status of the audit firm.

The moderated linear model using Audit Status is stated below:

$ACQ_{it} = \beta_0 + \beta_1 AUDR_{it} + \beta_2 PNAS_{it} + \varepsilon_{it}$ ____________________eqn (ii)

Where,

ε_{it} = error term for firm i in period t.

β_0 = constant.

β_{1-2} = parameters

ACQ_{it} = Accruals Quality for firm i in period t.

$AUDR_{it}$ = Audit Rotation for firm i in period t

$PNAS_{it}$ = Performance of Non-Audit Service for firm i in period t

In measuring financial reporting quality, the modified Jones model of estimating discretional accruals was deployed as shown below.

$TA/A_{(t-1)} = \beta_1 (1/A_{t-1}) + \beta_2 (\Delta \text{ in Rev- } \Delta \text{ in Rec}) /A_{t-1}) + \beta_3 (PPE/A_{t-1}) + \epsilon_{it}$ = Operating income - Cash from operating activities

Where:

TA = Total Accruals

Ait-1 = Total Assets at the beginning of the year

Δ Revit = Change in sales from year t-1 to t

Δ Recit = Change in receivables from year t-1 to t

PPEit = Plant, property and Equipment

β1, β2, = Represents firm's specific parameters.

ϵ = Residual here represents the firm specific discretionary portion off accruals. However, while the right side of the equation represents the non-discretionary accruals, the net result for the left side represents the total accruals. Hence taking the difference between the two sides, it amounts to the discretionary accruals (DA).

Accounting fundamentals are used to separate accruals into non-discretionary (normal) and discretionary (abnormal) components. The absolute value of the abnormal component determines the quality of financial reporting. The larger the absolute value of discretionary accrual, the lower the quality of financial reporting.

Decision Rule

The study adopted 5% level of significance in the inferential statistical analyses. If the test statistic has a p-value below the chosen threshold ($p < 0.05$) then the null hypothesis is rejected and while the alternate hypothesis is accepted; and vice versa.

4. DATA ANALYSIS AND RESULTS

Table 1: Descriptive Statistics of the Variables

Table 4.1 Descriptive Statistics of the Variables

	ACQ	AUDR	AUDS	PNAS
Mean	-1787841.	0.111650	0.796117	0.587379
Median	-1130075.	0.000000	1.000000	1.000000
Maximum	51917058	1.000000	1.000000	1.000000
Minimum	-73557289	0.000000	0.000000	0.000000
Std. Dev.	16406433	0.315703	0.403865	0.493505
Skewness	-0.821657	2.466213	-1.469986	-0.354977
Kurtosis	9.680270	7.082205	3.160859	1.126009
Jarque-Bera	406.2191	351.8584	74.41161	34.46962
Probability	0.000000	0.000000	0.000000	0.000000
Sum	-3.68E+08	23.00000	164.0000	121.0000
Sum Sq. Dev.	5.52E+16	20.43204	33.43689	49.92718
Observations	206	206	206	206

Source: Analysis Output (2023) Using Eviews 10

The cumulative quality (ACQ) mean is -1787841, indicating that this variable has a negative mean. The average ACQ value is -1130075, which is below average. This indicates that the distribution of this variable is skewed to the left. The maximum value of ACQ is 51917058, which is much higher than the mean and median. This indicates the presence of anomalies in the data. The minimum value of the ACQ variable is -73557289, which is much smaller than the mean and median. It also shows the presence of anomalies in the data. The standard deviation of ACQ is 16406433, which is quite high. This shows that the data points are scattered. ACQ has a negative skewness (-0.821657), indicating a left-skewed distribution. The kurtosis value of ACQ is 9.680270, which is much larger than 3 (normal distribution value). This indicates that the distribution has heavy tails and is higher than the distribution. ACQ Jarque-Bera is 406.2191 with probability 0.000000. This indicates that the distribution is not normal.

Audit turnover (AUDR) has a mean close to zero and a median of 0, indicating that the data are uniformly distributed around 0. The standard deviation is moderate, indicating that the data are somewhat scattered. The skewness is very positive, indicating that the data is heavily skewed to the right. The kurtosis is very high, indicating that the distribution has heavy tails and is higher than the normal distribution. The Jarque-Bera test suggests that the distribution is significantly different from the normal distribution. The amount is relatively small, indicating that the total value of the variable is not very large. Non-audit service (NAS) performance has a mean close to 0.5 and a median of 1, indicating that most auditors provided non-audit services to clients. The standard deviation is moderate, indicating that the data are somewhat scattered. The skewness is slightly negative, indicating that the data is slightly skewed to the left. Kurtosis is low, indicating that the distribution is less peaked than a normal distribution. The Jarque-Bera test suggests that the distribution is significantly different from the normal distribution. The amount is relatively small, indicating that the total value of the variable is not very large.

Hypotheses Testing

Table 4.2 Ordinary Least Square Regression Analysis

Dependent Variable: Accrual Quality
Method: Pooled Least Squares
Date: 02/24/23 Time: 14:40
Sample: 2013 2021
Periods included: 9
Cross-sections included: 23
Total panel (unbalanced) observations: 206

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AUDR	10695527	4134994.	2.586588	0.0104
PNAS	655202.0	2863486.	0.228813	0.8192
AUDF*AUDS	9.329071	225.5086	0.041369	0.9670
C	-3781491.	4717844.	-0.801529	0.4238

R-squared	0.038085	Mean dependent var	-1787841.
Adjusted R-squared	0.009082	S.D. dependent var	16406433
S.E. of regression	16331759	Akaike info criterion	36.08851
Sum squared resid	5.31E+16	Schwarz criterion	36.20159
Log likelihood	-3710.117	Hannan-Quinn criter.	36.13425
F-statistic	1.313155	Durbin-Watson stat	1.263216
Prob(F-statistic)	0.252810		

Source: Analysis Output (2023) Using Eviews 10

The regression analysis above predicted Accrual Quality using: Rotation (AUDR), Performance of Non-Audit Service (PNAS), alongside the interaction effect of AUDF*AUDS.

The R-squared value of 0.038085 suggests that the model explains only a small proportion (3.81%) of the variation in Accrual Quality, and the adjusted R-squared value of 0.009082 indicates that the model may not be a good fit for the data. The F-statistic of 1.313155 and Prob (F-statistic) of 0.252810 further support this notion, implying that the overall significance of the model is weak.

Test of Hypothesis I

H_0: Audit rotation has no significant effect on the quality of accruals of listed non-financial firms in Nigeria.

The coefficient for Audit Rotation is 10695527, which means that a unit increase in Audit Rotation is associated with an increase in Accrual Quality by 10,695,527. The t-Statistic is 2.586588, which is statistically significant at a 5% level of significance. The Prob. value of 0.0104 is also less than 0.05, suggesting that the null hypothesis is rejected while the alternate hypothesis is accepted.

Having accepted the alternate hypothesis, Audit rotation has a significant positive effect on the quality of accruals of listed non-financial firms in Nigeria at 5% alpha level.

Test of Hypothesis 11

H_0: Performance of non-audit service has no significant effect on the quality of accruals of listed non-financial firms in Nigeria.

The coefficient for Performance of Non-Audit Service is 655202.0, which means that a unit increase in PNAS is associated with 655202 increases in accrual quality. However, the t-Statistic is only 0.228813, which is not statistically significant at a 5% level of significance. The Prob. value of 0.8192 is also greater than 0.05, indicating that the null hypothesis is accepted while the alternate hypothesis is rejected.

Having accepted the null hypothesis, Performance of non-audit service has a positive but non-significant effect on the quality of accruals of listed non-financial firms in Nigeria at 5% alpha level.

CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, the study finds that audit independence has a positive impact on the quality of financial reporting of listed non-financial companies in Nigeria. The inspection cycle has a particularly significant positive effect on the quality of results, while non-inspection services have a positive but insignificant effect. These results highlight the importance of maintaining auditor independence and objectivity in improving the quality and reliability of financial reporting. The implications of these findings are important for both practitioners and regulators. Research shows that prioritizing audit independence and objectivity in audit engagements with clients improves the quality of financial reporting. This is because the implementation of audit rotation practices reduces the risks associated with familiarity and bias and rigorous audit and improves the quality of financial reporting. Enforcing mandatory audit rotation principles, limiting non-audit services provided by audit firms, and monitoring the level of audit fees charged by audit firms to ensure that they are reasonable and proportionate to the level of effort required to perform a rigorous audit. are factors that contribute to the quality of financial reporting. These measures can improve the quality and reliability of financial reporting, promote investor confidence and reduce the risks of financial fraud and misreporting. In conclusion, the study provides valuable information on the relationship between audit independence and financial reporting quality in listed non-financial companies in Nigeria.

Recommendations

1. Companies outside the financial sector should always implement a mandatory audit rotation practice to reduce the risk of familiarity, bias and conflicts of interest.

2. Considering the potential risks of conflict of interest and weakening of independence, companies may consider limiting the provision of non-audit services by auditing firms. Regulators may also consider monitoring the level of non-audit services provided by audit firms to ensure that they do not undermine the independence and objectivity of the audit process.

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