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AUDIT QUALITY AND FINANCIAL REPORTING QUALITY OF LISTED SERVICE AND LOGISTICS FIRMS IN NIGERIA: EVIDENCE FROM AUDIT TENURE, AUDIT FEES AND AUDITOR SIZE

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Abstract

This study focused on audit quality and financial Reporting quality of listed service and logistics firms in Nigeria: Evidence from Audit Tenure, Audit fees, and audit size in Nigeria. Data were collected from the annual report and accounts of nine selected firms both logistic and service companies quoted in the Nigeria Exchange Group with complete data and record, ranging from 2020 to 2024, why 5 years is due to compete records of selected logistic and service companies. The data collected were analyzed using panel regression analysis. The findings revealed that audit tenure has no significant effect on financial reporting. However audit fees and auditors size have significant effect on financial reporting quality. Therefore the study concludes that audit quality significantly influence financial reporting quality of service and logistic firms in Nigeria. Based on the findings the study recommends that listed service and logistics firms in Nigeria should ensure that audit fees are adequate and commensurate with the complexity, size and risk profile of their operations. Firms should therefore avoid selecting auditors primarily on the basis of the lowest audit fee. Instead, audit fees should reflect the level of professional expertise, audit effort, technology, and time and risk assessment required to conduct an effective audit.

Keywords: Audit Quality, Audit Fees, Audit Tenure, Logistic Companies and Service Companies

INTRODUCTION

The quality of financial reporting by firms serves as the foundation upon which investors and other stakeholders base their economic decision. Financial reporting quality refers to the extent to which financial statement accurately reflect a company's true economic position and performance embodying the attribute of relevance faithful representation and decision usefulness-Muhammed *et al* (2021). It constitutes one of the most important mechanisms through which companies communicate their financial position, financial performance and cash flow to shareholders, investor's creditors. The quality of financial report is particularly important in capital market because investors rely on published financial information when making investment and resource allocation decision. High quality financial reporting should provide information that is relevant faithfully represented, comparable verifiable, timely and understandable. However due to separation of ownership from management it create an information gap between mangers and shareholders. The mangers generally have greater access to information about the operation and financial condition of the firm than external stakeholders, this gap is what is call information asymmetry, this information asymmetry create opportunities for mangers to manipulate accounting information or exercise accounting discretion in ways that may not reflect the underlying economic performance of the firm. It is at this point that external auditing is needed which serves as an important monitoring mechanism designed to enhance the credibility and reliability of cooperate financial statement. The audit is a critical components of financial stability and the re-establishment of trust and market confidence when there are concerns regarding the accuracy of a company financial statement, we look at the auditor's report for answers. To maintain investors confidence , the quality of audit and auditors views reflect in financial report is critical .in the previous decade some accounting and reporting anomalies and frauds have prompted a thorough examination of financial statement auditing, audit approach and audit quality-Egiyi (2022), He went further to say that ICAN(Institution of Charted Accountant of Nigeria) and ANAN(Association of National Accountant of Nigeria) are the two well know professional accounting bodies in Nigeria of which their core objective of these accounting firms is auditing . Allied Matters Acts (CAMA) 2002, states that all publicly traded firms in Nigeria must hire an independent (external) auditor. The auditor is tasked by law with the responsibility of performing statutory audit and providing an essential opinion on whether the financial statements are stated truthfully and fairly. The practice verifies the accuracy of the information for the stakeholder's peace of mind and it also acts as a monitoring mechanism that material misstatement irregularities and inappropriate accounting practices will be identified and reported, audit quality has been associated and report. Audit quality has being associated with several auditors, characteristics including audit size audit tenure and audit fees, Deangelo's influence conception links audit quality to auditors ability to discover and report breaches in client accounting system. The audit characteristics such as audit price(fees) audit size and audit tenure play a major role in the financial reporting quality . Despite this fact audit price still plays a critical role in financial reporting, the auditor increases the audit effort to timely compete the process when the client plays a premium price-Egbunike,Asuzu (2000) on the other hand high audit fees my simply reflex client complexity rather that superior audit quality, therefore the effect of audit fees on financial reporting quality require empirical investigation. Audit tenure positively affect financial reporting. This is based in learning there effect. Long audit tenure may enhance audit quality because auditors accurate client-specific knowledge and develop a deeper understanding of the client operation accounting system and risks –Dao & Phain (2014).

However excessively long tenure may also crate familiarity threat and reduce auditors independence, Auditor size is commonly represented by whether the auditor belong to the big 4 international audit network. The argument is that larger audit firms possess greater financial resources, technical expertise industry knowledge reputation capital and stronger quality control system, consequently the big 4 may have grater incentives, but the argument her is that let this big 4 not only be putting in their names in the financial statement without going through the books of accounts and be on the assumption that since it is done by the big 4 the accounts are correct. This is another area of study to compare the firms audited by the Big4s and the firms not audited by the Big 4 to see how they are moving on or are there leaving on past Glory. The Nigeria capital market prove an important context for examine these relationship listed companies operate in an environments where investors regulators and other stakeholders depend heavily on published financial information. The Nigeria exchange group has continued to emphasis corporate governance and financial reporting requirement for listed companies all the same reliability and credibility of financial information that can improve financial reporting quality.

The service and logistic sector are particularly interesting because they are characterized with different operating structure revenue model asset configurations and transaction patterns. The increasing importance of transparent logistics telecommunication's technology enable service and other service related business in the Nigeria economy it makes the quality of financial reporting in these sectors increasing relevant.

Pervious Nigeria studies have examined audit quality and financial reporting quality among broad sample of non-financial firms, banks insurance companies and other sectors, however section –specific evidence focusing specifically on listed service and logistics firms remain and area worthy of further investigation. This study therefore investigate the effect of audit tenure, audit fees and audit size on the financial reporting quality of listed service and logistic firms in Nigeria.

Statement of the Problem

The reliability of corporate financial statements is critical to the efficient functioning of capital markets. Investors, lenders and other stakeholders use financial reports to assess profitability, liquidity, solvency and future growth prospects. However, the usefulness of financial statements may be reduced when managers engage in earnings management or other forms of accounting manipulation.

One of the major mechanisms available for reducing this problem is external auditing. Nevertheless, the mere existence of an external audit does not automatically guarantee high-quality financial reporting. The quality of an audit may depend on the characteristics of the auditor and the nature of the audit engagement.

First, **audit tenure** presents a continuing debate. Long auditor tenure may improve audit quality through accumulated client knowledge, but prolonged relationships may also create familiarity and independence concerns. The empirical literature in Nigeria has not produced a consistent conclusion regarding the effect of audit tenure on financial reporting quality. Some studies report positive effects, while others find insignificant or negative relationships.

Second, **audit fees** may influence financial reporting quality. Higher audit fees could indicate greater audit effort and resources, potentially leading to better detection of material misstatements. Conversely, high fees may reflect client complexity or risk rather than audit quality. Recent Nigerian evidence has also produced mixed results regarding the direct relationship between audit fees and financial reporting quality.

Third, **auditor size** is frequently used as a proxy for audit quality, with Big 4 auditors assumed to provide higher-quality audits. However, the extent to which Big 4 status translates into superior financial reporting quality may vary across industries and institutional contexts.

The problem is therefore not simply whether listed firms are audited, but whether specific audit characteristics actually contribute to higher-quality financial reporting. This issue is particularly relevant to listed service and logistics firms because of the importance of their financial information to investors and other capital-market participants.

The study consequently seeks to provide empirical evidence on the relationship between audit quality and financial reporting quality by examining audit tenure, audit fees and auditor size among listed service and logistics firms in Nigeria.

Objective of the Study

The broad objective of this study is to examine the effect of audit quality on the financial reporting quality of listed service and logistics firms in Nigeria.

The specific objectives are to:

1. Examine the effect of audit tenure on the financial reporting quality of listed service and logistics firms in Nigeria.
2. Determine the effect of audit fees on the financial reporting quality of listed service and logistics firms in Nigeria.
3. Assess the effect of auditor size on the financial reporting quality of listed service and logistics firms in Nigeria.

Research Questions

The study seeks to answer the following questions:

1. To what extent does audit tenure affect the financial reporting quality of listed service and logistics firms in Nigeria?
2. What effect do audit fees have on the financial reporting quality of listed service and logistics firms in Nigeria?
3. To what extent does auditor size affect the financial reporting quality of listed service and logistics firms in Nigeria

Research Hypotheses

The following null hypotheses are formulated:

H01: Audit tenure has no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

H02: Audit fees have no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

H03: Auditor size has no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria

LITERATURE REVIEW

Conceptual Review

Audit Quality: Audit quality refers to the extent to which an audit is capable of detecting and reporting material misstatement in financial statement. According to DeAngelo's (1981) he emphasized two important demotions –the auditors technical ability to discover accounting irregularities and auditors independence to report those irregularities. According to AICPA, 2023

& IAASB, 2021, Audit quality is defined as the degree to which an audit provide assurance that a company's financial statement are free and from material misstatement, whether due to fraud or error. The concept encompasses not only technical assurance but also reputational and informational dimensions, recognizing that high quality audit enhance the credibility of financial report and reduce information asymmetry between corporate insiders and external stakeholders, Francis et al (2015) According to selehi & Azary (2008) they penned that the capability of an audit in the protection of the interest of users of financial statements through the detection and reporting of material misstatement and dissemination of information asymmetry between the users of financial statements and management explain audit quality. They went further to say that the existence of audit quality is validated when a financial statement is free from asymmetry.

Yuniarrti (2011) in his opine said that there are certain characteristic to which to watch out for when audit quality is a subject of discussion, which include Reliability(which has to do with how dependable are the auditor findings and to what extent do the findings reflect a true and fair view of audited entity's financial statement.)Significance(what value is tired to the audit) Scope(which has to do with whether the entire aspect of the audit is properly added) Objectivity(what level of independence was exhibited) Clarity(was the audit outcome well communicated and recommendations made) Timeliness(was the duration of the audit work too long, too short or just normal before the audit report was submitted) Effectivness9does the audit actual achieve its objective and efficiency(was the cost of the audit outweighed by the associated benefit) According to him the integration of these characteristics as a whole goes quality to audit . This means the audit quality is prominent where these characteristics can be identified.

Audit Tenure: Audit tenure is referred to the number of consecutive years and audit firm has provided audit service to a particular client. On other words audit firm's tenure refers to how long auditors have served the client Urhoghide & Izedonmi (2015) Audit tenure has two opposing effect- the knowledge arguments which suggests that longer tenure improves audit quality because auditors gain detailed knowledge of the client business accounting system and internal controls. The familiarity argument suggest that excessive tenure could reduce independence because audit may become too familiar with management, this is in line with Indah (2010) findings that reveals that as the length of auditors-client relationship increases , there could be decrees in the level of audit quality, because too long auditing client relationship impairs auditors independence Further more audit quality decrease's as the auditors –client relationship lengthen.

Audit Fees: Audit fees are monetary amount paid or payable to external auditor for audit services. It can also be defined as the amount charged by the auditor for any work dine in order to express opinion on the true and fare state of affairs or position of the client enterprise. According to Ugwunta et al (2018) large audit firm charges higher audit fees that correspond to their wealth status and minimize their client exposure to litigation. According to them certain factors are considered when determining audit fees. Companies that report expenses resulting in higher audit fees. The amount of audit fees that a client firm pays to its audit should in theory reflect the level of audit work load. Acceding to Tinley et al (2008) who states that there are three composite factors which contribute to the establishment of audit fees. Which include complexity, client size, and associated risk.

Audit Size: Audit size is commonly operatized as a binary indicator of Big 4 verse non Big 4 from engagement in the most widely studied proxy for audit quality-DeAngelo(1981) Auditor size can be determined by the assets held by the audit firm market share of the auditor and the total workforce of the auditor . the audit quality is not independent in relation to the size of the company carrying it out, the larger thee audit firm-measured by the number of client the smaller incentive for an auditor to perform inappropriately for establishing or maintain a client_ DeAngelo (1981) This is to say large audit firms with higher financial independence puts them at a less susceptible position in relation to client pressure.

Financial reporting: Financial reporting is the process of informing management and external stakeholders about a company's performance over a given time period by disclosing financial result and related data .Eteinro & Ifeanyi (2026) Kwanbo & Tanko (2018) defined FRQ as the financial information created without taking advantage of accounting rules and principles to present them a reliable information. Marlinez-Ferrero et al (2013) defined it as information in financial report that should be highly-qualitative if it is faithfulness conveyed in financial reporting process. This definition mainly focused on financial aspect of corporate information; thus they further explained and modified they definition as the faithfulness of information conveyed in both financial statement of firms at the end of a financial year should have some element of truth in it. This they said is termed "Quality" it is therefore imperative that the financial report of firms should have higher quality so as to increase the confidence of users.

Review of Empirical studies

Aishatu et al (2026) 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.

Abubakar et al (2026) explored the impact of audit quality dimensions on the financial reporting quality (FRQ) of the 14 deposit money banks listed on the Nigerian Exchange Group (NGX) from 2018 to 2024. Motivated by the persistent failure of banks despite "clean" audit opinions—most recently evidenced by the 2024 collapse of Heritage Bank—this research examines whether audit fees, tenure, and firm size influence reporting integrity. Using a Pooled OLS regression on 98 bank-year observations, the results reveal that audit fees exhibit a statistically significant positive relationship with FRQ ($\beta = 0.0190$, $p < 0.001$), confirming that resource commitment is the primary driver of audit effectiveness. Conversely, audit firm size and auditor tenure were found to be statistically insignificant. This study argues that in the Nigerian banking sector, "Big Four" affiliation (95% of observations) and mandatory rotation have become structural market baselines rather than differentiators of quality. The findings suggest that regulators should move beyond "brand-name" oversight and focus on the adequacy of audit pricing to ensure rigorous financial monitoring.

Egiyi (2022) empirically investigated relationship between audit quality and audit fees in companies listed on the Nigerian stock exchange in the financial services sector with a panel data set spanning the years 2010 to 2020. The likelihood of employing the services of a Big4 audit firm is used as the proxy for audit quality. In Nigerian companies, the data show a significant negative association between audit quality and audit size. Leverage and firm size, the two explanatory variables, had an insignificant impact on audit quality. The empirical findings suggest that high audit fees threaten auditors' independence, which has a detrimental impact on audit quality. As a result, the report recommends that policies and guidelines be developed to govern and regulate the audit pricing process.

Akinyomi & Joshua (2022) examined the determinants of audit quality in the context of the Nigerian listed consumer goods companies. Using the ex-post facto research, a sample of six (6) companies were randomly selected from a population of twenty existing companies as at 31st December 2020. Necessary data for the study was spooled from the audited annual financial statement of the considered companies for an eight-year period from 2012 when IFRSs became operational in Nigeria to the 2019 financial year. Correlation and regression analysis were carried out using SPSS version 22. The outcome of the study revealed a statistically non-significant but positive relationship with the board size as a proxy for corporate governance, audit firm size and company size on one hand, and audit quality on the other hand. However, a negative and statistically insignificant relationship is established between the tenure of the audit firm and audit quality in the Nigerian consumer goods sector.

Onaolapo et al (2017) examine the effect of audit fees on audit quality in Nigeria using a sample of listed cement companies on the floor of the Nigerian Stock Exchange. In specific terms, the study investigates the relationship between audit fee, audit tenure, client size, leverage ratio and audit quality. Ordinary Least Square Model estimation technique was employed to analyze the relationship between the explanatory variables and the dependent variable. Secondary data derived from the published annual reports of the selected companies for a six year period (2010 2015) was used for the study. Findings from the study show that audit fee, audit tenure, client size and leverage ratio exhibit a joint significant relationship with audit quality given coefficient of determination (R^2) being 0.6006 and a combined p-value of 0.001 and Fcalc=7.14. This implies that the predictive power of the independent variables as used to explain changes in audit quality is about 60%. Audit fee in particular shows a significant positive impact on audit quality with a t and p-values of (4.04 and 0.001) respectively as well as a high positive correlation coefficient of 0.7513 with audit quality.

Dajen Daniel (2026) worked on determinants of audit fees in developed and developing economies. This study examined the determinants of audit fees of listed deposit money banks in Nigeria. Correlation research design was employed on a sample of eleven (11) listed deposit money banks in Nigeria for a period of seven (7) years (2017-2023). Panel regression techniques of estimation were used in the analysis. The study found after controlling for firm profitability a significant positive relationship between audit fees of listed deposit money banks in Nigeria during the period covered by the study. The study in particular found that audit firm size has significant Positive impact on audit fees of listed deposit money banks in Nigeria. The study also found that auditor tenure has significant Positive influence on audit fees. The study concludes that audit firm size, is a significant determinant of auditor fees in the Nigerian deposit money banks sector.

Akinninyi et al (2025) examined the effect of risk factors (liquidity risk and operational risk) on audit fees purposely selected among 26 listed financial service firms in Nigeria. Using an ex-post facto research design and panel Least regression model, secondary data from 286 observations (2013–2023) were analyzed. Findings revealed that liquidity risk significantly and negatively affects audit fees (Coefficient = -0.110635, p = 0.0288), indicating firms with better liquidity management incur lower audit costs. Operational risk (Coefficient = 0.025628, p = 0.2899) showed no significant effect. With an R-squared value of 0.472829, the model explained 47.3% of audit fee variations. These findings conclude that liquidity risk is a determinant of audit fees, while operational risk exerts an indirect influence moderated by regulatory frameworks and internal controls mechanisms.

Abubakar et al (2023) examines the moderating role of audit committee independence on the relationship between audit tenure and financial reporting quality of listed non-financial services firms in Nigeria over a period of 2011-2021. The study employed ex-post facto as the research design for the study while data was obtained from the secondary sources. The method of data collection was by extraction from the annual audited financial reports and accounts of listed non-financial services firms in Nigeria. The sample size comprises of 30 listed non-financial services firms selected using purposive sampling techniques. Multiple regression was employed as the techniques for data analysis in the study. The Results of the analysis showed that the direct relationship has no effect on financial reporting quality of listed non-financial services firms in Nigeria. However, the effect of audit tenure on financial reporting quality is statistically significant when moderated by audit committee independence

Larbi et al. (2024) examined determinants of mandatory joint audit fees in France using 696 observations from 116 firms (2017–2022). Generalized estimating equations (GEE) revealed that larger firms, Big Four auditors, and industries like telecommunications incurred higher fees. Mixed Big Four/non-Big Four audit teams made up 52.3% of the sample, while governance structure and internal control frameworks showed no significant effect. Firm size, industry type, and audit team composition were identified as critical determinants of audit fees.

Rimet and Syakirin (2024) analyzed audit fees in Indonesia’s food and beverage sector using 45 observations from 15 companies listed on the IDX (2020–2022). Panel data regression showed that company complexity and board of commissioners significantly influenced audit fees, while profitability and company risk did not. The model explained 49% of audit fee variation, highlighting the importance of operational complexity and governance oversight.

Aji et al. (2023) explored the relationship between intellectual capital (IC) in human resource accounting and financial reporting quality, focusing on litigation risk. Using an ex-post facto design, data from 14 firms (2017–2021) showed a negative relationship between IC and litigation risk, and a positive relationship between IC and financial reporting quality. The study recommended enhancing employee relational skills and effective resource management to mitigate risks and improve reporting. Saleh and Ragab (2023) assessed audit fees in Egyptian firms using panel data from 62 firms (2015–2020). Liquidity, audit committee independence, audit report lag, and audit firm status emerged as key determinants, collectively explaining 95.7% of audit fee variance. The findings stressed regulatory and governance factors in audit fee structures, recommending fee-setting frameworks aligned with these variables.

Xue and O'Sullivan (2023) studied audit fees in AIM-listed UK firms. Using correlation and t-tests, they found liquidity and listing length negatively influenced fees, while higher audit committee disclosures increased costs. Big Four auditors charged higher fees, particularly for smaller firms. The study highlighted how institutional contexts affect audit fee determinants.

Lawal and Ibrahim (2022) investigated audit fee determinants in 26 Nigerian insurance companies using panel data (2011–2020). Random effects GLS regression revealed that client size and audit firm size positively influenced fees, while profitability, complexity, underwriting, and liquidity risks were insignificant. They recommended focusing on asset growth to enhance financial performance and influe

Muhammad (2020) examined the effect of audit tenure on FRQ of listed service firms in Nigeria. The study uses a sample of sixteen (16) publicly listed service companies, the data are extracted from the annual reports of the companies studied for the period 2007-2016, and the data is analyzed by regression analysis. The results show that longer auditor tenure significantly reduces the audit report backlog of service firms in Nigeria. These results imply that auditors' expertise improves in the service sector as their tenure increases, thereby accelerating and improving the quality of financial reporting. This study will extend its research to 2021 and perceive time gaps

Oyedokun et al. (2019) examined the effect of audit tenure on FRQ of listed consumer goods companies in Nigeria for the period 2009-2018. The population for this study was the 21 consumer good firms listed on the Nigerian Exchange Group (NGX) as at 2018. Findings shows that audit type has no significant effect on the FRQ of quoted consumer goods firms in Nigeria. However, audit tenure has significant negative effect on listed consumer goods companies' FRQ. This study is covered the entire listed non-financial firms in Nigeria

Hauwa et al (2024) investigated the moderating effect of internal control system (ICS) on the relationship between audit quality and financial reporting quality (FRQ) of listed oil and gas firm in Nigeria for a period of ten years (2013-2022). The study has employed the use of regression model as technique of analysis. The population of the study is all the 13 oil and gas companies listed on the Nigerian stock exchange as at 31st December, 2022 and a purposive sampling techniques was adopted in arriving at the 10 samples. Secondary data was employed and data were extracted from the financial statements of the all samples oil and gas firm in

Nigeria. The study findings is that both auditor fee (AF), audit size (AS) and internal control system (ICS) has a significant impact on the FRQ of oil and gas firms in Nigeria while audit tenure (AT), Leverage (LEV)) and firms size (FSIZE) has no significantly impact FRQ of the sampled oil and gas firms in Nigeria. The study also confirmed that ICS only moderated AF, AS and AT the sampled firms. The study therefore, concluded that both AF, AT and AS has significant and positive impact on the FRQ of listed oil and gas firms in Nigeria

Bratten et al. (2019) examined the association between audit firm tenure and FRQ. According to the studies, long relationship is important between the auditor and the audited client for FRQ. The study, there is a correlation between FRQ and the duration of the audit firm with the client, and this correlation is especially high in banks with more intricate financial systems. In addition, the study indicated that, in contrast to recent studies, the advantages of audit firm tenure for complex institutions accrue even for lengthy tenure and are not restricted to medium tenure. The results of the study generally concur with the idea that a long-standing client relationship represents the underlying need for knowledge, which is essential for high-quality audits of complex businesses. Limiting audit companies' ability to work on short-term projects would be detrimental to their ability to invest in client-specific knowledge, particularly in situations where it is most necessary. The study's findings do not back requests for large, complicated organizations to be required to rotate their audit firms. This study has introduced a moderating variable that could change the results.

Otuya (2019) examined the relationship between audit tenure and FRQ in Nigeria. The study is based on agency theory and through content analysis. Data were collected from annual reports of listed manufacturing companies for the period 2013 to 2017. Descriptive and correlational statistics were deployed as analysis while regressions were performed to test the hypothesis. The results of the study indicate that audit incentives, tenure and size have a significant positive relationship with FRQ. The study concludes that longer tenure and independence improves FRQ. The results may be different if a moderating variable is included and if the study is conducted using all non-financial firms in Nigeria as the domain

Hauwa et al (2024) investigated the moderating effect of internal control system (ICS) on the relationship between audit quality and financial reporting quality (FRQ) of listed oil and gas firm in Nigeria for a period of ten years (2013-2022). The study employed regression model as technique of analysis. The population of the study is all the 13 oil and gas companies listed on the Nigerian stock exchange as at 31st December, 2022 and a purposive sampling techniques was adopted in arriving at the 10 samples. Secondary data was employed and data were extracted from the financial statements of the all samples oil and gas firm in Nigeria. The study findings is that both auditor fee (AF), audit size (AS) and internal control system (ICS) has a significant impact on the FRQ of oil and gas firms in Nigeria while audit tenure (AT), Leverage (LEV)) and firms size (FSIZE) has no significantly impact FRQ of the sampled oil and gas firms in Nigeria. The study also confirmed that ICS only moderated AF, AS and AT the sampled firms. Thestudy therefore, concluded that both AF, AT and AS has significant and positive impact on the FRQ of listed oil and gas firms in Nigeria

Abubakar et al (2023) examines the moderating role of audit committee's independence on the effect of audit fees and the financial reporting quality of listed non-financial services firms in Nigeria. Audit Committee's Independence was measured by the ratio of independent director in the audit committee to total audit committee members. Audit fees was measured by logarithms of audit fee while financial reporting quality was measured by discretionary accruals. The study employed 30 non-financial services firms listed on the Nigerian Exchange Group over a period of 11 years from 2011 to 2021. The data was handpicked from the annual financial reports of the sampled companies. Descriptive statistics and multiple regression analysis techniques were used for data analysis. Findings revealed that audit fee does not have a direct effect on financial reporting quality of listed non-financial services firms in Nigeria. However, the effect of audit fees on financial reporting quality is statistically significant when moderated by audit committee's independence. Based on the findings, the study recommended that more independent directors should be included in the audit committee of listed non-financial services firms in Nigeria. Regulators, shareholders, boards of directors, chief executive officers would benefit from the findings of this study especially in policy and decision-making purposes

Okoye et al (2022) examined the effect of audit firm size and audit tenure on audit quality of selected listed non-financial firms in Nigeria. The study anchors on theory of rational expectations because it emphasizes that duties and responsibilities of the auditors are derived from the confidence and trust that the public bestowed on the success of the audit and the assurance given by the auditor. The study adopts ex post facto research design. As at 31st December 2020, ninety - five (95) non-financial firms were listed on the Nigerian Exchange Group floor. The study used purposive sampling technique to select a sample size of 67 listed non-financial firms in Nigeria. Outcome of the analysis conducted in the study showed that audit firm size has a significant and positive effect on audit quality of the sampled firms while auditors' tenure has a positive but insignificant effect on audit quality of the sampled non-financial firms listed on the Nigerian Exchange Group. Since audit firm size has significant positive effect on audit quality, the study recommends that small audit firms should be encouraged to be more diligent in their audit assignment while the big four audit firms should sustain quality of their audit report.

Mohammed and Olufunke (2025) carried out a study that examined the effect of audit firm attributes on the quality of financial risk disclosure among listed non-financial companies in Nigeria. Panel dataset was used covering multiple firms across time, the study employed the Generalized Method of Moments (GMM) technique to address endogeneity concerns and ensure robust parameter estimates. The dependent variable was Financial Disclosure Quality Risk. The independent variables were Audit Independence, Audit firm size, and Audit Specialization. The findings revealed that audit firm independence (AIND) exerts a positive and statistically significant effect on FRDQ, suggesting that the independence of external auditors enhances transparency and strengthens the disclosure of financial risks. Conversely, audit firm size (AFSIZE) exhibits a negative and significant influence on FRDQ, indicating that larger audit firms may not necessarily guarantee better disclosure quality, possibly due to complex engagements and competing client demands. Audit firm industry specialization (ACS), however, showed a positive and significant effect, implying that specialized knowledge in a particular industry enhances the auditors' ability to improve the quality of financial risk disclosure.

Chinemerem et al (2025) empirically investigated the relationship between audit quality and financial performance of listed consumer goods companies in Nigeria by examining the effects of audit firm size, audit committee size, and auditor tenure on financial performance. An ex-post facto research design was used, relying on secondary data obtained from the annual reports of nine consumer goods firms listed on the Nigerian Exchange Group from 2015 to 2024. The dependent variable was Net Profit Margin (NPM), which was measured by (Net Profit / Sales) × 100. The independent variables were Audit Firm Size, Auditor Tenure, and Audit Committee Size. The findings showed that audit firm size and auditor tenure had a significant positive and negative effect, respectively, on firms' profitability, while audit committee size showed a negative but insignificant effect on firm profitability.

Samuel and Alade (2025) carried out a study that examined the effect of audit independence on the financial reporting quality of listed deposit money banks in Nigeria. An ex-post facto research design was adopted, employing both descriptive and inferential statistics to analyze data from 14 Nigerian listed deposit money banks, and secondary data from their annual reports (2016–2023) was used. The dependent variable was Financial reporting quality (FRQ), which was measured using the Modified Jones model. The independent variable were Audit fees, Audit firm size, and Audit tenure. Whereas leverage and firm size were used as control variables. The findings indicated that higher audit fees exert a negative but statistically significant impact on financial reporting quality (P-Value < 0.05), while audit firm size also had a statistically significant negative impact (P-Value < 0.05). Conversely, audit tenure did not significantly influence financial reporting quality (P-Value > 0.05).

Atokpe and Jeroh (2024) carried out research that primarily examined the perceived influence of audit firm attributes on the nature of the quality of financial reporting among consumer goods companies in Nigeria by obtaining empirical evidence from a ten-year period (2013 to 2022). Relevant data were sourced from sampled firms published annual reports. The dependent variable was Nature of Financial Reporting Quality (FRQ), which was measured by Audit time lag. The dependent variables were Audit firm size, Audit fees, Audit tenure and joint Audit. The results showed that the analytical outcome indicated that apart from joint audit, most audit firm attributes were not significant determinants of the nature of the quality of financial reports of listed consumer goods firms in Nigeria.

David, et al. (2024) investigated the moderating effect of internal control system (ICS) on the relationship between audit quality and financial reporting quality (FRQ) of listed oil and gas firm in Nigeria for a period of ten years (2013-2022). Secondary data was employed and data were extracted from the financial statements of the all-sampled oil and gas firm in Nigeria. The dependent variable was financial reporting quality (FRQ). The independent variables were Auditor Fee, Auditor Tenure, Auditor Size and Internal Control System whereas Firm Size and Financial leverage were used as control variables. The study showed that both auditor fee (AF), audit size (AS) and internal control system (ICS) had a significant on the FRQ of oil and gas firms in Nigeria while audit tenure (AT), Leverage (LEV)) and firms size (FSIZE) had no significant impact FRQ of the sampled oil and gas firms in Nigeria.

Positive Accounting Theory (PAT) is a suitable **supporting theory** for research examining the relationship between **audit quality and financial reporting quality**. The theory was developed primarily by **Watts and Zimmerman (1978, 1986)** and seeks to explain and predict accounting choices and practices that managers make in organizations.

Positive Accounting Theory assumes that managers, shareholders, creditors and other stakeholders are rational economic actors who seek to maximize their own interests. Managers may therefore exercise discretion in choosing accounting policies and reporting methods that serve their personal or organizational objectives. This managerial discretion can sometimes result in earnings management and reduced financial reporting quality.

The theory identifies three major hypotheses that explain managers' accounting choices:

1. Bonus Plan Hypothesis

The bonus plan hypothesis suggests that managers whose compensation is tied to reported accounting profits may have incentives to manipulate accounting numbers to increase reported earnings and, consequently, their bonuses.

For example, a manager may use discretionary accruals to increase reported profit in a particular accounting period. Such practices may reduce the quality and reliability of financial reporting.

2. Debt Covenant Hypothesis

The debt covenant hypothesis suggests that firms with high levels of debt may have incentives to adopt accounting policies that improve reported financial performance in order to avoid violating debt covenant requirements. Managers may therefore have incentives to manipulate reported earnings or financial ratios to present the company as financially healthier than it actually is.

3. Political Cost Hypothesis

The political cost hypothesis proposes that large and highly profitable firms may face greater political attention and regulatory scrutiny. Such firms may have incentives to reduce reported profits or adopt accounting policies that minimize political costs.

METHODOLOGY

Research design and data

An ex post facto design was used in the study based on the fact that the Data were collected from the annual report and accounts of nine selected firms both logistic and service companies quoted in the Nigeria Exchange Group with complete data and record, ranging from 2020 to 2024 (that is 5 years), why 5y ears is due to compete records of selected logistic and service companies.

Model Specification

$ACR_{it} = \beta_o + \beta_1 AT_{it} + \beta_2 AFEE_{it} + \beta_3 ASIZE_{it} + e_i$ .... model 1

Where;

ACR = Accruals

AT = Audit tenure

AFEE = Audit fee

ASIZE = Auditor's size

e = Error term signifying other variables not captured in the study

$_{it}$ = Firm i at time $_t$

$\beta_{o\,=}$ Slope

$\beta_{1\,-}\beta_4$ =Intercept

Analytical approach

The data collected were analyzed using panel regression analysis data for the study was secondary which already existed and cannot be controlled.

RESULTS AND DISCUSSION

Data Presentation

This study focused on effect of audit quality on financial reporting quality. Audit quality was measured using audit tenure (AT), audit fee (AFEE) and auditor's size (ASIZE). Financial reporting quality is measured using accruals (ACR).

Descriptive statistics

The descriptive statistics for both the dependent and independent variables are presented in table 1 below:

Table 1 Descriptive statistics

	AT	AFEE	ASIZE	ACR
Mean	2.511111	4.145281	0.488889	5.932357
Median	2.000000	3.985651	0.000000	5.828552
Maximum	5.000000	5.850646	1.000000	8.089980
Minimum	1.000000	3.301030	0.000000	3.641375
Std. Dev.	1.342017	0.661837	0.505525	1.317153
Skewness	0.489577	1.005947	0.044455	0.004849
Kurtosis	2.081468	3.706138	1.001976	2.136394
Jarque-Bera	3.379581	8.524406	7.500007	1.398579
Probability	0.184558	0.014091	0.023518	0.496938
Sum	113.0000	186.5376	22.00000	266.9561
Sum Sq. Dev.	79.24444	19.27323	11.24444	76.33522
Observations	45	45	45	45

Source: Extracted from appendix 1A

The descriptive statistics provide information about the distribution and characteristics of the variables used in the study. The results are based on 45 observations.

Audit tenure has a mean of 2.51 years and a median of 2 years, indicating that, on average, the sampled service firms retained their auditors for approximately two to three years. The minimum tenure is 1 year, while the maximum is 5 years. The standard deviation of 1.34 indicates a moderate variation in audit tenure among the sampled firms. The positive skewness of 0.490 indicates that the distribution is moderately skewed to the right, suggesting that relatively more observations are concentrated around the lower and middle levels of audit tenure, with fewer observations having relatively longer auditor-client relationships. The kurtosis of 2.081, which is below 3, indicates a relatively flatter distribution than the normal distribution. The Jarque-Bera probability of 0.185 is greater than the 5% significance level. Therefore, the null hypothesis of normality cannot be rejected. This suggests that AT is approximately normally distributed.

Audit fee (AFEE) has a mean of 4.1453 and a median of 3.9857, suggesting that audit fees among the sampled firms are relatively concentrated around these values. The minimum and maximum values are 3.3010 and 5.8506, respectively, while the standard deviation is 0.6618. This indicates moderate dispersion in audit fees across the sampled firms. The skewness value of 1.006 indicates a substantial positive skew, suggesting that a number of firms incur relatively higher audit fees compared with the majority of the observations. The kurtosis value of 3.706 indicates a distribution that is somewhat more peaked than a normal distribution. Importantly, the Jarque-Bera probability of 0.0141 is below 0.05. Thus, the null hypothesis of normality is rejected at the 5% level, indicating that AFEE is not normally distributed. However, non-normality of an explanatory variable does not, by itself, invalidate a panel regression, particularly with an adequate modelling specification.

Audit firm size (ASIZE) has a mean of 0.489 and a median of 0.000, with a minimum of 0 and maximum of 1. This indicates that ASIZE is a binary variable, where firms have been classified into two categories, most likely smaller and larger audit firms. The standard deviation of 0.506 confirms considerable variation in audit-firm size across the observations. The skewness of 0.044 is very close to zero, suggesting that the distribution is approximately symmetric around its mean. The kurtosis of 1.002 is below 3, indicating a relatively flat distribution. The Jarque-Bera probability is 0.0235, which is below 0.05. Therefore, ASIZE significantly departs from normality. Given that ASIZE is a binary/dummy variable, however, normality is not an essential requirement for the explanatory variable.

Accruals (ACR), the proxy for financial reporting quality, has a mean of 5.9324 and median of 5.8286. The minimum value is 3.6414, while the maximum is 8.0900, indicating considerable variation in accrual levels across the sampled service firms. The standard deviation of 1.3172 confirms this variation. The skewness of 0.0048 is virtually zero, indicating that ACR is almost perfectly symmetric around its mean. Its kurtosis of 2.136 is below 3, suggesting a relatively flatter distribution than the normal distribution. The Jarque-Bera probability of 0.497 is greater than 0.05. Consequently, the null hypothesis of normality cannot be rejected. Thus, ACR can reasonably be regarded as approximately normally distributed.

Correlation matrix

Table 2 Correlations analysis

	AT	AFEE	ASIZE
AT	1.000000	0.310228	0.259812
AFEE	0.310228	1.000000	0.597096
ASIZE	0.259812	0.597096	1.000000

Source: Extracted from appendix 1B

Table 2 showed the correlation matrix of the independent variables employed in this study. Correlation considers two variables at a time to determine how they relate to each other. These types of checks are necessary because high correlation cause problems about the relative contribution of each predictor to the success of the model (Guajariti & Sangeeta, 2007).

The correlation matrix above shows the absence of multicollinearity among the explanatory. All the variables show a low correlation with the highest correlation estimated at 0.597096. This is less than 0.75. According to Gujarati and Sangeeta, (2007) correlation matrix value of 0.75 is considered harmful.

Effect of Audit quality on financial reporting quality

Table 3 Model Summary

Dependent Variable: ACR
Method: Panel Least Squares
Date: 08/25/26 Time: 06:08
Sample: 2020 2024
Periods included: 5
Cross-sections included: 9
Total panel (balanced) observations: 45

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.949340	1.251537	0.758539	0.4525
AT	-0.041629	0.136400	-0.305201	0.7618
AFEE	1.354587	0.332949	4.068455	0.0002
ASIZE	-1.079165	0.429129	-2.514779	0.0159

R-squared	0.291186	Mean dependent var	5.932357
Adjusted R-squared	0.239321	S.D. dependent var	1.317153
S.E. of regression	1.148780	Akaike info criterion	3.199965
Sum squared resid	54.10750	Schwarz criterion	3.360557
Log likelihood	-67.99922	Hannan-Quinn criter.	3.259832
F-statistic	5.614356	Durbin-Watson stat	0.420900
Prob(F-statistic)	0.002552		

Source: E-View Output Extracted from Appendix 2A

The model produces an R-squared of 0.2912 and an adjusted R-squared of 0.2393. The R-squared means that approximately 29.12% of the variation in ACR is jointly explained by audit tenure, audit fee and audit-firm size. The remaining 70.88% is attributable to other factors not included in the model and random disturbances. The adjusted R-squared of 23.93% provides a more conservative assessment after taking into account the number of explanatory variables included in the model. Thus, while the audit-quality variables explain a meaningful portion of variations in accruals, other firm-specific, corporate-governance, managerial and institutional factors are also likely to influence financial reporting quality.

More importantly, the F-statistic is 5.6144 with a probability value of 0.002552. Since 0.002552 < 0.05, the null hypothesis that the explanatory variables jointly have no significant effect on ACR is rejected.

Therefore, audit quality, jointly measured by audit tenure, audit fee and audit-firm size, has a statistically significant effect on financial reporting quality among the sampled service firms in Nigeria.

The coefficient of AT is -0.0416, with a probability value of 0.7618. Since the probability value is greater than 0.05, audit tenure has no statistically significant effect on accruals at the 5% level.

The negative coefficient suggests that, holding other factors constant, an increase in audit tenure is associated with a slight reduction in accruals. However, because the relationship is statistically insignificant, this negative association should not be interpreted as evidence of a meaningful effect.

Thus, the result suggests that the length of the auditor-client relationship does not significantly influence financial reporting quality among the sampled Nigerian service firms.

This finding may imply that simply retaining the same auditor for a longer period does not necessarily improve the quality of financial reporting. Although longer tenure may enable auditors to acquire deeper knowledge of the client's business, excessive familiarity could potentially reduce professional scepticism. The insignificant result therefore suggests that these competing effects may offset one another.

Decision: Audit tenure does not significantly affect financial reporting quality.

AFEE has a coefficient of 1.3546, with a t-statistic of 4.0685 and probability value of 0.0002. Since 0.0002 < 0.05, audit fee has a statistically significant positive effect on ACR.

The positive coefficient means that, ceteris paribus, an increase in audit fee is associated with an increase in accruals by approximately 1.355 units, holding AT and ASIZE constant.

This is a particularly important finding. The result suggests that audit fees are significantly associated with the financial reporting outcome of the sampled service firms. However, the interpretation of whether this represents an improvement or deterioration in financial reporting quality depends critically on how ACR has been operationalised.

If higher ACR represents higher abnormal/discretionary accruals, then the positive coefficient indicates that higher audit fees are associated with greater accrual manipulation, implying lower financial reporting quality. Conversely, if the study defines higher ACR as a measure of better reporting quality, the interpretation would be the opposite.

Therefore, based strictly on the uploaded results, the safest conclusion is that audit fee has a significant positive relationship with accruals. The direction in terms of "better" or "poorer" financial reporting quality depends on the precise construction of the ACR measure.

Decision: Audit fee significantly affects financial reporting quality through its significant positive relationship with accruals.

ASIZE has a coefficient of -1.0792, with a t-statistic of -2.5148 and probability value of 0.0159. Since 0.0159 < 0.05, audit-firm size has a statistically significant effect on ACR.

The negative coefficient indicates that an increase in audit-firm size is associated with a reduction in accruals by approximately 1.079 units, holding other variables constant.

If ACR represents abnormal/discretionary accruals, this finding is particularly meaningful: larger audit firms appear to constrain accrual-based earnings management, thereby potentially enhancing financial reporting quality. This can be explained by the greater resources, specialist expertise, reputation concerns and stronger monitoring capacity generally associated with larger audit firms.

Consequently, the finding provides empirical support for the argument that audit-firm size is an important dimension of audit quality.

Decision: Audit-firm size has a significant negative effect on accruals.

Test of Hypotheses

Hypothesis one

$H0_1$: Audit tenure has no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

HA_1: Audit tenure has a significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

Based on the OLS result, the T-statistic of -0.305201 has a probability value of 0.7618% significant level. Since the probability value is greater than the significance level of 0.05, therefore the study accepts the null hypothesis (H_0) which states that audit tenure has no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

Hypothesis two

$H0_2$: Audit fees have no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

HA_2: Audit fees have a significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

Based on the OLS result, the T-statistic of 4.068455 has a probability value of 0.0002% significant level. Since the probability value is less than the significance level of 0.05, therefore the study accepts the alternative hypothesis (H_A) which states that Audit fees have a significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

Hypothesis three

$H0_3$: Auditor size has no significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

HA_3: Auditor size has a significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

Based on the OLS result, the T-statistic of -2.514779 has a probability value of 0.0159% significant level. Since the probability value is less than the significance level of 0.05, therefore the study rejects the null hypothesis (H_0) and accepts alternative hypothesis which states that auditor size has a significant effect on the financial reporting quality of listed service and logistics firms in Nigeria.

CONCLUSION

The analysis focused on effect of audit quality on the financial reporting quality of listed service and logistics firms in Nigeria. Audit quality was measured using audit tenure, audit fee and auditor's size. Financial reporting quality is measured using accruals. The data were collected from annual report and account of four selected service and logistics firms for the period ranging from 2020-2024. The data collected were analyzed using panel regression analysis. The findings revealed that audit tenure has no significant effect on financial reporting quality. However, audit fee and auditor's size have significant effect on financial reporting quality. Therefore the study concludes that audit quality significantly influence financial reporting quality of service and logistic firms in Nigeria.

RECOMMENDATIONS

1. Listed service and logistics firms in Nigeria should ensure that audit fees are adequate and commensurate with the complexity, size and risk profile of their operations. Firms should therefore avoid selecting auditors primarily on the basis of the lowest audit fee. Instead, audit fees should reflect the level of professional expertise, audit effort, technology, time and risk assessment required to conduct an effective audit.
2. Audit committees and boards of directors should exercise greater oversight over audit-fee arrangements to ensure that higher audit fees translate into greater audit effort and improved reporting quality.
3. Listed service and logistics firms should consider engaging reputable and adequately resourced audit firms. Firms should give appropriate consideration to the technical capacity, professional expertise, industry experience, human resources and technological capabilities of prospective auditors.

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APPENDICES

APPENDIX 1A: DESCRIPTIVE STATISTICS

	AT	AFEE	ASIZE	ACR
Mean	2.511111	4.145281	0.488889	5.932357
Median	2.000000	3.985651	0.000000	5.828552
Maximum	5.000000	5.850646	1.000000	8.089980
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Kurtosis	2.081468	3.706138	1.001976	2.136394
Jarque-Bera	3.379581	8.524406	7.500007	1.398579
Probability	0.184558	0.014091	0.023518	0.496938
Sum	113.0000	186.5376	22.00000	266.9561
Sum Sq. Dev.	79.24444	19.27323	11.24444	76.33522
Observations	45	45	45	45

APPENDIX 1B: CORRELATION

	AT	AFEE	ASIZE
AT	1.000000	0.310228	0.259812
AFEE	0.310228	1.000000	0.597096
ASIZE	0.259812	0.597096	1.000000

APPENDIX 2A: PANEL REGRESSION ANALYSIS

Dependent Variable: ACR

Method: Panel Least Squares

Date: 08/25/26 Time: 06:08

Sample: 2020 2024

Periods included: 5

Cross-sections included: 9

Total panel (balanced) observations: 45

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.949340	1.251537	0.758539	0.4525
AT	-0.041629	0.136400	-0.305201	0.7618
AFEE	1.354587	0.332949	4.068455	0.0002
ASIZE	-1.079165	0.429129	-2.514779	0.0159

R-squared	0.291186	Mean dependent var	5.932357
Adjusted R-squared	0.239321	S.D. dependent var	1.317153
S.E. of regression	1.148780	Akaike info criterion	3.199965
Sum squared resid	54.10750	Schwarz criterion	3.360557
Log likelihood	-67.99922	Hannan-Quinn criter.	3.259832
F-statistic	5.614356	Durbin-Watson stat	0.420900
Prob(F-statistic)	0.002552		