

AUDIT QUALITY AND FINANCIAL REPORTING QUALITY IN SELECTED PUBLIC UNIVERSITY IN SOUTH WEST NIGERIA

Abstract:

Financial reporting quality has been a relevant discuss in the world business to aid investors in making timely and economical decisions. In public enterprises, it helps the users to determine the effective utilization of relevance of accounting figures. Evidence from literature indicated that poor financial reporting quality occurs as a result of lack of transparent, or lack of accountability and fraud occurrence, which waned investors' confidence and investors decisions. Study has it that many universities have not integrated audit quality in their operations for the enhancement of financial reporting quality. Therefore, this study investigated effect of audit quality on financial reporting quality in selected public universities in south west Nigeria

The study adopted survey research design. The population was 19 public universities in south west Nigeria, purposive sampling techniques was used to select 12 universities. The target population was 250 staff of bursary, audit, and senior management. Taro Yamane formula was used to obtained 201sample size. A validated structure questionnaire was used to administer 201 copies of the questionnaire to the respondents. One hundred and ninety returned representing 94.5%. The Cronbach's Alpha reliability coefficients ranged from 0.724 – 0.991. Descriptive and inferential (multiple regression) statistics were used to analyzed the data.

The study found out that audit quality had significant effect on relevance financial reporting quality of public universities in south west Nigeria ($Adj. R^2 = 0.766$; $F_{(6, 183)} = 99.565$; $p=0.00$), had a significant effect on faithful representation of financial reports quality ($Adj. R^2 = 0.598$; $F_{(6, 183)} = 47.930$; $p=0.00$), had a significant effect on understandability of financial reports quality ($Adj. R^2 = 0.416$; $F_{(6, 183)} = 21.735$; $p=0.00$), had a significant effect on comparability of financial reports quality ($Adj. R^2 = 0.390$; $F_{(201)} = 21.102$; $p=0.00$), the result also showed that audit quality had a significant effect on timeliness of financial reports quality ($Adj. R^2 = 0.516$; $F_{(201)} = 43.597$; $p=0.00$).

The study concluded that audit quality influenced financial reporting quality in public universities in south west Nigeria. The study recommended that public universities should integrate audit quality in their operations in other to increase the financial reporting quality.

Keywords: Audit quality, Comparability of financial statement, Faithful representation, Financial report quality, Relevance of financial reports, Timeliness of financial reporting.

Introduction:

Soni and Imang (2019) examined the associated problems with quality of financial report as a function of gap in information between the manager and the stakeholders which often give rise to errors and misleading the expectant result in litigation, hence, it pose as external factor which don't allow the managers to perform optimally. Hanna and Ivan (2021) opined that non-financial reporting often because rift against existing social and environmental problems as this would only allow the stakeholder to make effective decision. Okere, Eluyela, Bassej and Ajetunmobi (2017) opined that a lack of clarity and stewardship often experienced in the Nigerian public sectors financial reporting and management. In Nigeria, private sector has recorded a massive turnaround in terms of quality financial reporting only in recent times do people advocate for reformation in the public sectors' reporting quality in the financials (Heiling 2017). Meanwhile, FASB and IASB reiterate the significant of good-quality financial report but one major problem found remains how to quantify and operationalize this characteristic. But since diverse users groups would have differences in preferences, expected quality will deviate among the users. More so, users of information within a group may also identify usefulness of the same information but in different context. However, as a result of these crisis and among others International Public Sector Accounting Standards (IPSASs) resolved to step into the situation to improve the quality of financial statement of the government by integrating with International Federation of Accountants (IFAC) and Eurostat. Adoption of International Financial Reporting Standards (IFRS) is a land mark achievement by the IPSAs so as to globally competitive.

Fredrik and Patrik (2012) stated that, the word independence can be describe as representation of character and professional integrity as it helps to measure standards to guide in the area of

passing judgment which allow objective not to be impair or influenced by the third party. Independence can be studied from two areas such as; independence of thought and appearance. Independence of mind means the point at which one is able to express himself without a waiving mind, intimidation, fear of unknown in passing professional judgment, therefore, giving room for an individual to perform their task with professional skepticism, objectivity, and a high level of integrity. Independence in appearance explains the level at which one chill away from facts and figures that are too obvious, which is easily detectable by the third party by raising a suspicious eyes on the audit team, as a result of this, it would be easily concluded that the partner's integrity, objectivity, or professional skepticism has been affected. (SAICA, 2018)

A study conducted by Fredrik and Patrik (2012) opined that independence of auditors became paramount as several scandals were reported such as “The Goldenberg scandal in the 1990s, The phantom Ken Ren sale of Fertilizer Factory in 1997, the Anglo leasing controversy in 1970, In 2008, the Grand Regency Hotel was sold to foreigners., in 2017 and 2021 respectively, The recent controversies in the ministry of education and the transportation industry over the delayed delivery of new ferries have heightened the discussion regarding the integrity and independence of public auditors.”. Also, Uda (2002) observed these anomalies in accounting profession such as WorldCom and Parmalat to name a few have raised a public alarm on the credibility of auditor's independence. Independent issue can be viewed from different users' perspectives alongside the users of financial reports. For example, auditors' views on present legislation governing auditor independence may differ from those of other financial users of financial statements (Fredrik & Patrik 2012). In the spite of these, financial statements need to be faithfully represented, allow for comparability and to ensure the data supplied are well verifiable before publishing such to the users so as to enhance users confidence in the financial report.

Eleuch (2018) argued that poor financial reporting in the public sector has long been a source of concern for the populace; as a result, there is a consequent lack of transparency and accountability, fraud, a lack of confidence from stakeholders, and mismanagement of funds in public institutions of higher learning in Nigeria. Records revealed that instead of hiring external auditors to review the financial statements, which would have improved their quality, internal auditors' activities were instead used as the foundation for their conclusions (Adegoke &

Akinsulure 2016). This is one of the main causes of the financial statements' subpar quality. The Nigerian constitution obliges the office of the Auditor General for the federation to audit all public institutions, including those at the federal and state levels, as a result. 2018; Goodson, Mory, Lapointe, Zouaoui, Al Qudah, El Aoun, Ben Arab, & Eleuch.

According to previous evidence, those companies with better quality of financial information are associated with subsequent higher performance, due to the fact that the market positively assesses those companies which are more committed to the issuance of good information for shareholders and other stakeholders, aiming to reduce or avoid information asymmetries between market participants (García-Lara et al., 2018; Ahmed and Duellmand, 2019; Bushman and Smith, 2020; Gunny, 2020). Furthermore, the manager's decision and his discretionary behaviour have an influence on corporate performance through the strategic management process. Thus, it is necessary to know the manager's actions, decisions and behaviour, corporate strategy and accounting policies among others, to highlight and determine the causes of firm's company performance. Audit quality refers to the degree to which the external auditor may act honorably and objectively while carrying out his assignment. Due to the markets and business globalization, geographical expansion and the greater demand for information and transparency among investors, stakeholders and society in general, market agents find their toehold in the quality of their financial reporting and their main source of knowledge on company strategy.

For Jonas and Blanchet (2020), financial reporting is not only a final output; the quality of this process depends on each part, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made. Financial information issued by a company has become an essential resource for any market participant, since it provides a reduced amount of information asymmetries between managers,

investors, regulatory agencies, society and other stakeholders. Therefore, one of the main questions that arises about the quality of financial reporting is its effect on subsequent performance of a company, i.e. how the market values this higher perceived quality.. In spite of the fact that this is a well-known concept in the accounting profession, very little research has been done on the independence of auditors and the caliber of financial reports in a few public universities in the south-west of Nigeria. To address the void, this study will investigate the caliber of financial reports in a few public colleges in the south west.

The study was designed to examine the effect of audit quality on financial reporting quality in selected public Universities in South West Nigeria

The hypothesis tested in null form (H_0) **stated that** Faithful representation of financial reports of Public Universities in South West, Nigeria is not significantly affected by audit quality.

2. Literature/Theoretical Review

2.1 Conceptual Review

Audit quality retains a positive and strong relationship with the degree of confidence of various stakeholders. There are various stakeholders who are directly or indirectly related or affected by the audit quality of financial statements. If a company receives various audit quality notes where auditors have raised a number of questions relating to various controls and audit procedures, this would severely affect the audit quality and it would also compel many stakeholders to determine their future relationship with that company. Since many stakeholders do not just want to see an unqualified audit opinion, but they also expect an appropriate level of audit quality as approved and highlighted by auditors. In other words, if an auditors issues a qualified audit report, this would create various challenges for the company's management, their strategic and operational

decisions relating to finance, debt management, sales, marketing, human resources and all other related departments. Therefore, each stakeholder has its own concerns and expectations from the financial and operational performance of audited financial statements.(Khaled and, Zalailah 2020)Some researchers have conducted general reviews on various facts surrounding the quality of financial reporting. Accounting standards convergence, accounting standards harmonization, economic crises, growth in disclosure requirements, and other factors have created an excessive focus on financial reporting. Also, the worldwide increase in accounting scandals in the early 21st century has pointed to weaknesses in financial reporting quality. The quality of financial reporting determines, and depends upon, the value of accounting reporting. Across the world, the demand has gone out for providing a clear and full definition of financial reporting quality. It is essential to provide high-quality financial reporting to influence users in making investments decisions, and to enhance market efficiency. Providing ideal methods for assessing the quality of financial reporting is another global demand. The higher the quality of financial reporting, the more significant are the benefits to be gained by investors and users of the financial reports. Moreover, financial reporting quality is a broad concept that does not just refer to financial information; it also includes other non-financial information that is useful for making decision

2.1.1 Financial Reporting quality

Financial reporting is the technique of gathering, evaluating, classifying, and summarizing financial activity data for the public sector over an extended period of time, often a year (Bastani 2020). According to Jonas and Blanchet (2020), financial reporting is the accuracy of accounting information communicated through the financial reporting process. He added that the output of financial reporting includes not only the disclosure of company activities but also information on the choice of accounting software, policies, and judgments. In light of this, the international

public sector accounting standards (IPSAS) have been suggested as the benchmark for all governments worldwide. As a result, the public sector has been further divided into cash basis and accrual basis. Financial analysts and stock exchange market agents were the ones who first popularized the idea of quality reporting. They contend that the profits companies disclose don't necessarily reflect the profitability of the business as a whole. As a result, it becomes difficult to analyze this company's financials because there is a chance that their accounting information, particularly their profitability, has been manipulated. Because accounting earnings serve as a significant predictor of the likelihood of errors and misstatements, they are a prominent participant in the capital market (Ewert & Wagenhoper, 2017).

2.1.2 Faithful Representation

Ahmed, Brunel, Maysam, Naim and Al-Balqa (2018) in their opinion said faithful representation is detailed summarized information listed on the financial statement and are faithfully represented. Abang (2017) opined that for information to be faithful and reliable it should be free from any form of biases and it should be neutral. It should be noted that the provider of financial information should provide useful and essential financial information to the users without omission or error. AASB (2018) also stated that to recognize a specific asset or liability, it must provide relevant and useful information relevant to faithful representation of asset or liability and of any resultant income, expenditure or changes in equity. IASB (2018) stated that financial report represent economic phenomena both in words and numbers. Adding that for it to be useful, financial information is expected to faithfully represent both the relevant phenomena and material occurrence that it meant to represent.

The expected features to be seeing in faithful representation are completeness, neutrality, and error free. The idea of showing and presenting the actual economic situation of a company's financial position that has been reported which explains the impact of economic resources, transactions and events which are dully represented in the financial statement (Siriyama and Norah (2017). Organizational role on the account of faithful representation cannot be

underemphasized as they are controlled and directed which affects faithful presentation qualities. When there is comprehensive disclosure information on corporate governance issues in annual reports, this is in reality provided as a corporate governance component. (Beest, Braam, & Boelens, 2009) as cited by (Siriya and Norah (2017)). Erly (2019) opined that faithful representation is one of the qualities of financial statement which achieve completeness, fairness in reporting, free from errors and adherence to certain accounting measures and principles. It further explain that financial statement is expected to address what it meant to address without fair or intimidation from any one as this is what guide the investor in making their investment descisions.

Agienohuwa and Ilaboya (2018) in their opinion evealed that faithful representation means complete (containing all relevant information—descriptions and explanations), neutral (free of prejudice and manipulations), and error-free information is required for accurate depiction (mistakes and omissions). Information that is accurate must represent the phenomena that it claims to represent (BPP, 2014). Constructions for faithful representation were centered on completeness, neutrality, verifiability, and lack of material inaccuracy.

Siriya and Norah (2017) the concept of faithful representation is to reflect and depict the true economic position of the financial data that has been published. This term is useful for describing how well responsibilities and economic resources, such as transactions and occurrences, are fully reflected in financial reporting. Furthermore, as a sub-concept, this attribute has neutrality, which is concerned with objectivity and balance. According to Willekens (2008) the auditors' report adds value to financial reporting information by offering reasonable assurance regarding the extent to which the annual report correctly portrays economic events. Furthermore, how company organizations are managed and directed has an impact on presentation quality; in fact, when there is a lot of information about corporate governance difficulties in the annual report, this is referred to be a corporate governance factor (Beest, Braam, & Boelens, 2009). Furthermore, the annual report addresses assumptions and projections, as well as the company's use of accounting rules. Beest and Braam (2009) the second key qualitative quality, as described in the ED, is faithful depiction. Annual reports must be complete, unbiased, and free of significant inaccuracy (IASB,2008:36) to accurately portray economic phenomena that information purports to depict. "Economic resources and responsibilities, as well as transactions

and other events and situations that modify them" are among the economic phenomena covered in the annual report (IASB, 2006: 48). The five elements of neutrality, completeness, freedom from material error, and verifiability are used to assess faithful representation, which is consistent with previous research.

Mohd and Peter (2020), citing Ahmad (2012), consider honesty as the cornerstone of the accounting profession. In this context, the Independent Standard Board (2000) said that the independence of the auditor is understood to mean freedom from any type of biasness that could affect auditors' capacity to make an objective assessment. In the same vein, Naslmosavi, Sofian, and Saat (2013) claimed that an auditor's prompt reaction to their view on the financial statement increased stakeholders' trust in the information provided.

It is commonly acknowledged that the independence of the auditors has been used publicly as a powerful tool to defend inconsistent facts disclosed in the financial statement. This is due to its prompt intervention in assuring prompt objectivity and the client's relationship, which goes beyond its proactivity in delivering trustworthy and dependable financial reports, according to Ndubuisi and Ezechukwu (2017).

According to Ahmad (2012), integrity is the cornerstone of the auditing profession. In accordance with this, the Independence Standard Board (2000) defined the auditor's independence as their freedom from a set of constraints that could prevent them from making an objective decision or compromising quality while carrying out their tasks. The financial statements' stakeholders' confidence is increased when auditors provide timely comments. According to Naslmosavi, Sofian, and Saat (2013), the auditor's independence is a useful instrument for reducing information asymmetry. This is because it is certain that the auditor

provides objective opinions about the management-prepared financial statement report, and that these opinions are trustworthy and true.

According to Ndubuisi and Ezechukwu (2017), the auditors' independence demonstrates a rational, impartial approach to presenting a financial statement. Though according to some academics, "independence is the unique attribute of the auditors" 2017 (Albeksh)

2.2 Theoretical Framework

Agency theory and signaling theory served as the foundation for this investigation.

2.2.1 Agency Theory

Agency theory was popularized by Jensen, Michael and Meckling in (1976). The theory has its roots in economic theory. A contract between the company's owner and the management might be compared to agency theory. While the organization employs the manager(s) to carry out the mission on his behalf, the manager's authority to act in that capacity may be abused for personal gain. The audit committee, along with external and internal auditors, will help the firm improve performance as a result, and they'll make sure that management follows procedures when executing its goals (Adams, 1994). Eisenhardt (1989) claims that agency theory offers a special perspective on information systems, outcome uncertainty, incentives, and risks. According to Panda and others, the division of ownership and control, various risk preferences, knowledge asymmetry, and moral hazards According to Panda and Leepsa (2017), the separation of ownership from control, different risk preferences, information asymmetry, and moral hazards result in conflict of interest and agency cost. The management and stakeholders are two groups whose conduct the signaling theory helps to explain. While the other party is expected to use the

interpretation, one side is expected to communicate the communication channel to use. Ireland, Brain, Certo, and Reutzel (2011).

After mentioning the link between firm owners and managers in his 1776 book, *Wealth of Nations*, Adam Smith (1937) was the first to notice the existence of the agency problem. Through their distinct methods, Stephen Ross (1973) and Barry Mitnick (1973) contributed to the theory's prominence. Ross views agency as an issue with incentives because of the way the principal and agent interact structurally, but Mitnick views agency as a problem with institutional structure.

The theory made the assumption that there is a principal-agent connection between firm owners and management. Divergent interests between the principal and the agent lead to incentive issues with respect to compensation, contracting, and agency. To deter the agent from acting opportunistically against the interests of the principle, the principal paid incentives and incurred costs (agency costs, bonding costs, and residual loss).

According to Donaldson and Davis (1989), there may be an alignment between the principal and the agent that will result from their close relationship. The manager (agent) will fundamentally want to perform a good job and will not be an opportunist. According to Kiser (1999), traditional agency theory is more like organizational theory without the organization. He criticized the presumption that a principal and agent relationship exists in an organization. Perrow (1986) criticized the classical agency theory's neglect of cooperative aspects of social life and disputed the notion that parties are essentially work-averse, self-interested utility maximizers. Furthermore, he noticed that people might be uncaring and even hostile in specific environments or organizational systems.

He also noted that people can be considerate and even philanthropic in specific environments or organizational systems. Eisenhardt (1989) claims that agency theory offers a special perspective on information systems, outcome uncertainty, incentives, and risks. According to Panda and Leepsa (2017), the separation of ownership from control, disparate risk preferences, information asymmetry, and moral hazards are to blame for the conflict of interest and agency cost. According to Jensen and Meckling (1976), the bulk of organizations are just legal constructions that act as a hub for a collection of interpersonal contracts. Aspects of the contract include agreements, rewards, checkpoints, bonding, and other social controls meant to cut agency expenses.

Friedman (1962) maintained that as long as a company plays by the rules and competes in a free and open market without deceit or fraud, its goal is to use resources and engage in activities that increase profit. Profit maximization is the key to successful business. Therefore, business is a market to increase the value of shareholders. The owner of the business and the management can be thought of as the two parties to the agency theory contract. While the organization employs the manager(s) to carry out the duty on his behalf, the manager's authority to act in his place may be abused for personal gain. The audit committee, along with external and internal auditors, will therefore help the company improve its performance and ensure that management adheres to procedures when executing its goals.

(Adams, 1994). In a different sense, internal audit should be seen as an agent and monitor for a variety of internal audit clients, including the board of directors, audit committee, and senior management, according to Peuresem & Pophrey (2005). In situations where the board, audit committee, or management are ineffective, senior management is likely to have significant control over internal audit. Once this is accomplished, the internal auditor's independence is put

in jeopardy, internal control procedures deteriorate, and overall performance is called into doubt. Senior management employs internal auditors, but the audit committee and board of directors also use them as their representatives since they trust them to evaluate senior management's performance.

2.2.2 Signaling Theory

Signaling theory was propounded by Spence in 1973. Signaling theory is fundamentally concerned with reducing information asymmetry between two parties (Spence, 2002). For example, Spence's (1973) seminal work on labor markets demonstrated how a job applicant might engage in behaviors to reduce information asymmetry that hampers the selection ability of prospective employers. Spence illustrated how high-quality prospective employees distinguish themselves from low-quality prospects via the costly signal of rigorous higher education. This work triggered an enormous volume of literature applying signaling theory to selection scenarios that occur in a range of disciplines from anthropology to zoology (Bird & Smith, 2005). Management scholars have also applied signaling theory to help explain the influence of information asymmetry in a wide array of research contexts. A recent study of corporate governance, for example, shows how CEOs signal the unobservable quality of their firms to potential investors via the observable quality of their financial statements (Zhang & Wiersema, 2009). Diversity researchers use signaling theory to explain how firms use heterogeneous boards to communicate adherence to social values to a range of organizational stakeholders (Miller & Triana, 2009). Signaling theory is frequently used in the entrepreneurship literature, where scholars have examined the signaling value of board characteristics (Certo, 2003), top management team (TMT) characteristics (Lester, Certo, Dalton, Dalton, & Cannella, 2006), venture capitalist and angel investor presence (Elitzur & Gavius, 2003), and founder involvement

(Busenitz, Fiet, & Moesel, 2005). Signaling theory is also important to human resource management, where a number of studies have examined signaling that occurs during the recruitment process (Suazo, Martínez, & Sandoval, 2009). The use of signaling theory has gained momentum in the management literature in recent years as scholars have expanded the range of potential signals and the contexts in which signaling occurs. Despite the emergence of signaling theory in management research, as of yet there exists no concise review in the management literature. As a result, management scholars almost universally refer to either Spence's (1973) examination of signaling in job markets or Ross's (1977) study of managerial incentives as signals to describe the theory's central tenets. Over time, however, the key concepts underlying signaling theory have become blurred (Highhouse, Thornbury, & Little, 2007), causing some to argue that signaling theory is ill defined (Ehrhart & Ziegert, 2005). Although a number of studies integrate signaling concepts with related management theories (e.g., Deephouse, 2000; Ryan, Sacco, McFarland, & Kriska, 2000; Sanders & Boivie, 2004), no existing management research has systematically described the core ideas of signaling theory and how management scholars have applied them. We address this gap in the literature by reviewing management research relying on signaling theory

2.3 Empirical Review

The effect of sustainability reporting on faithful representation of accounting information of deposit money banks listed in Nigeria was studied by Oyetunji, Owolabi, and Adegbe (2020). An ex post factor research design was used, and the population of the study was 21 deposit money banks listed in Nigeria. The study used a sample size of 13 listed deposit money banks on the NSE for 15 years, descriptive and inferential (multiple regression) statistics to analyze the data, and the findings show that sustainability reporting measures have a significant and positive effect on accounting information faithful representation.

Joe (2020) investigated audit independence and financial reporting credibility in the Nigerian banking sector. For this study, a survey design was used, and primary data was used, which was analyzed using descriptive statistics such as mean and standard deviation, as well as inferential statistics such as regression and correlation. The findings reveal that the independence of the auditor has an impact on the readability, trustworthiness, and faithful depiction of financial statements in the Nigerian banking system.

Novie and Leny (2018) investigate the impact of audit firm size on audit quality and public accounting company reputation in Indonesia. Their findings reveal that audit quality has a large impact on public accounting firm reputation, and audit quality has a considerable impact on audit firm size. Aliu, Okpanachi, and Mohammed (2018) published Auditor's Independence and Audit Quality: An Empirical Study, a study done in Nigeria.. The findings show that the entire components of audit fees pricing and calculation should be regulated and disclosed in order to provide public insight into an auditor's financial dependence on a client and whether the fee corresponds to the complexity of the audit assignment. Descriptive statistics, correlation matrix, and binary logit regression technique were used, and the findings show that the entire components of audit fees pricing and calculation should be regulated and disclosed in order to provide public insight into the financial dependence of an auditor on a client and whether the fee corresponds to the complexity

Gap in Literature: Few studies of its effects in relation to public educational institutions have been done as a result of the literature review which shown how the quality of financial reports synced with the independent of the auditors many dimensions.

3. Methodology

The study used survey research design, the population of the study was 18 public Universities in the south west Nigeria comprises of 11 state universities and 7 federal universities comprising of 250 respondents. Purposive, stratified and proportionate sampling techniques was adopted for this study. Twelve out of nineteen tertiary institutions in South-West, Nigeria was selected purposively based on the student enrolments. Also, the sample representatives was selected from the departments with in-depth understanding of the internal audit and the departments considered

were bursary unit (senior staff) and internal audit unit of the selected 12 universities. Stratified sampling technique was adopted for the selection of respondents from the two departments, and the selection was done proportionately based on the proportion of the number of staff in bursary and internal audit of each selected Universities to the total number of staff of all the twelve sampled universities. The sampling size for this was 201 which were derived using taro Yamani formula. The data collection used in gathering information for this research study was questionnaire. The relevant data for this study was primary data which was obtained from selected nineteen (19) public University in south west Nigeria

The validity of the research instrument was established through a cross-check of the extraction of data for all the variables measured by researcher's supervisor to ensure accuracy, correctness and reliability. This data used in this study was adapted from Awe (2019) and self-developed structure questionnaire. For this study, a self-constructed structured questionnaire with closed-ended items was used. The study adopted descriptive and inferential statistics to understand the nature of the time series data and also determine the stability of the variables. The reason for this was to examine the audit quality and financial reporting quality of in selected public University in southwest Nigeria. Multiple regression analysis adopted with the formula $Y = \beta_0 + \beta_1X + \mu$. The multiple regressions were appropriate for this study because the study showed the combine effect of all the independent variable against each of the dependent variable. Both descriptive and inferential statistical methods were applied to analyze demographic variables, research questions and hypothesis testing.

Model Specification and measurement of variables

X = Audit Quality measured as:

x_1 - Audit compensation/fee (ratio of client audit fees to total audit firm revenues) - AF

x_2 - Non-audit services/non-audit fees (client non-audit fee to total audit firm revenues) - NAS

x_3 - Audit firm size - AFS

x_4 - Audit tenure/rotation - AT

x_5 - Audit firm industry specialization - AFIS

The dependent variable is

Y = FRQ measured as:

y_1 - RLST=Relevance characteristics

$Y = f(X)$

$$Y = y_1$$

$$X = x_1$$

Functional Relationships

$$y_1 = f(x_1)$$

$$\text{FRST} = f(\text{AF}, \text{NAS}, \text{AFS}, \text{AT}, \text{AFIS}) \text{-----} \text{Equation 1}$$

$$y_3 = f(x_1, x_2, x_3, x_4, x_5)$$

$$\text{FRQ} = f(\text{AF}, \text{NAS}, \text{AFS}, \text{AT}, \text{AFIS}) \text{----- Main functional equation}$$

The Models

$$\text{FRST}_i = \beta_0 + \beta_1 \text{AF}_i + \beta_2 \text{NAS}_i + \beta_3 \text{AFS}_i + \beta_4 \text{AT}_i + \beta_5 \text{AFIS}_i + e_i \text{----- Model 2}$$

Where; β_0 = Constant, $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$ = Model coefficients, i = Number of sampled public Universities e = stochastic error term which is representing other variable that could cause a variation on the dependent variable which are not stated in the model.

Model Evaluation and Estimation Techniques

To obtain numerical value of the model coefficient, we adopted multiple regression models. The strength of the variables in predicting the independence of auditors and quality of financial reports in selected public universities in south west, Nigeria was evaluated based on

T-statistic: this showed the significance of each of the component of the independent variable and the threshold depends on the chosen level of significance which is 1.96 at 5%. the p -value of the coefficients was used to determine the significance of the individual parameters.

F-test: this showed the variance of two populations is equal. The test can be two tailed or one tailed.

Adjusted R-squared: Adjusted R-squared known as coefficient of multiple determination, are statistical term saying how good one term is at predicting another.

3.10 Expected Results/ A Priori Expectations

According to the hypotheses formulated, this study expects to find a favorable association between auditor independence and financial report quality.

List 1. Summary of A Priori Expectation

S/No	Models	<i>A-priori Expectation</i>
H ₀₁ .	$FRST_i = \beta_0 + \beta_1 AF_i + \beta_2 NAS_i + \beta_3 AFS_i + \beta_4 AT_i + \beta_5 AFIS_i + e_i$	$\beta_{1-5} > 0$ i.e. β_{1-5} positive

This study used a survey design, which allowed the researcher to concentrate on the study's sample and population. Eliza (2020) claims that this metric is used to gauge the thoughts and experiences of a group of individuals by posing questions and assessing the answers. Using sample statistics, it enables the researcher to draw conclusions about population parameters. Consequently, it is set up to assess the objectivity of auditors and the caliber of financial reports in a few public universities in the south-west of Nigeria.

The analysis of demographic factors, study topics, and hypothesis testing used both descriptive and inferential statistical approaches. Data were presented using presentations of frequencies, tables, means, and standard deviation according to the descriptive statistical approach. The reason for this is that it was practical for determining the central tendency and dispersion, which characterize the mean, median, minimum, and standard deviation of the data set (Francis, LaFond, Olsson & Schipper, 2004). For a scientific solution to the inferential statistical technique, a multiple regression analysis was utilized with the aid of a statistical software. Regression analysis is a statistical technique for assessing relationships between variables (i.e., dependent and independent variables) that have a reason and result relation, according to Gulden and Nese (2013).

On the other hand, multiple regressions refer to a collection of methods for examining the linear relationship between more than two variables. The independent variable's and its sub-variables' impact on the dependent variables would be examined using this method. Multiple regression analysis was employed in order to assess the impact of the independent variable on the

dependent test variables. The appropriate dependent sub-variables of the study to be tested tend to be measured by the independent variable. Multiple regression analysis was employed in order to assess the impact of the independent variable on the dependent test variables. The appropriate dependent sub-variables of the study to be tested tend to be measured by the independent variable. The adjusted R² value and beta coefficient, as well as their importance, were investigated for all dimensions.

4. Results, Data Analysis and discussion of findings

4.1 Test of Hypothesis.

Research Objective 1: To assess the effect of audit quality on faithful representation of financial reports of Public Universities in South West, Nigeria.

Research Question 1: How does audit quality impact on faithful representation of financial reports of Public Universities in South West, Nigeria?

Research Hypothesis 1:

Faithful representation of financial reports of Public Universities in South West, Nigeria is not significantly affected by audit quality.

Table 1: Result of Regression Estimate Test for Hypothesis One

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.782 ^a	.611	.598	.71701	.611	47.930	6	183	.000

a. Predictors: (Constant), AFIS, AFS, AC, AT, NAS, AF

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	147.848	6	24.641	47.930	.000 ^b
1 Residual	94.082	183	.514		
Total	241.930	189			

a. Dependent Variable: FRST

b. Predictors: (Constant), AFIS, AFS, AC, AT, NAS, AF

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.092	.750		14.790	.000
	AT	-.161	.045	-.170	-3.534	.001
	AF	-.253	.034	-.450	-7.463	.000
	AC	.765	.052	.814	14.633	.000
	NAS	-.062	.024	-.128	-2.596	.010
	AFS	.045	.028	.087	1.619	.107
	AFIS	-.408	.044	-.446	-9.371	.000
	R ²	0.611				
	Adjusted R ²	0.598				
	F stats	47.930				

a. Dependent Variable: FRST

Dependent Variable: Faithful representation

Source: Researcher’s Field Survey Results (2022)

$$FRST = \beta_0 + \beta_1AT + \beta_2AF + \beta_3AC + \beta_4NAS + \beta_5AFS + \beta_6AFIS + C1$$

$$FRST = 11.092 + (-0.161)AT + (-0.253)AF + 0.765AC + (-0.062)NAS + 0.045AFS + (-0.408)AFIS$$

Interpretation

Table 1 shows that audit quality has a significant effect on faithful representation of financial reports quality in public universities in south west Nigeria. ($\beta=-0.161$, $t=-3.534$, $P=0.001$) in the regression analysis. These showed that multiple regression result of audit quality on **faithful representation** of financial reports quality of public universities in south west Nigeria. It reveals that linear combination of audit quality and **faithful representation** has positive effect on financial report by the sign of the standardized co-efficient and T-statistics. The model further depicts that the linear combination of **faithful representation** had positive

significant effect on financial reports quality in public universities. ($p < 0.05 = 0.001$, Adj. $R^2 = 0.598$, $F = 47.930$).

From table 1 shows model summary of the adjusted coefficient is 0.598. This connote 59.8% variation in audit fee is attributable to audit quality as represented by Relevance (RLST) Faithful characteristics (FRST), Understandability (UNST), Comparability (CMST), Timeliness (TMST), while the remaining 40.2% variation in audit fee of audit quality in public university in south west Nigeria can be attributed to other variables not covered in this model. Audit tenure has a significant negative effect on audit tenure. ($\alpha = -0.161$, $t = -3.534$, $p = 0.001$), audit fee has a significant negative effect on audit tenure ($\alpha = -0.253$, $t = -7.463$, $p = 0.000$), audit committee has a significant positive effect on audit tenure ($\alpha = 0.765$, $t = 14.633$, $p = 0.000$) non-audit services has a significant negative effect on audit tenure ($\alpha = -0.062$, $t = -2.596$, $p = 0.010$) audit firm size has an insignificant positive effect on audit tenure ($\alpha = -0.045$, $t = -1.619$, $p = 0.107$) audit firm industry specialization has a significant negative effect on audit tenure ($\alpha = 0.408$, $t = -0.446$, $p = 0.000$) this implies that an increase in audit fee of audit quality in public universities in southwest Nigeria.

Decision: at a level of significance 0.05, the F -statistics of the ANOVA is 47.930, while p -value of f -Statistic is 0.000 which is less than 0.05 adopted for this study. The study therefore did not accept the null hypothesis which means the null hypothesis is rejected and the alternate accepted. Meaning, audit quality has a positive significant effect on the financial reports quality of public Universities in south west Nigeria.

Question two is therefore answered and objective two is achieved.

Discussion of findings

The model two summary shows that the adjusted coefficient of determination is 0.611. this indicates that 61.1% variation in **faithful representation** is attributable to financial reports quality as represented by audit tenure (AT) audit fee (AF), audit committee (AC), non-audit services (NAS), audit firm size (AFS) and audit firm industry specialization (AFIS). While the remaining 38.9% variation in **faithful representation of** financial reports quality in public Universities can be attributed to other variables not covered in this model. Audit tenure has a

significant negative effect on financial reports quality ($\alpha=-0.161$, $t=-3.534$, $p=0.01$), audit fee has a significant negative effect on financial reports quality ($\alpha=-0.253$, $t=-7.463$, $p=0.000$), audit committee has a significant positive effect on financial reports quality ($\alpha=0.765$, $t=14.633$, $p=0.000$) non-audit services has a significant negative effect on financial report quality ($\alpha=-0.062$, $t=-2.596$, $p=0.010$) audit firm size has an insignificant positive effect on financial reports quality ($\alpha=-0.045$, $t=1.619$, $p=0.107$) audit firm industry specialization has a negative effect on financial report quality ($\alpha=-0.408$, $t=-9.371$, $p=0.000$). Novie and Leny (2018) investigate the impact of audit firm size on audit quality and public accounting company reputation in Indonesia. Their findings reveal that audit quality has a large impact on public accounting firm reputation, and audit quality has a considerable impact on audit firm size.

Oyetunji, Owolabi, and Adegbe (2020) studied The effect of sustainability reporting on faithful representation of accounting information of deposit money banks listed in Nigeria, An ex post factor research design was used, and the population of the study was 21 deposit money banks listed in Nigeria. The study used a sample size of 13 listed deposit money banks on the NSE for 15 years, descriptive and inferential (multiple regression) statistics to analyze the data, and the findings show that sustainability reporting measures have a significant and positive effect on accounting information faithful representation.

At a 1% level of significance, Yurisandi and Puspitasari (2015) discovered that faithful representation declined following IFRS implementation. The significant use of estimations and fair value linked with IFRS could have contributed to this development.

The result from the analysis as illustrated from table 1 showed that there is a positive significant effect of audit quality on financial reports quality in public Universities in south west Nigeria which is in line with our a priori expectation. This was made possible from the P-value of the linear combination of audit quality which is $0.000 < 0.05$.

The result from the hypothesis was further compared with the work done by previous researchers

5. Conclusion and Recommendations

The study examined the effect of audit quality on financial reports quality of public universities in southwest Nigeria. The findings showed that audit quality has positive significant effect on

audit tenure, audit fee, audit committee, Non-audit services and audit firm industry specialization. Hence, this study concluded that audit quality has a significant positive effect on financial reports quality in public universities in south west Nigeria.

Some recommendations were made in light of the study's results and conclusion.

Public universities must ensure that the presentation of their financial reports makes them useful to the intended audience.

The management of the universities should make sure that timely publishing of their financial statements and timely disclosure of financial information to users of financials.

6. Contribution to Future Research

To concepts:By looking at public educational institutions' financial statements, non-financial data, use of fair value in place of historical value, and user feedback, the conceptual work of the study will advance our understanding of the impact of auditor independence on the relevance of financial reports.

To Policy:To the best of the researcher's knowledge, this study will serve as one of the studies taking into consideration relevance, faithful representation, timeliness, understandability, comparability, and verifiability of financial statement in our public educational institutions in Nigeria. The study is expected to contribute to practice by examining the effect of independence of auditor on the quality of financial report in educational institution in Nigeria.

To theory:Since most reviews of this study focused on Agency theory, institutional theory, communication theory, and signaling theory, it will add to our understanding of the world. However, because of its major agent interactions, the study was predicated on the agency

hypothesis. By the findings that were analyzed, the ramifications of the findings, and the recommendations that were made, this study added to the body of literature.

To Literature: to contribute to the body of knowledge already written about the independence of auditors and the caliber of financial reporting. It will support the development of practical rules for future practices at both public and private universities, as well as in any organization where accounting is practiced generally. Furthermore, given the constraints of important limiting assumptions, theories like agency, communication, and institutional theories will contribute to the formulation, prediction, and understanding of phenomena as well as the challenge and expansion of existing knowledge. Additionally, this study will help us comprehend how stakeholders employ accountants.

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