

AUDIT TENURE AND FINANCIAL REPORTING QUALITY OF LISTED NON-FINANCIAL SERVICES FIRMS IN NIGERIA: THE MODERATING ROLE OF AUDIT COMMITTEE'S INDEPENDENCE.

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Abstract

Audit tenure in particular, has become a lingering issue after the accounting scandals involving wide-ranging corporate entities from both local and global business environments. This lingering issue has prevented auditors from conducting some specific non-audit services. This study 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. The study recommends that more independent directors should be included on the audit committee of listed non-financial companies in Nigeria in order to improve the financial reporting quality of listed non-financial companies in Nigeria.

Keywords: *Audit Committee's Independence, Audit Tenure, Financial Reporting Quality, Nigeria.*

INTRODUCTION

The world wide crisis surrounding the quality of financial reporting has hindered the trust of users of accounting data. The uncertainty of Financial Reporting Quality (FRQ) is a serious concern for investors. In Nigeria there are plethoras of accounting scandals such as Cadbury Plc; Unilever Plc and Oando Plc that were witnessed and that have cast doubts on the quality of financial reports. Therefore, it is important to examine the influence of key auditors' characteristics like audit tenure on FRQ of listed non-financial services firms in Nigeria. According to Hassan (2013), the quality of financial reporting is to promote transparency and deliver high quality annual report through comprehensive disclosure.

The financial scandals involving well-known large corporations at the start of the twenty-first century, the financial crises in 2008 and the recent collapse and failures of giant companies across the globe have put the accounting profession in danger and undermined the trust of those who use financial statements on a global scale. Thus, the collapse of these companies with their respective auditors (External Auditors) at both international and national level such as Andersen, Enron, Worldcom, Parmalat, Xerox, Oceanic Bank Nigeria Plc, Intercontinental Bank Plc, Savanna Bank Nigeria Plc, Skye Bank Plc, have caused a lot of concern over the integrity of accounting profession and corporate governance in general. Moreover, researchers over the years have investigated into the menace with a view to explore the reasons behind the collapse of those big companies and have attributed it to the low ethical standards and poor corporate governance mechanisms (Akeju & Babatunde, 2017; Aifuwa et al., 2018; Osayantin & Embele, 2019).

Auditing is so crucial in financial reporting because it adds to the integrity and credibility of financial statements (Chu & Hsu, 2018; Khasharmeh & Desoky, 2018). Audit tenure in particular became a burning issue after the accounting scandals involving Enron and WorldCom in 2000 which led to the passage of Sarbanes-Oxley (SOX) Act of 2002 in the US preventing auditors from providing some specific non-audit services and also the 2008 financial crisis which paved way for regulators in calling for the mandatory audit firm/partner rotation (Yakubu & Williams, 2020). The proposition in the Nigerian Code of Corporate Governance (NCCG, 2018) that extending long auditor's tenure is associated with a decrease in audit quality and impaired auditor independence needs empirical evidence (Adekoya et al., 2021). Some authors such as El-Guindy and Basuony (2018) and Kalabeke et al. (2019) argue that short audit tenure leads to high FRQ because it hinders familiarity with management, which may undermine the auditor's independence. Eyenubo et al. (2017) argue that long-term audit tenure allows auditors to better understand client performance and produce a high-quality financial report.

Although, despite these controversies, audit is still an important attribute in ensuring FRQ because it helps to give assurance to the users of accounting information about the integrity of management stewardship. Users of accounting information rely on the external auditor to ascertain whether financial reports show a true and fair view to enable them to make informed economic decisions. Despite audit reports and oversight by Securities and Exchange Commission (SEC), Financial Reporting Council of Nigeria (FRCN), various financial scandals like Cadbury Nigeria are witnessed in accounting that impedes investors' confidence on financial reporting including audited financial statements, hence the need for a quality audit.

In Nigeria, accounting scandals such as Cadbury Nigeria, Lever Brothers, Nampak, etc have raised the concern of the SEC, FRCN and other regulatory authorities about the integrity in the financial reporting and auditor independence (NCCG, 2018). Due to the accounting scandals, modification of the audit tenure is brought into system such as mandatory audit-firm rotation which is offered as a possible means of improving FRQ. Mandatory audit firm rotation has been an ongoing discussion. This regulation should increase the independence of auditors. This is necessary to increase the quality of financial reporting and rebuild a positive

perception of audit firms for the actors in the capital markets.

Van Johnson *et al.* (2002) suggested that auditor tenure is one of the main factors that could affect auditor independence because of auditor compromises on their client's reporting choices in order to retain a long-term auditor-client relationship. In contrast, some researchers (Kalabeke *et al.*, 2019) argue that auditors have better knowledge and experience to determine whether the firm's reporting choices are proper when they audit the same firm over time.

In Nigeria, there are few studies that examined the relationship between audit firm tenure (the length of the auditor-client relationship) and FRQ using secondary data (Eyenubo *et al.*, 2017; Kolawole, 2019; Onyabe *et al.*, 2018; Oyedokun, 2019). Furthermore, this study has introduced audit committee independence as the moderator. The effective functions of Audit Committee Independence and responsibilities include minimizing agency conflicts, protecting shareholders' interests, mitigating corporate failures and consequently increasing firm's value (Yakubu and Williams 2020). One of the main reasons for establishing the audit committee was to improve FRQ (Calomiris & Carlson, 2016).

Thus, this study examines the moderating effect of audit committee independence on the relationship between audit tenure and FRQ in Nigeria. The joint effect of audit tenure and audit committee independence is expected to be stronger with FRQ since they (audit tenure and audit committee independence) complement each other in preventing fraudulent financial reporting by managers. In this vein, this study hypothesizes that:

The remainder of the paper is organized as follows: Section 2 reviews literature on the concepts, theories and empirical studies relevant for the study. Section 3, discusses specific methodology used in the study. Results are presented in Section 4, and conclusion and recommendations are presented in Section 5.

LITERATURE REVIEW

In this section, a review of theoretical and empirical literature was conducted on the moderating role of audit committee independence on the effect of audit tenure on FRQ of listed non-financial services firms in Nigeria. The theoretical literature includes the conceptual framework and theories that guide this study. The section concludes with the review of empirical studies. Three concepts which include audit tenure (independent variable), audit committee independence (moderating variable) and FRQ (Dependent variable) are discussed and linked in this sub-section. The conceptual framework is presented in Figure 1.

For a long time, financial reports provide a principal platform of communicating financial information to those outside an entity. Given the existence of information asymmetries and the potential for conflicts of interest between company management and outside users of financial information, an audit of financial reports by a third party (external auditor) can enhance the quality of the financial information reported by management (Van Johnson *et al.*, 2002) and improve the quality of information that investors have about the value of traded securities.

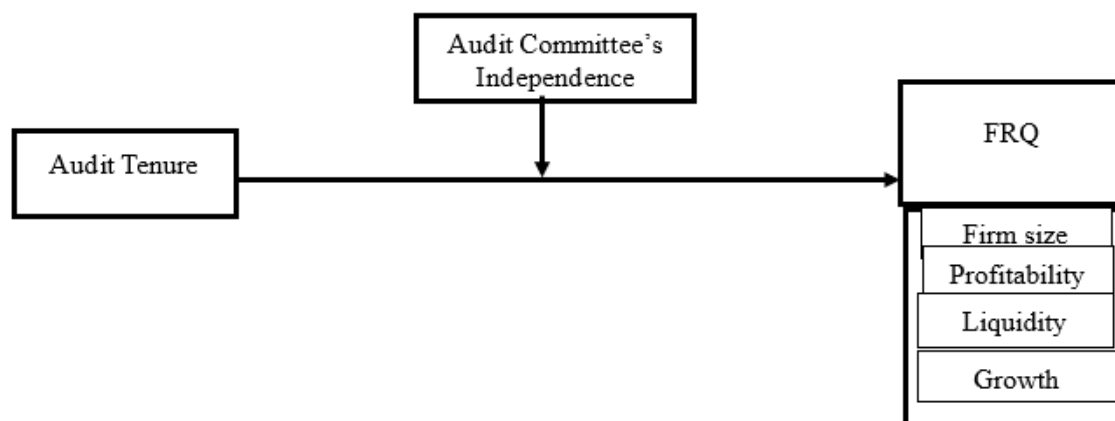


Figure 1: Framework of the Study

Recognizing the importance of auditing in the financial-reporting process, the role of audit committee has been recognized in recent years as a way of enhancing external auditors independence hence a moderator on audit tenure and FRQ relationship In general, the ability of the audit function to enhance financial-reporting quality is dependent on both the likelihood that the audit will detect a material misstatement or omission (auditor competence) and the auditor's behavior subsequent to the detection of a material misstatement (reporting independence). **Thus, the *a priori* expectation is that audit tenure will be inversely related to FRQ.**

Audit Tenure

Audit tenure referred to the length of time that auditor' are engaged in the service of auditing a firm. According to Okolie (2014), auditor tenure is the length of the auditor-client relationship. Audit tenure brings about auditor independence which is about being free from influence, persuasion or bias, and hence the unbiased mental attitude in making decisions throughout the audit and financial reporting process. The absence of independence may greatly impair the value of the audit service and the audit report. On the other hand, an excessively long association between the auditor and his client may constitute a threat to independence.

Auditor' tenure is associated with impaired audit attributes quality and audit firm rotation can help promote audit quality (Ogbeifun & Adeniran, 2020). In Nigeria, the code of Corporate Governance (NCCG, 2018) recommended that external audit rotation should be every five years. Studies reveal that audit firm attributes and auditor independence may decline over long auditor-client relationships (Adekoya *et al.*, 2021; Baatwah, 2016; Eyenubo *et al.*, 2017; Riccardi, 2019).

Financial Reporting Quality

FRQ is the extent to which the financial statement provides true and fair information about the underlying performance and financial position. According to Jonas and Blanchet (2000), FRO means 'full and transparent financial information that is not designed to confuse or

mislead users. [Kwanbo and Tanko \(2018\)](#) defined FRQ as the financial information created without taking advantage of accounting rules and principles to present them as reliable information. FRQ is also considered to be constituted by four dimensions which are relevance, timeliness, neutrality and representational faithfulness ([Bimo et al., 2019](#)). The authors stated that this consideration has its focal emphasis on the four measures of FRQ. From the above, it can be inferred that for a financial statement to be considered to have high-quality attributes, it must possess the four measures of FRQ which are predictive and feedback value, timeliness, neutrality and representational faithfulness.

[Martínez-Ferrero et al. \(2013\)](#) viewed that the information in financial report should be highly-qualitative if it is faithfulness conveyed in the financial reporting process. This definition mainly focused on the financial aspect of corporate information; thus, they further expanded and modified the definition. They redefined reporting quality as the faithfulness of information conveyed in both financial and non-financial reporting process. Financial statements of firms at the end of a financial year should have some element of truth in it. This is termed “quality”. It is therefore imperative that the financial reports of firms should have high quality so as to increase the confidence of users.

Audit Committee Independence

An audit committee ought to be independent to effectively perform their task which includes overseeing the financial reporting process, choosing the independent auditor, and receiving both internal and external audit reports ([Syofyan et al., 2021](#)). According to [Yakubu and Williams \(2020\)](#), the effective and unbiased functions of Audit Committee Independence and responsibilities include minimizing agency conflicts, protecting shareholders’ interests, mitigating corporate failures and consequently increasing firm’s value. Numerous studies examine the efficacy of the audit committee independence in financial reporting. Some research ([Dhaliwal et al., 2010](#); [Krishnan & Visvanathan, 2008](#)) advocate audit committee independence, while others ([Davidson et al., 2004](#); [Kusnadi et al., 2016](#)) argue for the broader audit committee characteristics including independence, expertise and activity and due diligence. Studies opine that having independence can be advantageous in terms of improving FRQ ([Carcello et al., 2011](#); [Puat-Nelson & Devi, 2013](#)).

THEORETICAL FRAMEWORK

Several theories have been used to explain the effect of audit tenure on FRQ as well as the moderating effect of audit committee independence on the effect of audit fee on FRQ. Some of the theories include Auditors’ Theory of Inspired Confidence, Agency Theory and stakeholder theory, however, the underpinning theory in this study was stakeholder theory. [Freeman \(1984\)](#) as one of the contributors of the stakeholder’s theory of organizational management and business ethics that addresses morals and values in managing an organization. The theory refers to the ethical concept that addresses the outcome of business decisions, trends, profits, etc., and its collective impact on all stakeholders, including the shareholders, employees, financiers, government, customers, suppliers, etc. Therefore, with

regard to FRQ, stakeholder theory maintained that organizations have to account for their stewardship over the resources entrusted to them to various stakeholders including debenture holders and other members of the public (Fettry, 2015). This therefore, advocates the notion that the responsibility of directors is to serve various interest groups and individuals. The Penguin Dictionary of Accounting (PDA, 2006) defines stakeholders as persons with an interest in an organization, such as its owners, employees and creditors. The stakeholder theory is a theory of organizational management and business ethics that addresses issues related to morality and values in managing an organization (Freeman, 1984). In this theory, the concept “stakeholders” refers to managers, shareholders, investors or other users of financial reports which are influenced, directly or indirectly by the actions of the auditor. Stakeholder theory argues that the company is a separate organizational entity connected to different parties in achieving wide range of purposes (Yazid & Suryanto, 2016). The theory highlights interests of different groups and argues on the possibility of favoring one group’s interest over that of another (Francis, 2011).

AUDIT TENURE AND FRQ

Masmoudi (2021) examined the impact of audit committee characteristics, namely independent members in audit committee, a financial expert in audit committee, frequency of meetings and audit committee size on financial reporting quality proxied by real earnings management. The study used the ordinary least squares (OLS) regression while data was collected from 90 public listed companies from 2010 to 2019 in Netherlands. The results revealed that audit committee independence statistically and significantly influenced real earnings management. The environmental factor could change the result of this study if it were in Nigeria.

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.

Kalabeke *et al.* (2019) examined the relationship between audit firm tenure and FRQ. The study measured auditor tenure as the number of consecutive years that the client has retained the audit firm. Sample data was selected from 280 non-financial listed firms in Pakistan Stock Exchange (PSE) during the period of 2008-2017, which comprise of 2,800 firm-year observations. The results showed that firms with longer audit firm tenures are more negatively associated with accrual-based earnings management activities, indicating better FRQ. The study implies that there is an adverse relationship between auditor tenure and FRQ, pursuant to which the regulators must keep non-mandatory auditor rotation factor in mind during regulatory reforms. This study introduced a moderating variable ACI which will change the

outcome of the above study.

[Ikpantan and Daferighe \(2019\)](#) investigated the impact of auditor attribute on FRQ. The output of Pearson Product-Moment Correlation and Linear multiple regression of the data extracted from annual reports of 10 deposit money banks in Nigeria for 14 years could not establish statistically significant effects. The study revealed insignificant effect of audit tenure on the FRQ. The result might have been different if a moderating variable like an audit committee independence were included in the study and if the study was carried out on a different domain such as banks like this current one.

[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.

[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.

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Onyabe *et al.* (2018) looked at the impact of auditor tenure on FRQ of Nigerian listed deposit money banks. The study makes use of panel data that was collected from the fact books of the Nigerian Stock Exchange and the financial statements of 14 listed deposit money banks over a ten-year period (2007-2016). Regression and descriptive analysis were used to analyse the data. According to the study, audit tenure has a detrimental but minor impact on the accuracy of financial reporting. These findings suggest that while evaluating the quality of deposit money banks in Nigeria, the tenure of audit committee members is not significant. This study has added a moderating variable (the audit committee independence) that could change the result.

El-Guindy and Basuony (2018) investigated the association between audit firm tenure and FRQ proxy by earnings management. The sample of this study comprises UK listed companies for five years by collecting data using World Scope for financial and accounting standards data and FAME databases for audit tenure data. The study employed discretionary accrual measures using earnings management. Total accrual was measured using current accruals (cash flow statement) approach. The study found a negative association between audit firm tenure and earnings management for the pooled UK sample. However, this negative association only holds for those firms which had not changed their accounting standards. The results agreed with the recent trend of research that suggests that longer audit firm tenure does not compromise auditor independence but in fact improves the audit quality. The results of the study argued strongly against mandatory audit firm rotation through illustrating the positive impact that extended audit firm tenure has on improving audit quality. Nigeria as an emerging economy, the result would be different with the developed economy of the world.

Based on the empirical review of the previous studies, it is highly obvious that the findings from the extant literatures are conflicting or have been inconsistent with each other. In order to address the issue of the inconsistencies in previous literatures, it is highly imperative to introduce an intervening variable. Specifically, audit committee independence was introduced as a moderating variable in order to tackle the issue of the inconsistencies in prior studies.

H₀₁: The effect of audit tenure on FRQ of listed non-financial services firms in Nigeria is not significantly moderated by audit committee independence.

METHODOLOGY

This section presents the methodology that was employed in this study to achieve the research objectives. Design issues such as the population and sample size, model specification, sources of data collection, variables and their measurements, data analysis techniques and diagnostics checks were explained in this section

The population comprised of all the seventy-five (75) non-financial services firms listed on the NGX as at 31st December 2021. The study covered a period of 11 years (2011-2021). Purposively sampling technique was used to select the sample size of 30 listed non-financial firms listed in Nigeria based on the set criteria. These criteria include (i) the company must

have the financial reports on their website or on NGX website of office throughout the study period (ii) the company must be listed on the NGX and remain listed throughout the study period and (iii) must be non-financial firms are classified as either: agricultural, breweries, automobile and Tyres, building materials, chemicals & paints, health care, food & beverages and conglomerates. Appendix 1 shows the population while Appendix B reports the sample size of the study.

To measure FRQ, this study adopted the modified Jones (1991) Model where discretionary accrual was used to proxy FRQ. The following three steps are involved in calculating Discretionary Accruals:

Step 1: Calculating Total Accruals

There are two approaches for mathematically calculating total accruals as described in several studies. The first method is called balance sheet approach which is sparingly used in accounting due to non-articulation concern while the second method is called cash-flow approach which is a preferred and easy to calculate in approach in accounting and was be used in this study. The aggregate total accruals cash flow approach was adopted in this study because it is the primary approach to measuring opportunistic earnings management. Under this approach, total accruals (TACC) are calculated as earnings before interest and taxes (EBIT) minus the operating cash flows from continuing operations (CFO):

$$TACC = EBIT - OCF \dots\dots\dots (i)$$

Whereas:

TACC is Total Accruals of a of company *i* in year *t*.

NI is the Net Income and is the profits after tax of company *i* in year *t*.

CFO is the cash flow from operating activities of company *i* in year *t*.

Step 2: calculation of non-discretionary accruals

This study estimate non-discretionary accruals as follows:

$$TACC_{it}/A_{it-1} = \alpha_t(1/A_{it-1}) + \beta_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \beta_{2i}[(PPE_{it})/A_{it-1}] + \varepsilon_{it} \dots\dots\dots (ii)$$

Where:

TACC = Total Accruals (NI – OCF)

ΔREV = Change in Revenue

ΔREC = Change in Receivable

PPE = Property, Plant and Equipment

A_{it-1} = Year-end assets for company I in year t-1

ϵ_{it} = error term/residual

Consistent with previous research, all variables have been scaled by lagged total assets to reduce Heteroskedasticity. ϵ_{it} is included as an error term. The error term, ϵ_{it} , is the estimate of the discretionary accruals. Thus, non-discretionary accrual is:

$$NDACC_{it}/A_{it-1} = \alpha_t(1/A_{it-1}) + \beta_{1i}[(\Delta REV - \Delta REC)/A_{it-1}] + \beta_{2i}[(PPE_{it})/A_{it-1}] \dots \dots \dots (iii)$$

Step 3: Calculation of discretionary accruals

To Calculate Discretionary Accruals (Abnormal Accrual) this study used the difference between total accruals and non- discretionary accruals indicated in model (iv).

$$FRQ = DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \dots \dots \dots (iv)$$

To address the research objectives and hypotheses, the model of Kalabeke *et al.* (2019) was adapted. The original model is specified as:

$$FRQ_{i,t} = \beta_0 + \beta_1 ATenure_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GROWTH_{i,t} + \beta_5 BIG4_{i,t} + \beta_6 Industry_{i,t} + e_{i,t} \dots \dots (1)$$

The model was modified to incorporate the moderating effect of audit committee independence as shown in Equation 2:

$$FRQ_{i,t} = \beta_0 + \beta_1 AUT_{i,t} + \beta_2 ACI_{i,t} + \beta_3 (AUT_{i,t} * ACI_{i,t}) + \beta_4 FSZ_{i,t} + \beta_5 Prof_{i,t} + \beta_6 Liq_{i,t} + \beta_7 Growth_{i,t} + e_{i,t} \dots \dots (2)$$

Whereas:

FRQ = Financial Reporting Quality;

AUT = Audit Tenure

ACI = Audit Committee Independence (Moderating variable)

FSZ = Firm Size

Prof = Profitability

Liq = Liquidity

Growth = Growth

β_0 = Constant

β_1 to β_4 = Coefficients

it = cross-section and time series respectively

e = error term

The variables, their acronyms, measurement and sources are shown in Table 1.

Table 1: Variable Measurement and Sources

| Variables | Acronyms | Type of Variable | Measurements | Source |
|------------------------------|----------|----------------------|---|---|
| Financial Reporting Quality | FRQ | Dependent Variable | <i>The discretionary accruals.</i> | Equation (iv) |
| Audit Tenure | AUT | Independent Variable | '1' if 3 years+ & '0' if otherwise. | (Okolie, 2014) |
| Audit Committee Independence | ACI | Moderating Variable | Proportion of independent committee members to total audit committee. | Smith Report, (2003) |
| Firm Size | FSZ | Control Variable | Measured as natural logarithm of the Firms total assets | (Al-Sraheen, 2014) |
| Profitability | Prof | Control Variable | Ratio of Operating Profit to total assets | (Jihadi et al., 2021; Nurwulandari, 2021) |
| Liquidity | Liq | Control Variable | Ratio of current assets to current liabilities | (Diyanto, 2020; Jihadi et al., 2021) |
| Growth | Growth | Control Variables | Percentage growth in total assets | (Gabriel Anton & Carp, 2020) |

Source: Researcher's compilation (2022)

The study used secondary source of data which was collected from the annual reports of the sampled companies. Descriptive statistics and multiple linear regression were employed for the analysis of the data. To improve the validity and reliability of the inferential statistical result which is based on multiple regressions, robustness tests such as normality of error term, multicollinearity, Heteroskedasticity and panel specification test were conducted.

RESULTS AND DISCUSSION

This section discusses the results from analysis of descriptive statistics and multiple regression analysis. The discussion begins with descriptive statistics where measures of centrality and

dispersion were discussed. Next, regression assumptions were checked and reported, and finally, regression analysis results were presented.

Descriptive Statistics

Table 2 presents the descriptive statistics for the three measures of the FRQ, audit committee independence and audit tenure, and other relevant control variables. The sample is made up of 30 samples of listed non-financial firms in Nigeria. The 30 listed non-financial firms from 2011 to 2021 gave rise to a combine observation of 330.

Table 2: Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------|-----|-------|-----------|-------|-------|
| FRQ | 330 | .134 | .403 | 0 | 6.824 |
| AUT | 330 | 4.864 | 2.402 | 1 | 11 |
| ACI | 330 | .417 | .148 | 0 | .833 |
| Fsiz | 330 | 7.243 | .85 | 5.342 | 8.762 |
| Prof | 330 | .083 | .377 | -.517 | 4.871 |
| Liq | 330 | 1.728 | 1.651 | .003 | 9.977 |
| Growth | 330 | .172 | .566 | -.767 | 5.901 |

Source: STATA 14.2 Output

Table 2 reports descriptive statistics of FRQ. On average, the firms employ in the study have a 0.134 FRQ. It indicates that the sampled non-financial firms in Nigeria engaged in earnings management, thus, the quality of their financial reporting is dampened. This is evidenced by the widespread distribution of FRQ from a minimum of 0 to a maximum of 6.824. Furthermore, the wide gap between mean of FRQ and standard deviation of FRQ suggests the presence of outliers in the FRQ of listed non-financial firms in Nigeria. The mean value of audit tenure (AUT) is 4.864 (SD = 2.402), with a minimum of 1 year and maximum of 11 years. Audit Committee Independence (ACI) which was measured as the ratio of independent directors to total audit committee is 0.417 suggesting that over 40% of the audit committee of non-financial firms in Nigeria is constituted by independent members. Over 50% of the audit committee members of listed non-financial firms is made up of non-independent directors.

In respect of the control variables, the firm's size has a mean of 7.243 with a 0.85 standard deviation. The minimum size of listed non-financial firms in Nigeria is 5.342 and a maximum of 8.762. the mean size shows that on non-financial firms listed in Nigeria worth about 7.243 (₦17,498,466,890). Moreover, the result show that profitability measured by Return on Assets is 0.083, which is explained that non-financial companies listed in Nigeria have made return on assets of 8.3% with 0.377 standard deviations. The minimum and maximum values of Prof are -0.517 and 4.871 respectively. Liquidity measured by current ratio is about 1.728 (SD =1.651) and the values ranges from 0.003 and 9.997 respectively. Finally, the results depicted that the growth of non-financial firms in Nigeria is about 17.2% over the study period.

Regression Analysis

To investigate the moderating role of audit committee independence on the effect of audit tenure on FRQ of listed non-financial firms in Nigeria, the result of Model presented in equation 2 was used. Since the model is a regression, diagnostic checks which include check of the regression assumptions were tested to ensure that the results are robust before the main regression results were presented. First, is to ensure that there was no multicollinearity, a Pearson correlation coefficient was calculated to examine the relationship between the predictions. The Pearson correlation coefficient is presented in Table 3.

Table 3: Matrix of correlations

| Variables | (1) | (2) | (3) | (4) | (5) |
|------------|--------|--------|--------|-------|-------|
| (1) AUT | 1.000 | | | | |
| (2) Fsiz | 0.043 | 1.000 | | | |
| (3) Prof | -0.065 | -0.013 | 1.000 | | |
| (4) Liq | 0.041 | 0.056 | 0.067 | 1.000 | |
| (5) Growth | -0.034 | 0.061 | -0.023 | 0.014 | 1.000 |

Source: Researcher's Compilation Using Stata 14.2 Output

The result of pairwise correlation reveals no multicollinearity problem as the Pearson correlation of 0.013 - 0.067 is less than 0.7 a rule of thumb suggested by (Field, 2013). Further multicollinearity check was conducted using VIF. The VIF which is a more stringent test of multicollinearity also indicates absence of collinearity problem since mean VIF of 1.009 is less than 5 and no individual VIF value is more than 10. The VIF values range from 1.009 to 1.01 as shown in Appendix.

Next, the assumption that the error term (residuals) was constant (homoscedasticity) was investigated using Breusch-Pagan hettest. The result indicates that the $\chi^2 = 5394.81, p < 0.001$, this shows that the assumption of homoscedasticity of the residuals is violated. The detailed results of the Breusch – Pagan hettest are reported in Appendix B.

Furthermore, the normality of the residual's assumption was tested using the Shapiro-Wilk normality test. Evidence (reported in Appendix B) indicates that Shapiro-Wilk (z) = 11.09, $p < 0.001$. The significant value of Shapiro – Wilk z-value indicates that residuals are not normally distributed. Finally, the Cook's distance values were calculated to ensure that no influential cases were biasing the model. no case of outlier was identified that can possibly bias the results.

This study employed panel data, thus, to determine an appropriate model estimator method between fixed and random effect models, a Hausman test was carried out. The results of the Hausman test turns out insignificant ($\chi^2 = 2.15, p = 0.8284$) implying that Random Effect Model (REM) is the more efficient estimator. The Breusch-Pagan Lagrange multiplier (LM) test was further conducted to decide between a random effects regression and a Pooled Ordinary Least Squares (OLS) regression. On the Basis of LM test the study concluded that pooled OLS is most appropriate than Random Effect model ($\chi^2 = 0.18, p = 0.3363$), therefore, OLS was used for the analysis of model 1. The results from analysis using OLS is presented

in Table 4.

Table 4: Linear regression of Regression Analysis

| /FRQ/ | Coef. | St.Err. | t-value | p-value | [95% Conf | Interval] | Sig |
|--------------------|-------|---------|----------------------|---------|-----------|-----------|--------|
| AUT | -.001 | .005 | -0.19 | .847 | -.012 | .01 | |
| ACI | 2.838 | .331 | 8.57 | .000 | 2.187 | 3.49 | *** |
| AUT*ACI | -.297 | .079 | -3.76 | .000 | -.453 | -.142 | *** |
| Fsiz | -.023 | .016 | -1.45 | .148 | -.053 | .008 | |
| Prof | .492 | .043 | 11.56 | .000 | .408 | .576 | *** |
| Liq | -.005 | .008 | -0.67 | .503 | -.021 | .01 | |
| Growth | .007 | .023 | 0.29 | .771 | -.038 | .051 | |
| Constant | .265 | .115 | 2.30 | .022 | .038 | .492 | ** |
| R-squared | | 0.676 | Number of obs | | | | 330 |
| F-test | | 95.806 | Prob > F | | | | 0.000 |
| Akaike crit. (AIC) | | -19.282 | Bayesian crit. (BIC) | | | | 11.111 |

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Researcher’s Compilation Using Stata 14.2 Output (2023).

The *F*-statistics reported in Table 4 depicts that the regression model fitted well to the research data ($F=95.806$, $p<0.001$). R-squared (R^2) from the regression is 0.676 meaning that the model explained the variability in FRQ of listed non-financial firms in Nigeria from 2011 to 2021 by 67.6%.

Results from Table 4 reveal a negative and insignificant relationship between audit tenure (AUT) and FRQ ($\beta_1 = -0.001$, $t = -0.19$, $p = 0.847$), suggesting that audit tenure without moderation by audit committee independence has no significance effect on FRQ of listed non-financial services firms in Nigeria. The finding of this study is in line with several prior studies like Baatwah (2016) and Kalabeke *et al.* (2019) who suggest that firms longer auditor tenure are more inclined to report better FRQ and less involved in accrual earnings management activities. This is because: in a longer client-auditor relationship, auditors have better client information and possess required client-specific knowledge. Moreover, our results are also consistent with the findings of previous studies (El-Guindy & Basuony, 2018) which suggest that longer audit firm tenure does not affect auditor independence but in fact improves the quality of audit and FRQ.

The main variable of interest is the interaction between audit tenure and audit committee independence (AUT*ACI). Results revealed that audit committee independence significantly moderates the influence of audit tenure on FRQ of listed non-financial firms in Nigeria. Without moderation audit tenure does not have a significant effect on FRQ of listed non-financial firms in Nigeria *ceteris peribus*. However, when the effect of audit tenure on FRQ was moderated by audit committee independence it became statistically significant ($\beta = -.297$, $t = -3.76$, $p < .001$). Based on this result, H_{0_1} was rejected leading to a conclusion that audit committee independence significantly moderates the effect of audit tenure on FRQ of listed non-financial companies in Nigeria.

The analysis from Table 4 shows that firm size had an insignificant negative effect on FRQ

of listed non-financial services firms in Nigeria from 2011- 2021 ($\beta_2 = -0.023$, $t = -1.45$, $p = 0.148$), suggesting that large size versus smaller firms have no significance difference in FRQ. Profitability (Prof) is positively and significantly associated with earnings management, implying that firms with high profits are more engaged in earnings management activities and show poor FRQ. It suggests that high profitable firms in Nigeria may only show better performance through accrual-based earnings management activities with the objective to improve their credit ratings or other private incentives. Liquidity have negatively and insignificantly effect on FRQ while GROWTH has a positive insignificant effect on FRQ of listed non-financial services firms in Nigeria.

CONCLUSION AND RECOMMENDATIONS

The results of analysis using multiple regression shows that without moderation audit tenure has insignificant effect on FRQ of listed non-financial companies in Nigeria. However, the effect of audit tenure on FRQ is statistically significant when moderated by audit committee independence. Congruent with analysis and test of hypothesis 1, this study finds that firms with longer audit firm tenures have marginally less involvement in earnings management activities. This implies that longer audit firm tenures slightly improve the audit quality and FRQ of non-financial services firm in Nigeria. Considering the negative impacts of non-mandatory auditor rotation on FRQ, this study has implications for regulatory bodies and policy-makers in emerging economies, particularly in non-financial services firms in Nigeria. Based on the findings this study concluded that audit committee independence has a significant moderating role on the effect of audit tenure on financial reporting quality of listed non-financial services firms in Nigeria.

Based on the conclusion this study recommends that Financial Reporting Council of Nigeria (FRCN) should reconsider the mandatory 10 years audit firm rotation requirements in Nigeria. The study also recommended that the inclusion of more independent directors on the audit committee of listed non-financial companies in Nigeria will improve FRQ of listed non-financial companies in Nigeria. This is important because the combination of audit committee independence and audit tenure results to significant improvement in the FRQ of listed non-financial services firms in Nigeria.

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