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# Audit Quality Practices and Financial Reporting in Nigeria

**Loveday A. NWANYANWU**

*Department of Accountancy, Faculty of Management Sciences, Rivers State University, Port Harcourt, Federal Republic of Nigeria, E-mail: lovedaynwanyanwu@gmail.com*

***Abstract*** *This paper examined the influence of audit quality practices on financial reporting in Nigeria, drawing evidence from auditing firms. Data were collected through questionnaire. Univariate, bivariate and multivariate analyses were performed using descriptive statistic, Pearson Product Moment Coefficient of Correlation and stepwise multiple regression. Findings indicate a statistically significantly positively strong relationship between the measures of audit quality (auditor independence, technical training and proficiency and engagement performance) and financial reporting (measured in terms of reliability of financial report). Auditor independence has the highest explanatory power of variations in reliability of financial report of 47.9%. In addition, the regression model with only auditor independence produces the highest value of reliability of financial report. Given the existence of technical training and proficiency and engagement performance, auditor independence is a prime audit quality in financial reporting. Accounting practitioners should imbibe the ethics of independence to achieve credibility and reliability required of financial reports.*

***Key words*** Audit Quality, Financial Reporting, Nigeria

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## 1. Introduction

Audit quality practices are procedures established by auditors to ensure that financial reports communicate relevant and reliable information to members of an organisation and the public. These practices vary from one audit organisation to the other depending on their sizes, nature of activities and applicable legislations. Literature documents differences in opinion as to what constitutes appropriate definition of audit quality. Saleh and Azary (2008:65 -77) view audit quality as how well an audit detects and reports material misstatements, reduces information asymmetry between management and stockholders and thus assist protect the interest of stockholders. From the reasoning of Palmrose (1988), audit quality is the probability that financial statements contain no material misstatements. Also, Davidson and Neu (1993: 479 - 488) define audit quality as a function of the auditor's ability to detect and eliminate material misstatements and manipulations in reported net income. While De Angelo (1981) reports audit quality as the market assessed joint probability that a given auditor will both discover a breach in the client's accounting system and report the breach. These definitions, no matter how divergent, emphasis compliance with relevant audit procedures and standards (Al -Khaddash, *et al.*, 2013). Users of financial statements demand nothing less than a report that conveys accurate and reliable information relevant for decision making. This is made possible by auditors through the provision of quality services. Salehi and Kangarlouei (2010) investigated the effect of audit quality on accrual reliability of listed companies and found existence of more accrual stability coefficient in audit firms with higher audit quality than those with lower audit quality. Similarly, Al-Khaddash *et al.* (2013) did a work on the factors affecting the quality of auditing, drawing data from Jordanian commercial Banks. Results indicate a positive and significant association between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm and the proficiency of the auditor.

The foregoing studies did not consider the association between audit quality practices and financial reporting, particularly in Nigeria, the hub of Africa's economic activities. The purpose of this study is to investigate the influence of audit quality on financial reporting from the perspective of auditing firms whose level of honesty and integrity are brought to bear in assessing the accuracy of financial statements.

The next sections will discuss literature review, methodology, data presentation and analyses. Others are discussion of findings, conclusion and recommendations.

## 2. Literature review

*The Debate on Audit Quality Measures*

Scholars have put forward varying measures of audit quality, none of which is conclusive. Giroux and Jones (2011) identified five theoretical constructs to evaluate audit quality: auditor type, audit experience (industry and specialisation), audit fee, demographics and local government type. De Angelo (1981) associates audit quality with size of audit firms. However, prior study by Arnett and Danos (1979) maintain that size alone should not be a prime determinant of future success. According to them, so far as professional standards and qualifications are maintained, it is not fair to arbitrarily distinguish between the largest eight and all other Certified Public Accountants (CPA) Firms. To halt this discrimination on size of audit firms, eighteen small to medium sized audit firms initiated a suit in 1978 to prevent the division of American Institute of Certified Public Accountants (AICPA) into two sections; one for audit firms whose clients are to file reports with the securities and Exchange Commission and the other, for audit firms whose clients should not. The Derieux Committee (De Angelo, 1981) set up by the AICPA to examine the issue recommended that the selection of a CPA firm should be based not on size, but on the ability to provide service. Against this position, De Angelo argues that audit quality is not independent of audit firm size, even when auditors initially possess identical technological capabilities. Continuing in her explanation, size alone alters auditors' incentives such that ceteris paribus, larger audit firms supply a higher level of audit quality. Aside De Angelo, some scholars have also used audit firm size as measure of audit quality. In the views of Beatty (1989); Titman and Trueman (1986), larger audit firms are more likely to be associated with more precise information than smaller audit firms, ceteris paribus.

Hameed (1995) reports auditor's experience, honesty and knowledge of accounting and auditing standards as factors affecting audit quality. In another development, Salehi and Kangarlouei (2010) suggest auditor size, auditor tenure, specialty in auditor industry, auditor authenticity risk and client legal claims, auditor independence as measures of audit quality. Firth (1980) took a random sample of chartered accountants in practice firms and industry, major stockbrokers and investment managers of unit trust, insurance companies and Merchant Banks and loan officers of major banks and financial institutions. Overall result indicate that lack of auditor independence affected investment and lending decisions, thus supporting the relevance of auditor independence in evaluating audit quality. In their opinion, audit quality increases with longer auditor commission period (tenure), knowledge of client business and specialty in a particular industry. For instance, a professor of accounting who is also a chartered accountant will produce better quality report of an educational institution than those without knowledge of the administration of educational institutions.

Audit firm rotation and earnings quality of clients also constitute measures of audit quality. Firth *et al*. (2012) adopting auditor's tendency to issue a modified audit report as a measure for audit quality report a positive effect of mandatory audit partner rotation on audit quality in areas with weak legislation. They did not, however, find any evidence that mandatory audit firm rotation is preferable to other aspects of auditor rotation. The perceived audit quality associated with big audit firms as a consequence of their size also influences their retainership by high income earning organisations, thus measuring audit quality in relation to earnings quality of organisations. This is a misplaced belief as small and medium sized audit firms can also provide qualitative audit services to high income earning organisations. Al-Ajmi (2009) in study of the assessment of credit and financial analysts on the association of the effectiveness of audit committee and size of auditing firm with audit quality, found that both analysts relate credibility of financial statements to size of auditing firms; assume that the nature of big firms permit them to produce better quality reports than small firms; non- audit services impact auditor's independence and as a result, diminish audit quality and agree that effective audit committee improves quality of audit reports.

Al-khaddash *et al.* (2013) adopt internal control, firm size, auditor's fees, auditor's independence, auditor's reputation, industry specialisation and auditor qualifications and proficiency as measures of audit quality. Efficient internal control system produces quality financial statements as the risk of errors and misstatements are unlikely all things being equal. Francis (2004) in a study which examined the association

of audit committee, audit committee characteristics and internal audit with higher audit fees found that a higher audit fee implies higher audit quality. Though, in another study, Kinney and Libby (2002) confirm that the threat to auditor independence is much when the audit fee is high. The reputation of an auditor has an impact on the quality of report issued. The higher the reputation, the higher the perception that quality of reports issued will be high. The measures of audit quality are unending and difficult to quantify. The concept is as intangible as goodwill and to a large extent depends on the imagination of investors, scholars, analysts and financial market regulators. This paper will review literature on auditor independence (AI), engagement performance (EGP) and technical training and proficiency (TTAP) as measures of audit quality.

*2.1 Auditor Independence*

According to the Consultative Council of Accountancy Bodies (CCAB), independence is an attitude of mind characterized by integrity and an objective approach to professional work. It is an attribute which qualifies an auditor to express opinion on matters of financial reporting without bias or undue pressure. As a result, possession of independent status constitutes an important ingredient in assessing quality of financial reports. The reasoning by Yamani (1991) that auditor's independence and auditing quality are viewed as important factors in auditor selection and thus indicate the confidence level in financial reports, confirms this assertion. In addition, Wright and Wright (1997) in assenting to the essentiality of independence in financial reporting suggested that auditor independence is at the centre of the integrity of the audit process. Professional accounting bodies consider independence attribute as a key factor in measuring the performance of their members. For instance, the AICPA to secure quality control in the practice of its members, issued a statement on quality control standards which specifies five elements of quality control, amongst which is independence. The main purpose of maintaining independent quality is to ensure that, personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional services with integrity and maintain objectivity in discharging professional responsibilities.

***2.2. Technical training and proficiency***

Possession of relevant professional skill is vital for quality audit service delivery. This is achieved by ensuring that audit personnel have the required qualification and proficiency for audit assignments. Possession of relevant academic degrees and professional certificates in accounting and finance, participating in continuing professional education programmes and seminars to update personnel on current developments in accounting, auditing and finance are evidences of technical competence. For example, recent developments in global accounting practice, such as the adoption of International Financial Reporting Standards (IFRSs) and International Public Sector Accounting Standards (IPSASs) became full components of accounting and auditing practices through incorporation into tertiary institution's syllabi and attendance at continuing education programmes.

As part of the criteria for the achievement of quality control in financial reporting, accounting bodies have made pronouncements in the area of technical training and proficiency aimed at providing guides in the retainership of auditors. AICPA's statements on Quality Control Standards on personnel management has the objective of providing assurance that audit personnel possess appropriate characteristics to perform competently; work is assigned to those with appropriate technical training and proficiency; personnel participate in appropriate continuing education and their professional development activities and personnel selected for advancement have necessary qualifications. Auditor's technical skill and proficiency impact on a variety of issues embedded in the audit process. For instance the technical capability of an auditor measured by the level of education, working experience and certification type increases his/her remuneration (Al –khaddash *et al*. 2013). Emphasising on the importance of qualification in audit quality. Hameed (1995) reported auditor's experience and knowledge in accounting and auditing as prime factors that affect auditing quality.

### *2.3. Engagement Performance*

This dimension of audit quality is anchored on ensuring compliance with established standards and procedures on every audit engagement. It is amongst the quality control procedures developed by AICPA. According to AICPA, the purpose is to provide assurance that work performed meets applicable professional standards, regulatory requirements and the audit firm's standards of quality. This is secured through extensive review of working papers and discussion of identified anomalies.

Literature in this area is scanty; nonetheless, ensuring proper performance of every audit to the expectation of clients and the consuming public is an important aspect of audit quality and thus, improves financial reporting.

### *2.4. The relevance of audit quality in financial reporting*

Audit quality produces qualitative financial reports which in turn prevent financial crises (Kaklar *et al*., 2013). In another development; Palmrose (1988) viewed audit quality from the perspective of providing assurance that the financial statements will contain no material misstatements. By extrapolation, the reliability of financial statements is reflected in audit quality practices adopted in their preparation. Similarly, Shockley (1981) documents that perceptions of audit quality are vital as they determine the credibility of audit reports.

In addition, audit quality when considered in conjunction with auditor independence; impact the confidence level which users of financial statements have in financial reports (Al Khaddash *et al.*, 2013). Choi and Jeter (1992) illustrated a reduced stock market response to earnings reports when qualified opinions are issued and found that, if auditor quality is endangered, audit reports provide a lower level of assurance to users of financial statements. In other words, qualified audit reports as a consequence of poor audit quality, lead to reduction in the demand for shares of an organisation in the stock exchange.

### *2.5. Financial reporting*

Financial reporting is concerned with the presentation of financial statements in a form for comprehension by users of financial information (Nwanyanwu, 2013). It is essentially a process of communication of financial information and also represents an instrument of identifiable stewardship (Obazee, 2005). In another dimension, financial reporting is the medium of communicating information about the financial affairs of both profit and non - profit organisations and constitutes an important service that is so special which the accounting profession extends to societies of economic and social systems. It is by no means, the only avenue by which managers of organisations (public and private) give account of their stewardship to their owners and other stakeholders (Adebayo, 2005).

The foregoing definitions, irrespective of the dimensions from where they were configured, are homogenous as they present financial reports as key documents that provide data about an organisation's financial activities for use by interested parties in decision making. As a result, auditors are expected to be circumspect in the provision of audit services to ensure that information contained in their reports is of high quality, sufficient and reliable. In the views of Kaklar *et al* (2012), it is expected that high audit quality leads to high financial reporting quality which in turn serves as an instrument for averting financial crisis. In fact, since the purpose of an audit is to provide assurance on financial statements, the reliability of audited financial statements is reflected on audit quality (Palmrose, 1988).

According to Nwanyanwu (2013), financial reporting objectives vary from one organisation to the other depending on the nature of activities. In his opinion, whereas in a public sector, the objective may be to identify how taxpayers' resources were utilized in the provision of social and infrastructural facilities, in a private sector, the purpose may be to report how owners' resources were applied to generate income and whether such application increased or decreased their wealth. Specifically, Adebayo (2005) documents some objectives of financial reporting as including the provision of useful information for making economic decisions for resource allocation; the provision of information for evaluating the stability and liquidity of organisations as well as about performance generally; the provision of information especially for government and non- profit making organisations for evaluation of effectiveness of management of resources in achieving set societal goals, the provision of information for predicting, comparing and evaluating the status of an organisation in the industry and economy as a whole and the provision of

relevant statements of financial activities of an organisation. Aside the objective of providing information for informed decision making, financial reports are expected to convey information which are relevant, understandable, reliable and complete in content to provide full picture of financial events (Alexander and Britton,1999).

## 3. Methodology of research

The study adopts a survey design. Through a pilot study, thirty (30) accounting firms with 120 (one hundred and twenty) employees were identified from the South - South geopolitical zone of the country. Eighty percent (80%) of the staff are engaged in auditing function while 20% perform cleaning, secretarial, office management, security and driving functions. The ninety six (96) employees involved in the relevant functions associated with the study constituted the sample size. Al-khadash *et al.* (2013) in a study of factors affecting the quality of auditing in Jordanian Commercial Banks, had 85 observations (respondents) comprising external and internal auditors. This recent study, though, similar will produce far reaching results as more respondents are envisaged. It also focuses only on audit firms (external auditors) who are conscious of professional ethics with respect to audit quality and financial reporting.

Audit quality is measured in terms of AI, EGP and TTAP while financial reporting is measured in terms of reliability of financial report (RF). Data are collected through questionnaire. Audit quality measures AI, EGP and TTAP (the explanatory variables) have three (3) questions while RF. (the criterion variable) has one question. Respondents were requested to rate importance of each of the audit quality measures in audit assignments. In the same manner, they were requested to state the extent to which their clients' financial reports are reliable. As a guide, the following hypotheses were formulated:

*$Ho_1$: There is no significant relationship between auditor independence (AI) and reliability of financial reports (RF).*

*$Ho_2$: There is no significant relationship between technical training and proficiency (TTAP) and reliability of financial reports (RF).*

*$Ho_3$: There is no significant relationship between engagement performance (EGP) and reliability of financial reports (RF).*

Descriptive statistics were adopted to explain the responses from respondents while Pearson Product Moment Coefficient of Correlation was applied to measure the strength of relationship between the explanatory and the criterion variables. Data were subjected to multivariate analysis to ascertain which of the explanatory variables most significantly influence RF. The statistical tools were applied with the statistical packages for social science (SPSS).

*Table 1*. Reliability Analysis

| | Mean | Standard Deviation | Cronbach Alpha |
|---|---|---|---|
| Auditor independence | 3.7222 | 1.11202 | 0.756 |
| Technical training and proficiency | 4.4444 | 0.65533 | 0.831 |
| Engagement performance | 4.3667 | 0.72592 | 0.814 |
| Reliability of financial report | 3.8889 | 1.05409 | 0.754 |

## 4. Data Presentation and analysis

### *4.1. Reliability Analysis*

Table 1 shows the reliability analysis of the instruments used in collecting data. The Cronbach Alpha coefficients are in excess of threshold of 0.7, thus reflecting that the instruments are reliable, consistent and capable of generating the same results if applied to the same subjects over a period of time.

*Table 2.* Descriptive statistics and frequency of responses

| | Scale | Freq. | % | Descriptive | |
|---|---|---|---|---|---|
| | | | | Mean | Std. Dev. |
| *Auditor independence* | | | | 3.7222 | 1.11202 |
| Fairly important | 1 | 4 | 4.4 | | |
| Important | 2 | 9 | 10.0 | | |
| Very important | 3 | 20 | 22.2 | | |
| Highly important | 4 | 32 | 35.6 | | |
| Excellently important | 5 | 25 | 27.8 | | |
| Total | | 90 | 100.0 | | |
| | | | | | |
| *Engagement performance* | | | | 3.8889 | 1.05409 |
| Very important | 3 | 13 | 14.4 | | |
| Highly important | 4 | 31 | 34.4 | | |
| Excellently important | 5 | 46 | 51.1 | | |
| Total | | 90 | 100.0 | | |
| | | | | | |
| *Technical training* | | | | | |
| *and proficiency* | | | | 4.4444 | 0.65533 |
| Very important | 3 | 8 | 8.9 | | |
| Highly important | 4 | 34 | 37.8 | | |
| Excellently important | 5 | 48 | 53.3 | | |
| Total | | 90 | 100.0 | | |
| | | | | | |
| *Reliability of financial report* | | | | 4.3667 | 0.72592 |
| No extent | 1 | 4 | 4.4 | | |
| Some extent | 2 | 8 | 8.9 | | |
| Moderate extent | 3 | 7 | 7.8 | | |
| Great extent | 4 | 46 | 51.1 | | |
| Very great extent | 5 | 25 | 27.8 | | |
| Total | | 90 | 100.0 | | |

### *4.2. Univariate Analysis*

Ninety six (96) sets of questionnaire were distributed. Ninety four (94) representing a response rate of approximately 97.92% were returned. During the processing of the questionnaire, four (4) were rejected due to mutilations and cancellations. The remaining ninety (90) were used for analyses. The descriptive statistics and frequency of responses to the variables studied are shown in Table 2. Thirty two (32) respondents indicate AI is highly important in audit assignments while 25 rate it as excellently important. 20 are of the opinion that it is very important while 4 and 9 indicate fairly important and important respectively. On a maximum scale of 5, the mean rating of 3.7222 indicates that 74.44% of respondents are of the opinion that AI is important in audit assignments.

On the other hand, the importance of EGP which ensures proper application of relevant standards and procedures to audit engagements is rated very important (13), highly important (31) and excellently important (46) respectively. On the average, 3.8889 or approximately 77.78% assert that it is vital to apply appropriate standards and procedures to every audit engagement. Similarly, the relevance of TTAP is adjudged excellently and highly important by 48 and 34 respondents while 8 classify it as very important. The mean response of 4.4444 or approximately 88.89% confirms the possession of TTAP as key factor in audit engagements. In addition, RF was rated very great extent by 25 respondents and great extent by 46. Others are no extent (4), some extent (8) and moderate extent (7). The mean rating on a 5 point scale is 4.3667 or 87.33. This indicates that audited financial reports are reliable given the existence of AI, possession of EGP and TTAP.

### *4.3. Bivariate Analysis*

The bivariate analyses which test the hypotheses formulated are shown in tables 3-5. Table 3 presents the correlation analysis between AI and RF. The coefficient of correlation is 0.692. This is statistically significant at 0.01 level (2 – tailed) and indicates a strong positive relationship between AI and RF. The coefficient of determination ($r^2$) is 0.479 or 47.9%. As a result, AI explains changes in RF by 47.9%. Thus, other factors aside AI account for changes or variations in RF by 52.1%. The hypothesis that there is no significant relationship between AI and RF is hereby rejected.

On the other hand, Table 4 documents a coefficient of correlation of 0.627, indicating a strong positive association between EGP and RF; which is statistically significant at 0.01 level (2 –tailed). With $r^2$ of 0.393, EGP accounts for changes in RF by 39.3%, leaving 60.7% to be explained by other factors. Consequently, the hypothesis that there is no significant relationship between EGP and RF is rejected.

*Table 3.* Correlation analysis between auditor independence and reliability of financial report

| | | **Auditor independence** | **Reliability of financial report** |
|---|---|---|---|
| Auditor independence | Pearson correlation | 1 | 0.692** |
| | Sig. (2 – tailed) | | 0.000 |
| | N | 90 | 90 |
| Reliability of financial report | Pearson correlation | 0.692** | 1 |
| | Sig. (2 tailed) | 0.000 | |
| | N | 90 | 90 |

** correlation is significant at the 0.01 level (2 – tailed)

*Table 4*. Correlation analysis between engagement performance and reliability of financial report

| | | **Engagement performance** | **Reliability of financial report** |
|---|---|---|---|
| Engagement | | | |
| performance | Pearson correlation | 1 | 0.627** |
| | Sig. (2 – tailed) | | 0.000 |
| | N | 90 | 90 |
| Reliability of financial report | Pearson correlation | 0.627** | 1 |
| | Sig. (2 tailed) | 0.000 | |
| | N | 90 | 90 |

** correlation is significant at the 0.01 level (2 – tailed)

*Table 5*. Correlation analysis between technical training and proficiency and reliability of financial report

| | | **Technical training and proficiency** | **Reliability of financial report** |
|---|---|---|---|
| Technical training and proficiency | Pearson correlation | 1 | 0.577** |
| | Sig. (2 – tailed) | | 0.000 |
| | N | 90 | 90 |
| Reliability of financial report | Pearson correlation | 0.577** | 1 |
| | Sig. (2 tailed) | 0.000 | |
| | N | 90 | 90 |

** correlation is significant at the 0.01 level (2 – tailed)

Similarly, the analysis in Table 5 indicates a statistically strong positive relationship between TTAP and RF. This is 0.577 at 0.01 level (2 – tailed). In this regard, variations in RF explained by TTAP is 33.3% (coefficient of determination = $r^2$). Other factors account for changes in RF by 66.7%. Results reject the hypothesis that there is no significant relationship between TTAP and RF.

*Table 6.* Model Summary

| **Model** | **R** | **$R^2$** | **Adjusted** | **Std error of** | **Sig.** |
|---|---|---|---|---|---|
| | | | $R^2$ | estimate | |
| 1 | 0.692[a] | 0.479 | 0.473 | 0.76496 | 0.000 |
| 2. | 0.738[b] | 0.544 | 0.534 | 0.71981 | 0.001 |
| 3. | 0.765[c] | 0.585 | 0.571 | 0.69053 | 0.004 |
| Explanatory variables a = AI, b = EGP, c = TTAP. | | | | | |

*Table 7.* Coefficients

| Model | B | Std Error | Beta | t | Sig. | VIF |
|---|---|---|---|---|---|---|
| 1. Constant | 1.446 | 0.283 | | 5.108 | 0.000 | |
| AI | 0.656 | 0.073 | 0.692 | 9.000 | 0.000 | 1.000 |
| 2. Constant | 0.099 | 0.466 | | 0.212 | 0.833 | |
| AI | 0.468 | 0.087 | 0.494 | 5.380 | 0.000 | 1.608 |
| EGP | 0.469 | 0.133 | 0.323 | 3.519 | 0.001 | 1.608 |
| 3. Constant | -1.193 | 0.629 | | -1.896 | 0.061 | |
| AI | 0.321 | 0.098 | 0.338 | 3.287 | 0.001 | 2.195 |
| EGP | 0.474 | 0.128 | 0.326 | 3.708 | 0.000 | 1.608 |
| TTAP | 0.409 | 0.140 | 0.254 | 2.921 | 0.004 | 1.572 |

*Table 8.* ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1. | Regression | 47.395 | 1 | 47.395 | 80.994 | 0.000[b] |
| | Residual | 51.494 | 88 | 0.585 | | |
| | Total | 98.889 | 89 | | | |
| 2. | Regression | 53.812 | 2 | 26.906 | 51.929 | 0.000[c] |
| | Residual | 45.077 | 87 | 0.518 | | |
| | Total | 98.889 | 89 | | | |
| 3. | Regression | 57.882 | 3 | 19.294 | 40.463 | 0.000[d] |
| | Residual | 41.007 | 86 | 0.477 | | |
| | Total | 98.889 | 89 | | | |
| a. criterion variable = RF; explanatory variables = b = AI, c = AI, EGP; d = AI, EGP, TTAP | | | | | | |

### *4.4. Multivariate analysis*

Assessment as to which of the explanatory variables most significantly account for changes in the criterion variable is presented in Tables 6 -8. Using the stepwise multiple regression analysis, the coefficient of correlation and the multiple coefficient of determination ($r^2$) increases as the explanatory variables enter the regression model (Table 6). This is an indication that their combination increases explanation of changes in the criterion variable, RF. However, the regression coefficients for the explanatory variables diminish (Table 7) as they are introduced into the model. The multiple regression models is represented as follows:-

$$RF= X_0 +X_1 (AI) + X_2 (TTAP) + X_3 (EGP) \quad (1)$$

Where:
RF = reliability of financial report;
AI = auditor independence;
TTAP = technical training and proficiency;
EGP = engagement performance;
$X_0$ = regression constants;
$X_1$, $X_2$, $X_3$ = regression coefficients for each explanatory variable.

The regression constant which is the average value for RF assume all explanatory variables are zero, is 1.446. It reduces to 0.099 with the introduction of EGP and – 1.193 with a further introduction of TTAP. AI in model 1 of Table 7 is the explanatory variable that most significantly improves the reliability of financial reports. The explanatory variables excluded are EGP and TTAP. Though, statistically significant, they do not enhance RF as AI does. The regression equation, therefore, is expressed thus:

RF = 1.446 + 0.656 (AI)

A percentage increase in the value of AI increases RF by 0.656. With 90 observations, RF improves by 60.49% approximately. This is higher than outcomes of multiple regression equation associated with models 2 and 3 of Table 7.

***Model Diagnosis***

The regression equation (model) is evaluated to identify its significance and that of the explanatory variable (AI) as well as ascertain whether the standard deviation of the model error is large. It also identifies existence of any multicollinearity. The *F* - statistic in model 1 of table 8 (ANOVA) is 80.994. With sample size (n) = 90, number of explanatory variable (k) = 1, degree of freedom = D1 = k and D2 = (n – k – I) = 90 – 1 – 1 = 88, the critical value for a given alpha level (α = 0.01) = 7.171. Since the computed value of *F* = 80.994 is higher than the critical value of 7.171, the regression equation is statistically significant and therefore accounts for a significant variation in the values of RF.

The t – statistic in model 1 of table 7 is 9.000 for AI. At 0.01 level of significance, the critical value of t = 2.37 given degrees of freedom (n – k – 1) = 90 – 1- 1 = 88. The explanatory variable AI, is statistically significant since the computed value of t = 9.000 is greater than the critical value t = 2.37.

The standard error of the estimate in model 1 of model summary (table 6) is 0.76496. Applying the rule of thumb to examine the range ±2SE, the prediction range for percentage of RF is ±2 (0.76496) = 1.52992. Given the 60.49% improvement in RF, error of 1.52992 high or low is acceptable. In the circumstance, the standard deviation for the regression model is not large.

There is also no problem of multicollinearity which occurs when several explanatory variables are highly correlated with each other. The regression equation has only one explanatory variable AI. Other explanatory variables were eliminated by the stepwise multiple regression approach. Multicollinearity does not, therefore, exist.

**5. Discussion of findings**

Results of descriptive statistics on the average, scored AI 74.44%, EGP (which ensures application of appropriate standards and procedures to every audit assignment) 77.78% and possession of TTAP 87.33% on respondents assessments of their relevance in audit assignment. These explanatory variables account for changes in RF (the criterion variable) by 47.9% in the case of AI, 33.3% (TTAP) and 39.3% (EGP). Often, these variables are deciding factors in evaluating RF. Yamani (1991) identified AI and auditing quality as essential factors in auditor selection and establishment of confidence level in financial reports. Findings also accord with the work of Firth (1980) in which examination of 29 specific auditor clients- relationships involving a random sample of chartered accountants (both in practice firms and commerce) disclosed that lack of AI was viewed to impair investment and lending decisions. According to Wright and Wright (1997), independence is at the heart of the audit process; maintaining its integrity is mandatory, particularly when auditors and their clients discuss on matters bordering on financial reporting. Analysis indicates a statistically significantly strong positive relationship between EGP (which emphasizes application of standards and procedures in every audit engagements) with RF. The mean score of 77.7% confirms its significance. Respondents' assessments of TTAP agree with the view of Hameed (1995) in which knowledge in accounting and auditing was amongst the most important factors affecting auditing quality. In another development, standards and procedures guide every audit assignment. Their proper application facilitates understanding and interpretation of data contained in financial reports.

Though, AI has the lowest score of 74.44% from the perspectives of respondents, it has the highest explanatory power on changes in RF judging from bivariate analyses. Results of the multivariate analyses

indicate that the explanatory power of AI, EGP and TTAP in accounting for changes in RF increased from 47.9% to 58.5% (Table 6). Each of these variables is significant in predicting changes in RF.

The regression model in Table 7 shows that the constant ($X_0$) which is the average value of RF, keeping other variables at zero, decreases as the explanatory variables enter the regression model. Model 2 and 3 report lower values for RF when compared to model 1; an indication that a combination of AI, EGP and TTAP may not predict a reasonable value for RF; this does not however, mean that the value of RF in models 2 and 3 will be zero. EGP and TTAP are significant in predicting RF, but model 1 with AI alone produces the highest value for RF. From the foregoing, results are that without AI, EGP and TTAP may not give the required credibility expected of financial reports. AI is a prime audit quality measure in evaluating RF.

## 6. Conclusions and recommendations

AI, EGP and TTAP have statistically significantly strong positive relationships with RF. They significantly account for variations in RF as follows: 47.9% by AI, 39.3% by EGP and 33.3% by TTAP. AI with the highest explanatory power is thus, a key audit quality measure in the achievement of RF. Professional accountants are therefore, expected to maintain independence posture in every audit assignment. This is vital for credibility and RF. This study enriches literature on audit quality practices in Nigeria in the context of accounting firms. It is also significant as it emphasizes the AI factor in the provision of professional services, given the existence of EGP and TTAP.

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